coolpad 酷派

# COOLPAD GROUP LIMITED
# 酷派集團有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 2369)


# ANNUAL REPORT 2019

# CORPORATE PROFILE

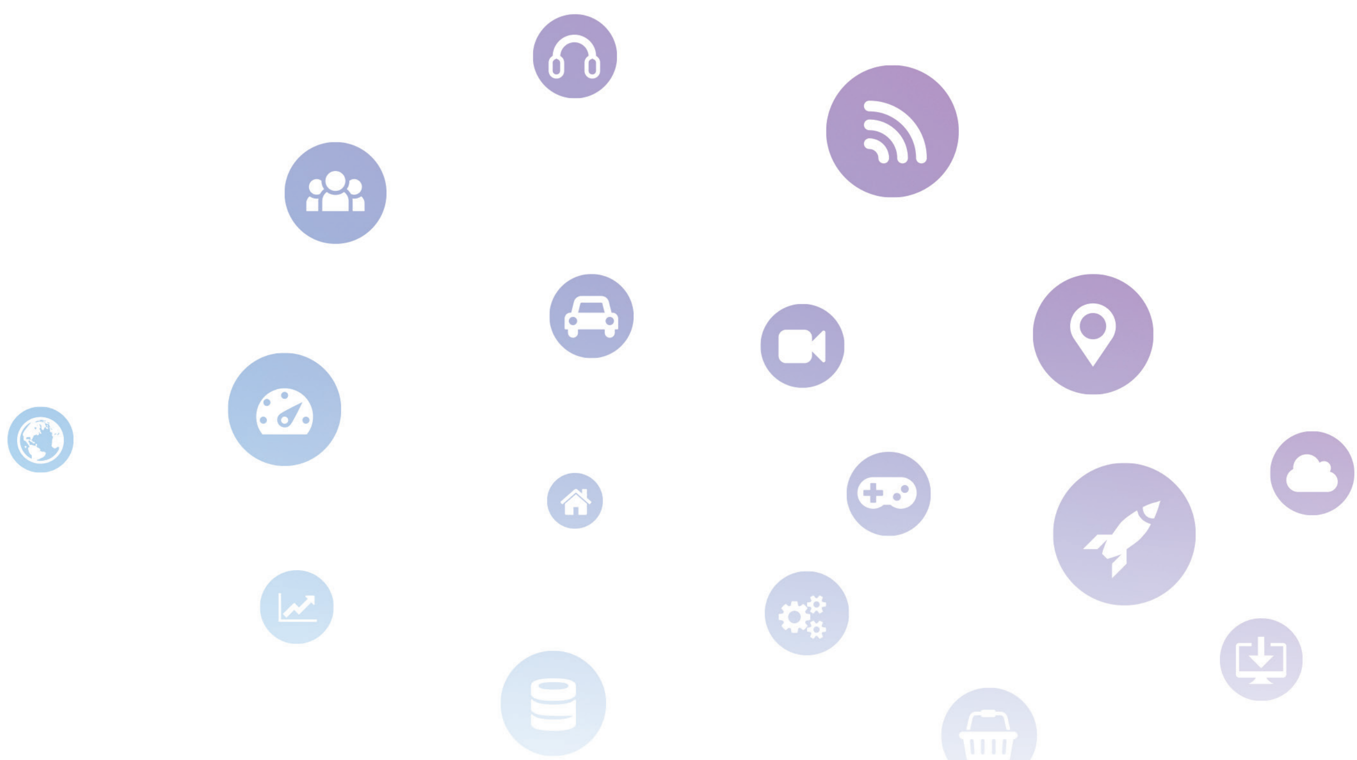
Coolpad Group Limited (the "Company"), formerly known as China Wireless Technologies Limited, was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2002. The shares of the Company (the "Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock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

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

In the last decade, capitalizing on the development of wireless telecommunications technological know-how in wireless telecommunications across multiple wireless telecommunications network standards including TD-LTE, FDD-LTE, TD-SCDMA, CDMA-EVDO, WCDMA, GSM, and CDMA1X networks, the Company and its subsidiaries (collectively, the "Group") have developed a large number of proprietary technologies and patents in mobile operating systems, radio frequency, protocols and wireless data decomposed transmission technology, etc. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of 4G and 3G smartphone in the Mainland China's telecommunications market. The Group never stops enhancing its R&D ability and is striving to be an important participant and a leader in the latest field of 5G and Artificial Intelligence.

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

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



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# CORPORATE INFORMATION

## Registered Office

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

## Head Office and Principal Place of Business in the PRC

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

## Principal Place of Business in Hong Kong

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

## Joint Company Secretaries

Mr. MA Fei *(Appointed on 29 October 2019)*
Mr. TSANG Hing Bun *(Appointed on 29 October 2019)*

## Audit Committee & Remuneration Committee

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

## Nomination Committee

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

## Authorised Representatives

Mr. MA Fei *(Appointed on 29 October 2019)*
Mr. TSANG Hing Bun *(Appointed on 29 October 2019)*

## Contact Information for Investor Relations

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

## Auditor

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

## Legal Advisers to the Company as to Hong Kong Law

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

## Legal Advisers to the Company as to Cayman Islands Law

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

## Principal Share Registrar and Transfer Office

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

## Hong Kong Branch Share Registrar and Transfer Office

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

## Principal Bankers

DBS Bank (Hong Kong) Ltd.
Bank of China Limited
The Hongkong and Shanghai Banking Corporation Limited

## Company Website

www.coolpad.com.hk

## Stock Code

2369

# FINANCIAL HIGHLIGHTS

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

## Results

| | Year ended 31 December (HK$'000) | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| Revenue | **1,858,249** | 1,277,164 | 3,378,077 | 7,969,477 | 14,667,866 |
| Profit/(loss) before tax | **116,618** | (419,408) | (2,702,251) | (4,356,068) | 2,311,011 |
| Income tax (expense)/credit | **(4,524)** | 8,746 | (20,825) | (45,352) | (34,505) |
| Profit/(loss) for the year | **112,094** | (410,662) | (2,723,076) | (4,401,420) | 2,276,506 |

## Financial Position

| | As at 31 December (HK$'000) | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| Non-current assets | **1,720,375** | 1,856,007 | 1,991,344 | 2,741,032 | 5,745,328 |
| Current assets | **1,639,603** | 1,260,759 | 2,859,486 | 7,113,372 | 8,537,979 |
| Non-current liabilities | **328,057** | 278,352 | 296,464 | 67,213 | 225,116 |
| Current liabilities | **2,323,697** | 2,423,747 | 3,764,950 | 6,248,881 | 6,641,496 |
| Net assets | **708,224** | 414,667 | 789,416 | 3,538,310 | 7,416,695 |

# CHAIRMAN OF THE BOARD'S STATEMENT

**CHEN JIAJUN**
Chairman of the Board

## Dear Fellow Shareholders:

I am deeply honored to report the consolidated results for the year ended 31 December 2019 (the"Year") to the shareholders of the Group. The Group confronted a great number of changes, challenges and opportunities in the Year. The Group learned from the past, and contemplated its future from as many aspects as possible. Fortunately, the darkest period of the Group had passed, and the Group started a brand-new exploration in the Year. Looking back on 2019, each business of the Group resumed growth and achieved profit turnaround. After past three years of loss, the Group is undergoing restructuring and making further strides forward.

For the Year, the Group had a turnover of approximately HK$1,858.25 million, which was increased by 45.50% from HK$1,277.16 million in 2018. The overall gross profit margin for the Year was 23.25%, representing an increase of 28.88ppt as compared with -5.63% for the year ended 31 December 2018. The Group turned losses into profits with a net profit of HK$112.09 million for the Year, representing an increase of HK$522.75 million as compared to the net loss of HK410.66 million in the corresponding period of 2018. Both of the basic and diluted earnings per share of the Group were HK$2.22 cents for the Year.

In 2019, the Group launched a total of 7 new smartphones models and a number of other electronic terminals. In addition to household accessories such as portable power banks, cables and multi-function plugs, the Group also launched various electronic products such as coolpad surf (a mobile hotspot) and coolpad tracker (a tracker), which recorded a rapid growth in sales volume and received high recognition in the North American market. The Group maintained good relationships with local operators in the United States ("US") and the Group provided an independent exclusive product line for the US market and enlarged product category to smart accessories, such as cable, charger, battery and headphone. The Group had conducted a series of product demand and preference investigation for US market and built a US dedicated research and development team.

# CHAIRMAN OF THE BOARD'S STATEMENT

The Group continued to strengthen its research and development ("R&D") ability during the Year. The Group recognized the importance of R&D ability to the Group and identified itself as a tech-driven company. The Group is carrying out comprehensive R&D on the latest technologies such as 5G technology, Internet of Things ("IOT") and smart hardware. The Group has an excellent team and continues to strengthen its R&D capabilities to provide users with the best products experiences.

The Company has successfully resumed trading on the Stock Exchange on 19 July 2019. Since the trading resumption, the capital market gradually restored its confidence in the Group. The Company issued 800,000,000 new ordinary shares at a subscription price of HK$0.215 per share on 19 December 2019 and successfully financed HK$171 million, after deducting the share issue expenses. At the same time, the Group is negotiating with several banks in Mainland China and Hong Kong for financing. Currently, the Group may be able to obtain loan credit from certain financial institutions in Mainland China. With the safeguard of such capital support, the Group is confident to provide more competitive products and better services to the market.

The year of 2020 is expected to be a year full of both challenges and opportunities, where R&D work on the most up-to-date technologies, such as 5G technology, Internet of Things ("IOT") and Artificial Intelligence ("AI"), will be conducted in the whole industry, and the Group is happy to be one of those companies having been conducted the R&D work in 2019 already. Looking forward, the Group is fully prepared to build a new Coolpad and is confident to seize the opportunities arising from the 5G era.

In 2020, the Group has formulated a clear long-term strategy: 1) In respect of overseas markets, the Group will continue to focus on the development of the North American market and aim to increase the market share growth in such market, actively consolidate and maintain the relationship with the North American operators, diversify product categories and provide more competitive products; and 2) In respect of the PRC market, the Group has been actively transforming its business to industrial internet applications in new infrastructure industry such as applications in smart cities and support for social governance, in order to serve the society and maximize the Group's value in the 5G era.

The Group has made initial progress in expanding its product portfolio to smart accessories in 2019. The Group is selling mid-to-high end smart accessories at Amazon's flagship store in the US, which includes chargers, cables, portable power banks, etc., and has received positive feedbacks from users. In 2020, the Group intends to expand its product categories into intelligent hardware such as smart glasses, smart watches, TWS earphones, etc. Meanwhile, the Group is also considering the expansion of the accessories business and its selling channels to other countries.

# CHAIRMAN OF THE BOARD'S STATEMENT

As a member of the domestic 5G standard formulation group, the Group will continue to invest in R&D of the latest technologies such as 5G technology, IOT and smart hardware in 2020. On 7 January 2020, the Group released its first 5G smartphone at the 2020 CES Exhibition in the US. This smartphone phone will use 6.53 inches FHD + display panels with Coolpad innovative V-design and the HDR display solution of Pixelwork for excellent experience picture and video view experience. It will also enhance the Bluetooth 5.0 to enable multi-device Bluetooth connection. In addition to 5G smartphones, the Group also released some new products on the IOT and smart home.

The Group is actively transforming to industrial internet new infrastructure industry sector in Mainland China. At present, the Group has made initial progress in social governance technology support and smart water treatment. On 22 December 2019, the Group, together with China Society for Social Governance and other institutions, jointly established the first social governance technology support center in Mainland China; On 3 January 2020, the Group, together with the well-known water treatment group in the industry (such as Guangdong Water Group, Shenzhen Water Group, Shenzhen Smart City Technology Development Group, etc.), initiated the establishment of the "Smart Water Environmental Protection Innovation Alliance in the Bay Area" with a view to developing technology to empower water environmental protection. The Group will combine its own technology and R&D ability, focus on the integrated solutions of smart city and smart hardware, seize the opportunities from the Guangdong-Hong Kong-Macao Greater Bay Area strategy and Shenzhen to build a pilot demonstration zone of socialism with Chinese characteristics, integrate strategic cooperation resources in the industry, to accelerate the in-depth application of advanced technologies in areas such as smart wearable, smart city construction, 5G application and IOT. The Group will also continue to drive the intelligent iteration and upgrading of products and services, explore the pan-smart terminal product service market, embrace the new era of smart economy, and provide customers with the ultimate experience of full scenario intelligence.

Since the start of the new year, in the face of unexpected pandemic, the Group, on one hand, has actively responded to the pandemic; on the other hand, the Group has sought for breakthrough during such difficult times. In response to the urgent demand for medical-use disease prevention materials and equipment, the Group has never forgotten its corporate social responsibility. Based on the production conditions of automated hardware, the Group has opened up the whole industry chain including raw material procurement, equipment manufacturing and product production by leveraging on its own capabilities and advantages in supply chain management, market synergy and technology output. In February 2020, the Group renovated and set up a production line for civil surgical masks, which not only meets the needs of the Group's employees for pandemic prevention, but also provides timely supply of pandemic prevention materials in response to the needs of relevant government departments and the business partners. The Group is also stepping up its R&D on AR intelligent devices which provide intelligent temperature monitoring and emergency command solutions, so as to facilitate the safety monitoring and back-office command in high-density urban traffic.

The Group has passed through the most difficult time. By leveraging on its refined management, research and development capabilities and effective product layout, the Group will seize the opportunities to continuously diversify its products and enhance its product competitiveness, actively solve the difficulties of consumers and create value for Shareholders.

## Appreciations

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

**Chen Jiajun**
*Chairman of the Board*

Hong Kong, 30 March 2020

## Today's Innovation

# SUCCESS IN THE FUTURE

# TOTAL REVENUE HK$1,858.25 MILLION

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

| | Year ended 31 December HK$ million | | |
|---|---|---|---|
| | **2019** | 2018 | Variance (%) |
| Revenue | | | |
| Sale of mobile phones and related accessories | **1,854.15** | 1,261.39 | 46.99 |
| Wireless application service income | **3.94** | 14.70 | -73.20 |
| Finance service income | **0.16** | 1.07 | -85.05 |
| Total revenue | **1,858.25** | 1,277.16 | 45.50 |
| Cost of sales | **(1,426.21)** | (1,349.09) | 5.72 |
| Gross profit/(loss) | **432.04** | (71.93) | NA |
| Other income and gains | **198.71** | 213.37 | -6.87 |
| Gain on the loss of control of subsidiaries, net | **–** | 94.59 | NA |
| Impairment of investments in associates | **(3.19)** | (6.66) | -52.10 |
| Selling and distribution expenses | **(269.11)** | (158.01) | 70.31 |
| Administrative expenses | **(247.65)** | (323.08) | -23.35 |
| Other expenses | **(59.79)** | (47.04) | 27.10 |
| Finance costs | **(44.20)** | (37.14) | 19.01 |
| Share of profits/(losses) of: | | | |
| A joint venture | **129.05** | (0.78) | NA |
| Associates | **(19.24)** | (82.73) | -76.74 |
| Profit/(Loss) before tax | **116.62** | (419.41) | NA |
| Income tax (expense)/credit | **(4.53)** | 8.75 | NA |
| Profit/(Loss) for the year | **112.09** | (410.66) | NA |

# MANAGEMENT DISCUSSION & ANALYSIS

## Revenue Analysed by Product Segments

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| | **Revenue HK$ Million** | **% of revenue** | Revenue HK$ Million | % of revenue |
| **Revenue** | | | | |
| Sale of mobile phones and related accessories | **1,854.15** | **99.78** | 1,261.39 | 98.77 |
| Wireless application service income | **3.94** | **0.21** | 14.70 | 1.15 |
| Finance service | **0.16** | **0.01** | 1.07 | 0.08 |
| Total | **1,858.25** | **100** | 1,277.16 | 100 |

The Group recorded consolidated revenue for the Year of HK$1,858.25 million, representing an increase of 45.50% as compared with HK$1,277.16 million for the year ended 31 December 2018, which is driven by the increase of shipment in the US. In 2019, we continued to focus on innovation with increasing investment in smartphone R&D and achieved great progress. During the Year, we launched 7 new smartphones models and received high market recognition.

## Gross Profit

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2019** | | 2018 | |
| **Gross profit/(loss)** | **Gross profit HK$ Million** | **Gross profit margin (%)** | Gross loss HK$ Million | Gross loss margin (%) |
| Total | **432.04** | **23.25** | (71.93) | (5.63) |

The Group's overall gross profit for the Year was HK$432.04 million, compared with the gross loss of HK$71.93 million for the year ended 31 December 2018. The Group's overall gross profit margin for the Year was 23.25%, representing an increase of 28.88 ppt as compared with -5.63% for the year ended 31 December 2018. The gross profit increase was primarily attributable to the economies of scale, the higher gross margin of our newly launched smartphone models, and more prudent operations during the Year.

# MANAGEMENT DISCUSSION & ANALYSIS

## Selling and Distribution Expenses

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Selling and distribution expenses (HK$ million) | **269.11** | 158.01 |
| Selling and distribution expenses/Revenue (%) | **14.48** | 12.37 |

Selling and distribution expenses of the Group for the Year increased to HK$269.11 million, representing an increase of 70.31%, as compared with HK$158.01 million for the year ended 31 December 2018. The increase in selling and distribution expenses was primarily attributable to our enhanced marketing effort for our newly launched smartphones and other smart terminals during the Year, which also drove our revenue to grow 45.50% year on year.

## Administrative Expense

| | Year ended 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Administrative expenses (HK$ million) | **247.65** | 323.08 |
| Administrative expenses/Revenue (%) | **13.33** | 25.30 |

Administrative expenses decreased by 23.35% from HK$323.08 million for the year ended 31 December 2018 to HK$247.65 million for the Year. Administrative expenses as a percentage of total revenue decreased to 13.33% in 2019 from 25.30% in 2018. The net decrease of 11.97 ppt was attributable to scale effect and our enhanced operation efficiency.

## Income Tax Expense

For the Year, the Group recorded a profit before tax of HK$116.62 million from loss before tax of HK$419.41 million for the year ended 31 December 2018, and the Group's income tax recorded a net tax expense of HK$4.53 million from net tax credit of HK$8.75 million for the year ended 31 December 2018.

## Net Profit

For the Year, the Group recorded a net profit of HK$112.09 million, representing an increase of HK$522.75 million, as compared with the net loss of HK$410.66 million for the year ended 31 December 2018. The turnaround from loss to profit for 2019 is mainly attributable to (i) the significant positive impact on the results from the share of profits of a joint venture of HK$129.05 million, compared with a share of loss of a joint venture of HK$0.78 million in 2018; and (ii) an increase in the Group's revenue for 2019 of 45.50% as compared to a revenue of HK$1,277.16 million recorded in 2018 as well as a significant increase in gross profit margin in the new products launched in the market in 2019, compared to a gross loss in 2018.

# MANAGEMENT DISCUSSION & ANALYSIS

## Liquidity and Financial Resource

For the Year, the Group's operating capital was mainly generated from cash from its daily operation and other borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and other unforeseeable cash requirements. The Group had a gearing ratio of 76% as at 31 December 2019 (2018: 85%). The gearing ratio is equal to net debt divided by the sum of capital and net debt.

Cash and cash equivalents of the Group as at 31 December 2019 amounted to HK$297.42 million, while it was HK$168.55 million as at 31 December 2018.

## Contingent Liabilities

### (a) Litigation with customers

A subsidiary of the Group is currently a plaintiff in a lawsuit with certain customers in the US, who refused to settle trade receivables of approximately US$25,000,000 (equivalent to HK$194,696,000) (2018: US$25,000,000). In preparing our consolidated financial statements, the aforesaid lawsuit was still in progress.

### (b) Litigations with suppliers

The Group received several civil complaints in 2019 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB36 million (equivalent to HK$41 million) (2018: RMB129 million). The arbitration procedures of the civil complaints are still in progress as at the date of approval of the consolidated financial statements.

## Pledge of Assets

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

As at 31 December 2019, the Group's listed equity investments with a carrying value of HK$71,993,000 were pledged as security for the Group's loan from a third party.

As at 31 December 2019, the Group's time deposits of approximately (i) HK$55.82 million were used as a pledged for issuance of letters of credit (2018: HK$57.11 million), and (ii) HK$11.05 million were used as a security for the banks to provide performance guarantees (2018: HK$57.86 million).

## Business Review

Looking back on 2019, each business of the Group resumed growth and achieved profit turnaround. After past three years of loss, the Group is undergoing restructuring and making further strides forward.

## Resumption

Trading in the shares of the Company has been suspended since 31 March 2017. After more than two years of the efforts of the Group's employee, the Group has met all of the resumption conditions of the Stock Exchange and successfully resumed trading.

# MANAGEMENT DISCUSSION & ANALYSIS

## Annual Results

For the Year, the Group recorded a turnover of HK$1,858.25 million, representing an increase of 45.50% from HK$1,277.16 million for the year ended 31 December 2018, which was mainly driven by the higher recognition of the Group's newly launched smartphones in the North American market and a wide variety of product categories in 2019. The Group's overall gross profit margin for the Year was 23.25%, increasing 28.88 ppt from -5.63% for the year ended 31 December 2018. The gross profit margin increase was primarily attributable to the scale effect, the higher gross margin of our newly launched products, and more prudent operations during the year. We also achieved an leverage on expenses. The Group's total selling and distribution, and administration expenses as a percentage of total revenue was 27.81%, decreasing 9.86 ppt from 37.67% for the year ended 31 December 2018, mainly driven by scale effect and the Group's more efficient operations. The Group turned losses into profits with a net profit of HK$112.09 million in 2019, representing an increase of HK$522.75 million as compared to the net loss of HK$410.66 million in 2018, which was mainly due to (1) the significant positive impact arising from the share of profit of a joint venture (in 2018: results of share of loss of a joint venture); and (2) an increase in the Group's revenue for 2019 of 45.50% as compared to a revenue of HK$1,277.16 million recorded in 2018 as well as a significant increase in gross profit margin in the new products launched in 2019, compared to a gross loss in 2018.

## New Management Team

The Group has undergone major management changes in 2019. Mr. Chen Jiajun, an executive Director of the Company, was appointed as the chief executive officer of the Group on 17 January 2019 and was re-designated as the chairman of the Board on 30 August 2019. Mr. Liang Rui, an executive Director of the Company, was appointed as the new chief executive officer of the Company on 30 August 2019. Mr. Ma Fei, the chief financial officer of the Group, was appointed as an executive Director and the new joint company secretary of the Company with effect from 29 October 2019. Mr. Xu Yibo, the chief operating officer of the Group, was appointed as an executive Director of the Company with effect from 29 October 2019. The Group will further enhance its competitiveness under the leadership of the new management team.

## Capital Support

The Company has successfully resumed trading on the Stock Exchange on 19 July 2019. Since the trading resumption, the capital market gradually restored its confidence in the Group. The Company issued 800,000,000 new ordinary shares at a subscription price of HK$0.215 per share on 19 December 2019 and successfully financed HK$171 million, after deducting the share issue expenses. At the same time, the Group is negotiating with several banks in Mainland China and Hong Kong for financing. Currently, the Group may be able to obtain loan credit from certain financial institutions in Mainland China. With the safeguard of such capital support, the Group is confident to provide more competitive products and better services to the market.

## Diversify Product Categories

In the highly competitive business environment in 2019, the Group continued to explore the North American market and enrich product categories. In 2019, the Group launched a total of 7 new smartphone models and a number of other electronic terminals. In addition to household accessories such as portable power banks, cables and multi-function plugs, the Group also launched various electronic products such as coolpad surf (a mobile hotspot) and coolpad tracker (a tracker), which recorded a rapid growth in sales volume and received high recognition in the North American market.

# MANAGEMENT DISCUSSION & ANALYSIS

## US Market

In 2019, the Group continued to deeply engage in the US market. The Group categorizes the business in the US market into two segments: 1) the smartphone business, by cooperating with local telecommunication operators, and 2) the smart accessories, such as charges, cables and portable power banks, by cooperating with amazon.com. The Group maintained good relationship with local operators in the US and provided an independent product line for the US market, which led to a steady increase on the Group's market share in the US market.

## Research and Development

The Group continued to strengthen its R&D ability during the year. The Group recognized the importance of R&D ability to the Group and identified itself as a tech-driven company. The Group is carrying out comprehensive research and development on the latest technologies such as 5G technology, IOT and smart hardware. The Group has an excellent team and continues to strengthen its research and development capabilities to provide users with the best products experiences for smart phones and other cutting-edge electronics-terminals.

## Outlook

Since 1994, the Group has been in the telecommunications industry for more than 25 years, and has accumulated extensive experience and technology in telecommunications technology aspects. Coolpad has a large number of R&D patents worldwide, and numerous technologies have achieved international advanced status, with hundreds of patents in the field of 5G. 2020 is a year full of opportunities for 5G development, the Group is confident to seize the opportunities arising from the 5G era after the resumption of trading in the shares of the Company.

## Strategic Planning

In 2020, the Group has formulated a clear long-term strategy: 1) In respect of overseas markets, the Group will continue to focus on the development of the North American market and aim to increase the market share growth in such market, actively consolidate and maintain the relationship with the North American operators, diversify product categories and provide more competitive products; and 2) In respect of the PRC market, the Group is actively transforming its business to industrial internet applications in new infrastructure industry such as applications in smart cities and support for social governance, in order to serve the society and maximize the Group's value in the 5G era.

## CES Exhibition

As a member of the domestic 5G standard formulation group, the Group will continue to invest in research and development of the latest technologies such as 5G technology, IOT and smart hardware in 2020. On 7 January 2020, the Group released its first 5G smartphone at the 2020 CES Exhibition in the US. This smartphone will use 6.53 inches FHD + display panels with Coolpad innovative V-design and the HDR display solution of Pixelwork for excellent experience picture and video view experience. It will also enhance the Bluetooth 5.0 to enable multi-device Bluetooth connection. In addition to 5G smartphones, the Group also released some new products on the IOT and smart home. The Group will continue to offer more cost-effective smartphones and other smart terminals to the market.

# MANAGEMENT DISCUSSION & ANALYSIS

## Diversifying Product Categories

In 2019, the Group has made initial progress in expanding its product portfolio to smart accessories. The Group is selling smart accessories at Amazon's flagship store in the US, which includes chargers, cables, portable power banks, etc., and has received positive feedbacks from users. In 2020, the Group intends to expand its product categories into intelligent hardware such as smart glasses, smart watches, TWS earphones, etc. Meanwhile, the Group is also considering expanding the accessories business and its selling channel to other countries.

## Industrial Internet

The Group is actively transforming to industrial internet new infrastructure industry sector in Mainland in China. At present, the Group has made initial progress in social governance technology support and smart water treatment. On 22 December 2019, the Group, together with China Society for Social Governance and other institutions, jointly established the first social governance technology support center in Mainland China; On 3 January 2020, the Group, together with the well-known water treatment group in the industry (such as Guangdong Water Group, Shenzhen Water Group, Shenzhen Smart City Technology Development Group, etc.), initiated the establishment of the "Smart Water Environmental Protection Innovation Alliance in the Bay Area" with a view to developing technology to empower water environmental protection. The Group will combine its own technology and R&D ability, focus on the integrated solutions of smart city and smart hardware, seize the opportunities from the Guangdong-Hong Kong-Macao Greater Bay Area strategy and Shenzhen to build a pilot demonstration zone of socialism with Chinese characteristics, integrate strategic cooperation resources in the industry, to accelerate the in-depth application of advanced technologies in areas such as smart wearable, smart city construction, 5G application and IOT. The Group will also continue to drive the intelligent iteration and upgrading of products and services, explore the pan-smart terminal product service market, embrace the new era of smart economy, and provide customers with the ultimate experience of full scenario intelligence.

## Pandemic Prevention Supply Production

Since the start of the new year, in the face of unexpected pandemic, the Group, on one hand, has actively responded to the pandemic; while on the other hand, the Group has sought for breakthrough during such difficult times. In response to the urgent demand for medical-use disease prevention materials and equipment, the Group has never forgotten its corporate social responsibility. Based on the production conditions of automated hardware, the Group has opened up the whole industry chain including raw material procurement, equipment manufacturing and product production by leveraging on its own capabilities and advantages in supply chain management, market synergy and technology output. In February 2020, the Group renovated and set up a production line for civil surgical masks, which not only meets the needs of the Group's employees for pandemic prevention, but also provides timely supply of pandemic prevention materials in response to the needs of relevant government departments and the business partners. The Group is also stepping up its R&D on AR intelligent devices which can achieve intelligent temperature monitoring and emergency command solutions, so as to facilitate the safety monitoring and back-office command of high-density urban traffic.

The Group will upgrade and optimize its organizational structure and product design. The Group will be dedicated to meeting the needs of consumers, understanding the needs of consumers, acknowledging the changes in the market and promoting social progress. Coolpad is committed to the implementation of being meticulous to consumers, keeping craftsmanship spirits and being innovative to products. The Group has passed through the most difficult time. By leveraging on its refined management, R&D capabilities and effective product layout, the Group will seize the opportunities to continuously diversify its products and enhance its product competitiveness, actively solve the difficulties of consumers and create value for shareholders.

# CORPORATE GOVERNANCE REPORT

## Application of Corporate Governance Principles

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

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

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

## Board of Directors

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

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

# CORPORATE GOVERNANCE REPORT

## Board Composition

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

## Executive Directors

Mr. CHEN Jiajun (appointed on 17 January 2019)
Mr. LIANG Rui
Mr. MA Fei (appointed on 29 October 2019)
Mr. XU Yibo (appointed on 29 October 2019)
Mr. JIANG Chao (resigned on 11 January 2019)
Mr. LEUNG Siu Kee (resigned on 29 October 2019)
Mr. LAM Ting Fung Freeman

## Non-Executive Director

Mr. NG Wai Hung

## Independent Non-Executive Directors

Mr. CHAN King Chung
Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. GUO Jinghui (appointed on 29 October 2019)

The biographies of the Directors are set out in the "Directors and Senior Management" on pages 49 to 53 of this Annual Report.

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

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

# CORPORATE GOVERNANCE REPORT

## Chairman and Chief Executive Officer

Under Code Provision A.2.1 of the Code as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

On 30 August 2019, Mr. Chen Jiajun was appointed as chairman of the Board and Mr. Liang Rui was appointed as chief executive officer. The roles of chairman and chief executive have been separated since 30 August 2019.

None of the Directors is aware of any information which would reasonably indicate that the Company has not met the requirements under the Code during the Year.

## Non-Executive Directors

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

## Independent Non-Executive Directors

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

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

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

# CORPORATE GOVERNANCE REPORT

## Board Operation

During the Year, six Board meetings and two Annual General Meetings ("AGM") were held, and no extraordinary general meeting ("EGM") was held during the Year.

Attendance of individual Directors at the Board meetings in 2019 and AGMs is as follows:

| Name of Directors | Board Meetings | AGM |
|---|---|---|
| **Executive Directors** | | |
| Mr. CHEN Jiajun (appointed on 17 January 2019) | 5/6 | 2/2 |
| Mr. LIANG Rui | 6/6 | 2/2 |
| Mr. MA Fei (appointed on 29 October 2019) | 1/6 | NA |
| Mr. XU Yibo (appointed on 29 October 2019) | 1/6 | NA |
| Mr. LAM Ting Fung Freeman | 6/6 | 2/2 |
| Mr. JIANG Chao (resigned on 11 January 2019) | 0/6 | NA |
| Mr. LEUNG Siu Kee (resigned on 29 October 2019) | 5/6 | 2/2 |
| **Non-executive Director** | | |
| Mr. NG Wai Hung | 6/6 | 2/2 |
| **Independent Non-executive Directors** | | |
| Mr. CHAN King Chung | 6/6 | 2/2 |
| Dr. HUANG Dazhan | 6/6 | 2/2 |
| Mr. XIE Weixin | 6/6 | 2/2 |
| Mr. GUO Jinghui (appointed on 29 October 2019) | 1/6 | NA |

## Corporate Governance Functions

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

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

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

(a) to make recommendations to the Board on policies and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

(b) to determine the remuneration packages for executive Directors and senior management and to make recommendations to the Board on the remuneration of non-executive Directors.

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

The Remuneration Committee had three meetings in 2019 which were attended by all the members of the Remuneration Committee, to review the remuneration packages of Directors and senior management of the Group and share option scheme. The attendance record of each member of the Remuneration Committee is set out below:

| **Name** | **Number of meetings attended** |
|---|---|
| Mr. CHAN King Chung *(Chairman)* | 3/3 |
| Dr. HUANG Dazhan | 3/3 |
| Mr. XIE Weixin | 3/3 |

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

Pursuant to code provision B.1.5 of the Code, the remuneration of the members of the senior management by band for the year 2019 is set out below:

| **Remuneration bands (HK$)** | **Number of persons** |
|---|---|
| 1 to 1,000,000 | 10 |
| 1,000,001 to 2,000,000 | 6 |
| 2,000,001 to 3,000,000 | 1 |
| Total | 17 |

# CORPORATE GOVERNANCE REPORT

## Audit Committee

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

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

In 2019, the Audit Committee held two meetings. The attendance record of each member of the Audit Committee is set out below:

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

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

## Nomination Committee

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

The Nomination Committee comprises one executive Director and two INEDs, namely Mr. CHAN King Chung (the Chairman of the Committee), Mr. JIANG Chao (resigned on 11 January 2019), Mr. CHEN Jiajun (appointed on 17 January 2019), and Mr. XIE Weixin as members.

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

| Name | Number of meetings attended |
|---|---|
| Mr. CHAN King Chung *(Chairman)* | 3/3 |
| Mr. XIE Weixin | 3/3 |
| Mr. JIANG Chao (resigned on 11 January 2019) | 0/3 |
| Mr. CHEN Jiajun (appointed on 17 January 2019) | 3/3 |

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

# CORPORATE GOVERNANCE REPORT

## Provision of Information to Directors

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

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

## Continuous Professional Development

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

| Name of Directors | Training on corporate governance, Directors' responsibilities and other relevant topics |
|---|---|
| **Executive Directors** | |
| Mr. CHEN Jiajun (appointed on 17 January 2019) | √ |
| Mr. LIANG Rui | √ |
| Mr. MA Fei (appointed on 29 October 2019) | √ |
| Mr. XU Yibo (appointed on 29 October 2019) | √ |
| Mr. LAM Ting Fung Freeman | √ |
| Mr. JIANG Chao (resigned on 11 January 2019) | N |
| Mr. LEUNG Siu Kee (resigned on 29 October 2019) | N |
| **Non-executive Director** | |
| Mr. NG Wai Hung | √ |
| **Independent Non-executive Directors** | |
| Mr. CHAN King Chung | √ |
| Dr. HUANG Dazhan | √ |
| Mr. XIE Weixin | √ |

N: not applicable

# CORPORATE GOVERNANCE REPORT

## Securities Transactions by Directors

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

## Corporate Accountability and Internal Control

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

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

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

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

BT Corporate Governance Limited (formerly known as Corporate Governance Professionals Limited and Baker Tilly Hong Kong Risk Assurance Limited), an external professional adviser, was engaged by the Company in December 2019 to conduct an independent internal control review and to assist the management to improve the internal control system of the Group.

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

## Procedures for Identifying, Assessing and Managing Material Risks

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

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

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

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

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

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

Through identifying and assessing risks, the risks faced by the Company are categorized into 5 primary risks including strategic risk, financial risk, market risk, operational risk and legal risk and 70 secondary risks.

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

## Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the Year. The Directors' responsibilities for preparing the financial statements of the Company for the Year are set out in the Report of the Directors on page 68 of the Annual Report.

# CORPORATE GOVERNANCE REPORT

## Board Diversity Policy

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

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

## Company Secretary

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

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

(i) Mr. Ma will be assisted by Mr. Tsang during the Waiver Period;

(ii) the Company shall notify the Stock Exchange at the end of the Waiver Period for the Stock Exchange to re-visit the situation. The Stock Exchange expects that after the end of the Waiver Period, the Company will be able to demonstrate that Mr. Ma satisfies Rule 3.28 of the Listing Rules, having had the benefit of Mr. Tsang's assistance such that a further waiver will not be necessary; and

(iii) the Company will announce details of the Waiver, including its reasons and conditions.

## External Auditor

The Group has not changed external auditors in the past three years. Ernst & Young have been appointed as the External Auditor of the Group for the year under review. An amount of approximately HK$3.37 million was charged by Ernst & Young for its audit services provided to the Group in 2019 (2018: HK$3.77 million). The responsibilities of the external auditor with respect to financial reporting are set out in the section headed "Independent Auditor's Report" on page 72 to 73 of this report.

During the year, HK$0.69 million (2018: HK$0.52 million) was incurred as remuneration to Ernst & Young for the provision of non-audit services to the Group which represented tax advisory and agree-upon procedures services.

## Communication with Shareholders and Shareholders' Rights

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

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

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

## Constitutional Documents

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Approach

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

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

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

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

1. To achieve environmental sustainability

2. To respect human rights and social culture

3. To engage with stakeholders

4. To support our employees

5. To sustain local communities

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## About This Report

The Group is pleased to present its Environmental, Social and Governance ("ESG") Report. The content contained herein focuses on providing an overview of the environmental, social and governance performance of our major operations in the PRC for the year ended 31 December 2019 (the "Reporting Year"). It helps us to keep a close eye on our current performance as well as the opportunities to improve our performance. The Reporting Year coincides with our financial year.

## Scope of the Report

This report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The two ESG subject areas, namely Environmental and Social, are disclosed separately, highlighting the impacts of the operations of the Group in the PRC from 1 January 2019 to 31 December 2019.

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

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

The data and information used in this report are referenced from our archived documents, records, statistics and research. Financial data is extracted from or calculated based on the Group's audited annual financial statements for the year ended 31 December 2019.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## About Coolpad

### Our Business

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

### Our Vision

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

### Our Mission

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

### Board of Directors (the "Board")

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

| Executive Directors | Non-Executive Director | Independent Non-Executive Directors |
|---|---|---|
| Mr. Chen Jiajun *(Chairman)* | Mr. Ng Wai Hung | Dr. Huang Dazhan |
| Mr. Liang Rui *(Chief Executive Officer)* | – | Mr. Xie Weixin |
| Mr. Lam Ting Fung Freeman | – | Mr. Chan King Chung |
| Mr. Ma Fei | – | Mr. Guo Jinghui |
| Mr. Xu Yibo | – | – |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Our Stakeholders

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Section A: Environmental

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

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

## Emissions

### Air Pollution Emission

During the production process of the smart products, there were no significant gaseous fuel consumptions. The material air pollutants emitted from the petrol consumption of automobile usage, mainly for transferring employees between the head office in Shenzhen and the workshops in Dongguan, during the Reporting Year. The aforementioned air pollutants are composed of sulphur oxides ("SOx"), nitrogen oxides ("NOx") and particulate matter ("PM"). During the Reporting Year, the total petrol consumptions was approximately 13,000 L (2018: 19,000 L). The total air pollutants produced approximated to 99 kg (2018: 152 kg), with an intensity of approximately 0.15 kg per employee (2018: 0.24 kg per employee). The significant 34.7% drop in both the quantity of petrol consumptions and air pollutant emissions signified the Group's efforts made towards the environmental protection. All mobile machineries are under frequent checks and maintenance to ensure the energy efficiency. Also, our drivers planned the route ahead with the shortest distance and travelling time to reduce unnecessary fuel consumption.

| Air Pollutants | Emissions in 2019 (kg) | Emissions in 2018 (kg) | Variance |
|---|---|---|---|
| SOx | 0.19 | 0.28 | -32.14% |
| NOx | 90.15 | 138.02 | -34.68% |
| PM | 8.64 | 13.22 | -34.64% |
| Total | 98.98 | 151.52 | -34.68% |

1 The different intensity figures in this report are calculated per employee, which were 668 employees as at 31 December 2019 (2018: 637).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Greenhouse Gases Emission

During the Reporting Year, the total greenhouse gases ("GHG") emission by the Group weighted approximately 8,300 tons (2018: 6,000 tons). The key culprit of the GHG emission by the Group was the electricity consumption, which represented over 97% of the total GHG emission. Besides, there were several direct GHG emissions from usage of electricity generators and automobiles, comprising of approximately 2% of the total GHG emission. Alongside the aforementioned sources, there were also indirect emission sources noted as the electricity used in fresh water and sewage processing, paper waste disposal at landfills and business air travel by employees, representing the remaining GHG emission. In respect of our 668 employees (2018: 637), the GHG emission intensity was approximately 12.4 tons per employee (2018: 9.4 tons per employee).

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

| GHG Emission Sources | 2019 GHG produced (ton) | 2018 GHG produced (ton) | Variance |
|---|---|---|---|
| Scope 1 – Direct emission from sources | | | |
| – Electricity generators | **3.04** | 2.62 | ↑ 16.03% |
| – Automobile | **34.19** | 52.34 | ↓ 34.68% |
| – Refrigerants[2] | **–** | 64.62 | ↓ 100% |
| Scope 2 – Emissions from electricity consumption | | | |
| – Electricity consumption[3] | **8,074.05** | 5,729.22 | ↑ 40.93% |
| Scope 3 – Other indirect emission sources | | | |
| – Paper waste disposal in landfills | **6.18** | 2.85 | ↑ 116.84% |
| – Electricity used for processing fresh water[4] | **51.75** | 77.47 | ↓ 33.20% |
| – Electricity used for processing sewage[3] | **25.11** | 59.67 | ↓ 57.92% |
| – Business air travel by employees | **76.45** | N/A | N/A |
| **Grand total** | **8,270.77** | 5,988.79 | ↑ 38.10% |

2 The Group estimated the direct emission of GHG from refrigerants by the quantity purchased during the year. During the Reporting Year, there was no refrigerants purchased.

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

4 The per unit electricity consumption for processing fresh water and sewage in the PRC was assumed to be at 0.577 kWh and 0.28 kWh, which were as same as the case in Hong Kong according to the latest 2017/18 Annual Report of Water Supplies Department and 2018/2019 Sustainability Report of Drainage Services Department, HKSAR.

5 The data was not disclosed in previous periods. The Group will start disclosing the GHG emission from business air travel by employees for a more comprehensive disclosure.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Waste Management

### Hazardous Waste

The hazardous waste was under good control by our well-developed waste management system. All kinds of hazardous wastes generated by production plants were classified and recycled according to the urban waste classification program, and industrial hazardous waste handling contracts were signed with qualified environmental hygiene management centers and hazardous waste trading centers. During the Reporting Year, the reported amount of produced hazardous wastes, classified as categories HW08, HW29 and HW49 under urban classification program, weighted to 0.15 tons (2018: 0.225 tons) with a significant decrease of 33.3% compared to last year. All of the produced hazardous wastes were handled properly by the external contracted parties. Hence, no significant amount of hazardous waste was disposed and emitted for the Reporting Year.

### Non-Hazardous Waste

The non-hazardous waste produced by the Group was mainly the inert waste, which was the remaining scrap of materials after metal processing, electrical components and paper waste. The Group has contracted with external scrap recyclers. Most of the time, the remaining materials and components were re-sold to third parties as raw materials for further production or recycling. Hence, there was only paper waste to be disposed to the landfills. During the Reporting Year, the total re-sold materials and components weighted to 13.90 tons (2018: 16.28 tons) with a decrease of 14.6%, whereas the total paper waste disposed by the Group weighted to 1.29 tons (2018: 0.59 tons) with an increase of 118.6%, respectively compared to last year, due to more frequent business transaction with more printed documents involved.

### Waste Management Policy

The Group has established a mature policy and procedure regarding the waste management, including sewage, gaseous waste, noise, solid waste and chemicals. The policy clearly stated the proper handling procedures and the means to reduce every kind of captioned wastes. In addition, we tried our best to streamline and plan ahead our production process, improve the conversion rate of materials, reduce or replace the use of hazardous or harmful substances, and maximize integrated use of wastes generated in the course of production. With the above successful achievement of 33.3% and 14.6% reduction on hazardous waste produced and non-hazardous waste resold, it indicated the Group's efforts made towards the management of production process.

In view of the rise in paper consumption, we strive for advocating paperless work environment. We encourage our employees to use electronic documents and ERP and OA systems instead of printed documents. In addition, we spur our staff to use double-side printing and reuse the single-side-printed paper as draft paper. Based on the implementation of above measures, the Group is confident to reduce its paper consumption in the coming years.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

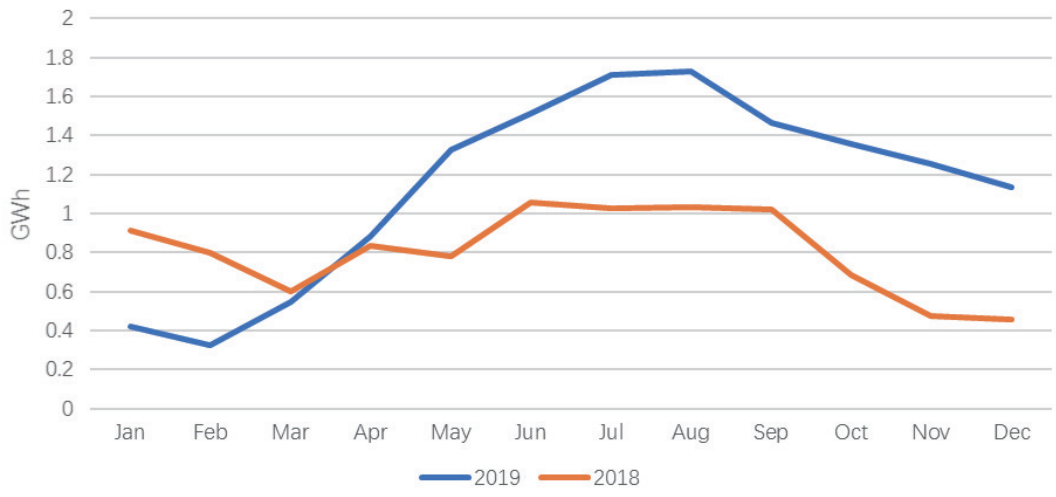
## Use of Resources

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

### Electricity Consumption

During the Reporting Year, the total electricity consumption amounted to approximately 13.66 GWh (2018: 9.69 GWh), with an intensity of approximately 20.45 MWh per employee (2018: 15.21 MWh per employee). Compared to the total electricity consumption of 9.69 GWh in 2018, there was a significant rise of 41% due to more frequent business activities and production during the Reporting Year.

Electricity Consumption

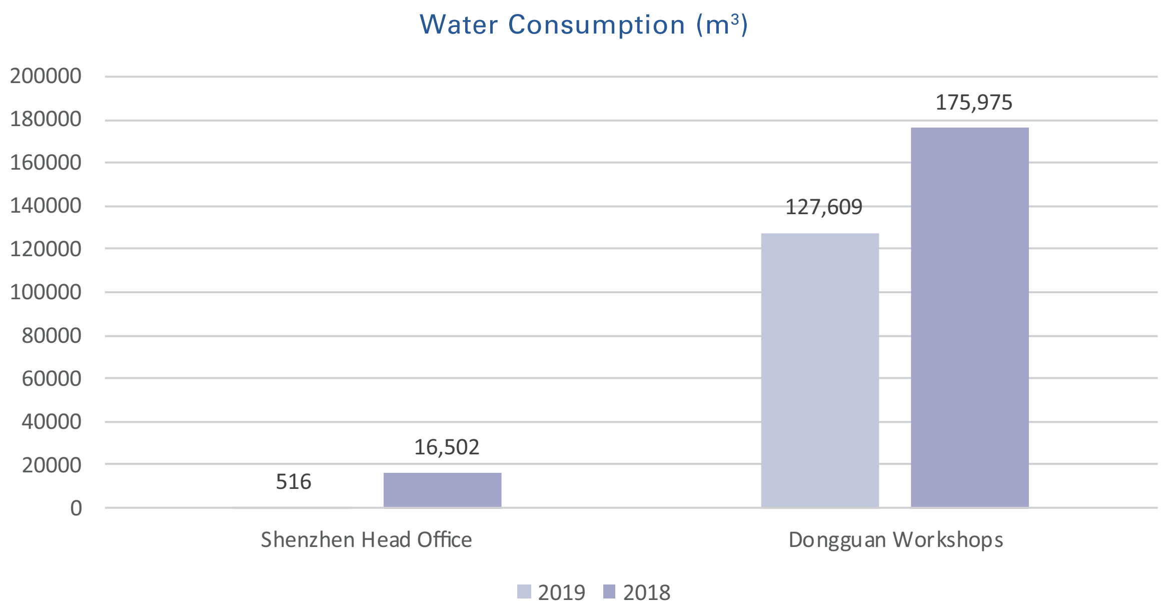



Nonetheless, the Group has emphasized the essentialness of energy conservation. The Group spurs every employee to switch off all idle appliances, and ensure that all electronic equipment is switched off after work hours. In the office and workshops, the Group has encouraged its staff to develop an energy-saving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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Water Consumption

As one of the most precious natural resources, water resource must be cherished by the Group as an essential target. During the Reporting Year, the Group consumed 128,125 tons (2018: 192,477 tons) water in our business operations, in which the Shenzhen head office and Dongguan workshops comprised of 0.4% and 99.6% (2018: 8.6% and 91.4%) of the total water consumption respectively, with an intensity of approximately 192 tons water per employee (2018: 302 tons water per employee). Due to the move of our head office location in mid-2018, the water consumption level in Shenzhen head office has been significantly whittled down during the Reporting Year. The Group has also encouraged its staff to save and use less water by helping our staff develop a sense of environmental protection awareness. By the above reasons, the Group has significantly whittled down the total water consumption for 33.4% during the Reporting Year.




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

### Packaging Materials

During the Reporting Year, the packaging materials, which were mainly the packaging paper boxes, used in the Group's daily operations weighted to 479.8 tons (2018: 574.7 tons), with a decrease of 16.5% compared to last year. Our packaging materials were used and purchased align with our production plan. Thus, there were no significant disposal of packaging materials to be identified during the Reporting Year.

## The Environmental and Natural Resources

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

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

Moreover, in terms of further reduce the consumption of electrical energy, the Group has equipped with some appliances that are energy-saving and operate with renewable energy. For example, LED light bulbs and solar energy heaters are installed in the head office. Electricity generators using solar energy are also equipped in the workshops. By these means, the Group can effectively reduce the electrical energy consumption, as well as the corresponding carbon footprints.

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Section B: Social

## Employment

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

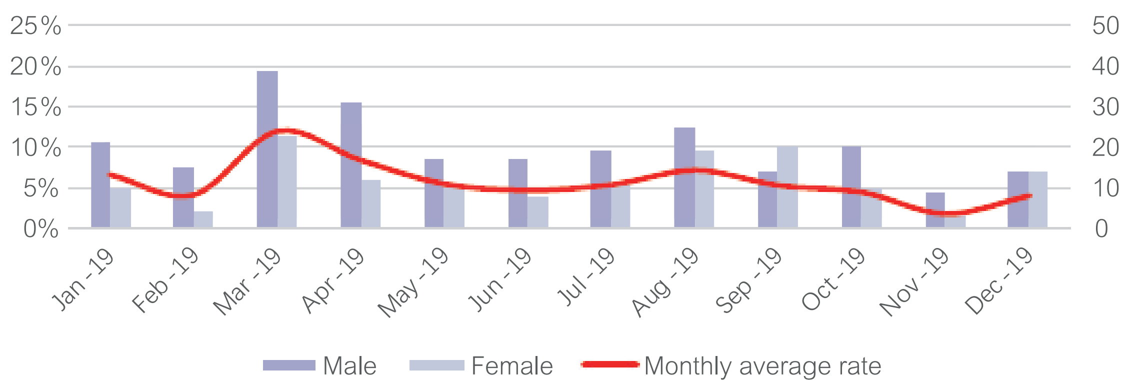
### Employee Benefits

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

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

During the Reporting Year, the market competitive employee benefits help keep a healthy monthly average turnover rate as approximately 6%.

Number of Turnover and Turnover Rate by Gender




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

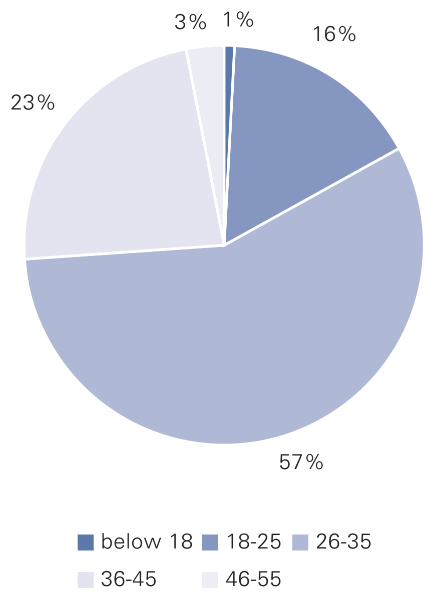
# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Harmonious Workplace

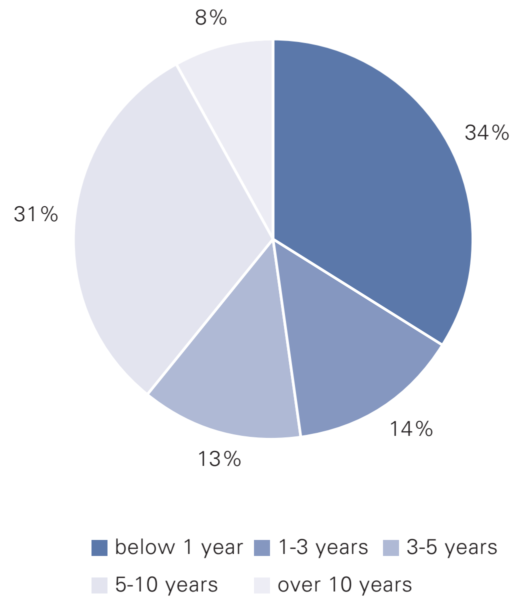
To diversify the background exposure of the Group, we hire people based on experience, expertise and values, regardless of race, colour, creed, national origin, ancestry, sex, marital status, disability, religious or political affiliation, age or sexual orientation. We promote equal opportunities and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

As at 31 December 2019, our employees' male-to-female ratio was approximately 2:1, with 443 as male and 225 as female for a total of 668 employees. In addition, our employees are from different age groups. During the Reporting Year, the Group had started to provide additional learning opportunities to those teenagers aged below 18 as part-time staff during their leisure time. In respect of our harmonious work environment and effective human resources policies, 39% of our staff have contributed for the Group for over 5 years, and 52% of our staff even served for 3 years or above. We treasure every single employee and strive for building a trustful and strong bond with them. We aim to drive employee engagement and retention in the future.

Employee Structure by Age Group




Employee Structure by Years of Service



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Health and Safety

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

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

The Group has strictly complied with the relevant laws and regulations on providing safe work environment and protecting its employees from any occupation hazard. During the Reporting Year, there was no injury or fatal cases reported within the Group. We will continue to strive for a safe and healthy work environment for our employees and workers.

## Development and Training

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

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

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

During the Reporting Year, our 733 employees (including resigned employees) received a total of 1,926.5 hours of training, in which 86% of the total number of staff (including resigned employees) attended.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Labor Standards

The Group strictly abides by the relevant laws and regulations with regard to child labour, minimum wage specified by the government, and social insurance and Housing Provident Fund scheme. We are delighted to announce that we have not encountered major risks in human rights and employment matters so far. The Group guarantees that no employee is made to work against his/her will, or work under forced labour, or subject to coercion related to work. During our recruitment process, documentation of being legally eligible to work in the Group is obtained and verified. Except for those part-time staff described in section Employment, there was no employee recruited under the age of 18. Through the whistle-blowing mechanism, employees are able to voice out injustice they face. The management will investigate into any reported cases immediately, and take further follow-up actions if necessary.

## Supply Chain Management

As a group to develop, manufacture and sell smart products, we recognize the essentialness of the supply chain management of our inventories. During the supplier selection process, we consider the qualification, reputation, product quality, quality consistency and the ability to deliver on time among the suppliers. We obtain the material samples for our internal testing to ensure the material supplies are up to our strict standards. A professional evaluation team will also be formed to perform on-site inspection for the production process of the suppliers. Only the suppliers with a pass result in the initial assessment can be added into our approved supplier list. The Group conducts annual assessment of the approved suppliers to confirm that they are up to its required standards. We remove any of the suppliers with unsatisfying results from the approved supplier list to ensure that we produce the best quality of products using the high-quality raw materials. Moreover, if any suppliers are found to be below our requirements and standards, warning letters will also be sent as an alert.

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

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

## Product Responsibility

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

### Quality Standards

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Product Certification

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

## Intellectual Property Rights

The Group attached great importance to Intellectual Property protection in order to better fulfil its product responsibility. The Group has registered wide range of trademarks and Intellectual Property ("IP") rights for its products. No infringement is tolerated by the Group. Beyond that, the Group had also appointed a Chief IP Officer to focus on Company IP & trademarks management. The Group hold a strong belief that by respecting and protecting Intellectual Property, we can promote industry innovation and create a healthy and sustainable development of the industry. During the Reporting Year, there were 773 patents successfully registered by the Group.

## Customers' Response

The Group always treasures the customer relationship as an invaluable asset. We has formulated a thorough after-sale service network to effectively handle compliant by our customer service department. All compliant will be recorded in details to facilitate the follow-up actions as well as for future references to improve our product and sale-service quality. During the Reporting Year, there were 1 cases of complaints regarding product quality reported. The total number of returned products was 12, which comprised of only 0.0004% of the total number 2,916,753 of delivered goods. We will continue to keep the well-established relationship with our customers by providing top quality products.

## Data Privacy

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

## Relevant Laws and Regulations

Actively notifying the compliance issues and inspecting among any deficiencies can prevent problems from escalating. Therefore, the Group keeps a close eye on the updates of relevant regulations and codes to revise its policies and operations accordingly to prevent any malpractice. We will continue to strive for providing high quality products to our precious customers. During the Reporting Year, the Group had strictly complied with the relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to products and services provided.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Anti-corruption

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

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

The Group had strictly complied with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

## Community Investment

The Group has been actively involved in the community investment. During the Reporting Year, we have donated products, with a value of approximately HK$6,600,000 to customer in the U.S.A. for supporting the poor teenagers and students in order to contribute to the educational field. We imitate to invest more resources into the voluntary section for the sake of positively contributing to the society.

## Regulatory Compliance

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Environmental Data

| Emissions Indicators | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Air Emissions** | | |
| Total air emissions | **98.98 kg** | 151.53 kg |
| Air emission intensity | **0.15 kg per employee** | 0.24 kg per employee |
| NOx emission | | |
| Light goods vehicle (petrol) | **90.15 kg** | 138.02 kg |
| SOx emission | | |
| Light goods vehicle (petrol) | **0.19 kg** | 0.28 kg |
| PM emission | | |
| Light goods vehicle (petrol) | **8.64 kg** | 13.22 kg |
| **Greenhouse Gas Emissions** | | |
| Total greenhouse gas emissions | **8,270.77 tons** | 5,988.79 tons |
| Greenhouse gas emission intensity | **12.38 tons per employee** | 9.40 tons per employee |
| $CO_2$ emission | | |
| Electricity generator (diesel oil) | **3.03 tons** | 2.62 tons |
| Light goods vehicle (petrol) | **29.81 tons** | 45.64 tons |
| Refrigerants | **–** | 64.62 tons |
| Electricity consumption | **8,074.05 tons** | 5,729.22 tons |
| Electricity used for processing fresh water | **51.75 tons** | 77.47 tons |
| Electricity used for processing sewage | **25.11 tons** | 59.67 tons |
| Paper waste disposal at landfills | **6.18 tons** | 2.85 tons |
| Business air travel | **76.45 tons** | Not disclosed |
| $CH_4$ emission | | |
| Electricity generator (diesel oil) | **0.001 tons** | 0.001 tons |
| Light goods vehicle (petrol) | **0.054 tons** | 0.082 tons |
| $N_2O$ emission | | |
| Electricity generator (diesel oil) | **0.003 tons** | 0.002 tons |
| Light goods vehicle (petrol) | **4.33 tons** | 6.62 tons |
| **Hazardous waste produced** | | |
| Total hazardous waste reported | **0.150 tons** | 0.225 tons |
| **Non-hazardous waste produced** | | |
| Paper waste disposed | **1.29 tons** | 0.59 tons |
| Industrial waste re-sold | **13.90 tons** | 16.28 tons |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Emissions Indicators | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Use of Resources Indicators** | | |
| **Electricity consumption** | | |
| Total electricity consumption | **13.66 GWh** | 9.69 GWh |
| Shenzhen Head Office | **0.52 GWh** | 1.25 GWh |
| Dongguan workshops | **13.14 GWh** | 8.44 GWh |
| Electricity consumption intensity | **20.45 MWh per employee** | 15.21 MWh per employee |
| **Water Consumption** | | |
| Total water consumption | **128,125 tons** | 192,477 tons |
| Shenzhen Head Office | **516 tons** | 16,502 tons |
| Dongguan workshops | **127,609 tons** | 175,975 tons |
| Water consumption intensity | **191.80 tons per employee** | 302.16 tons per employee |
| **Packaging Materials** | | |
| Total packaging materials consumption | **479.8 tons** | 574.7 tons |
| Packaging materials consumption intensity | **0.72 tons per employee** | 0.90 tons per employee |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Social Data

| Employment Indicators | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Employment** | | |
| Total number of employees | **668** | 637 |
| By Gender | | |
| Male | **443** | 416 |
| Female | **225** | 221 |
| By Years of Service | | |
| Below 1 year | **229** | 96 |
| 1 – 3 years | **94** | 127 |
| 3 – 5 years | **85** | 175 |
| 5 – 10 years | **209** | 189 |
| Above 10 years | **51** | 50 |
| By Age Group | | |
| Below 18 (as part-time staff) | **7** | – |
| 18 – 25 | **108** | 85 |
| 26 – 35 | **380** | 411 |
| 36 – 45 | **155** | 130 |
| 46 – 55 | **18** | 11 |
| **Employment turnover** | | |
| Total number of employee turnover | **386** | 943 |
| % of employee turnover (monthly average) | **5.78%** | 7.71% |
| By Gender (monthly average) | | |
| Male | **5.54%** | 7.86% |
| Female | **6.25%** | 7.42% |
| **Health and Safety Indicators** | | |
| Number of reported injuries | **–** | – |
| Number of lost days | **–** | – |
| **Development and Training Indicators** | | |
| Total number of hours of staff training | **1,926.5** | 1,160 |
| Total number of employee received training | **733** | 189 |
| Male | **481** | 133 |
| Female | **252** | 56 |
| Percentage of employees received training | **86%** | 30% |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Supply Chain Indicators | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| Total number of suppliers did business in Reporting Year | **Not disclosed** | 375 |
| The PRC | **Not disclosed** | 329 |
| Hong Kong | **Not disclosed** | 45 |
| Singapore | **Not disclosed** | 1 |
| **Product Responsibility Indicators** | | |
| Total number of complaints received | **1** | 7 |
| Total number of goods returned | **12** | 25 |
| Total number of goods delivered | **2,916,753** | 2,086,220 |
| Percentage of goods returned | **0.0004%** | 0.001% |
| **Anti-corruption Indicators** | | |
| Number of conducted legal cases regarding corruption | **–** | – |
| **Community Indicators** | | |
| **Community Investment** | | |
| Corporate charitable donation (equivalent amount) | **HK$6,572,381** | US$ 1,500 |
| **Employee volunteering** | | |
| Number of employee volunteers | **–** | 2 |
| Total number of service hours | **–** | 5 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ESG Reporting Guide & Reference

| A. Environmental | Reference in this Report |
|---|---|

| A1. Emissions | Page # |
|---|---|
| Policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | 30-32 |
| KPI A1.1 The types of emissions and respective emission data. | 30-32 |
| KPI A1.2 Greenhouse gas emission in total (in tonnes) and where appropriate, intensity (e.g per unit of production volume, per facility). | 31 |
| KPI A1.3 Total hazardous waste produced (in tonnes) and where appropriate, intensity (e.g per unit of production volume, per facility). | 32 |
| KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g per unit of production volume, per facility). | 32 |
| KPI A1.5 Description of measures to mitigate emissions and results achieved. | 30-32 |
| KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | 32 |

| A2. Use of Resources | Page # |
|---|---|
| Policies on the efficient use of resources, including energy, water and other raw materials. | 33-35 |
| KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh) and intensity (e.g. per unit of production volume, per facility). | 33 |
| KPI A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility). | 34 |
| KPI A2.3 Description of energy use efficiency initiatives and results achieved. | 33-35 |
| KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | 34 |
| KPI A2.5 Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | 35 |

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| B. Social | Reference in this Report |
|---|---|

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

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

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

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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

| B6. Product Responsibility | Page # |
|---|---|
| Policies and compliance with laws and regulations relating to health and safety. Advertising, labeling and privacy matters relating to products and services provided and method of redress. | 39-40 |
| KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons. | 40 |
| KPI B6.2 Number of products and service related complaints received and how they are dealt with. | 40 |
| KPI B6.3 Description of practices relating to observing and protecting intellectual property rights. | 40 |
| KPI B6.4 Description of quality assurance process and recall procedures. | 40 |
| KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored. | 40 |

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

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

# DIRECTORS AND SENIOR MANAGEMENT

## Directors

### Executive Directors

#### Mr. CHEN Jiajun (Appointed on 17 January 2019)

Mr. Chen, aged 28, is an executive Director, the chief executive officer of the Company. Mr. Chen has extensive investment experience and currently has a wide variety of investments in different industry sectors. Mr. Chen holds a master's degree in Science of Finance from the University of Southern California ("USC"). Before joining the Group, Mr. Chen served at Shenzhen Kingkey Banner Commercial Management Ltd. (深圳市京基百納商業管理有限公司) as vice-president from May 2015 to May 2018 and president from May 2018 to January 2019. Mr. Chen currently also serves as a Director of USC South China Alumni Club. As at the date of this report, Mr. Chen is the director of two subsidiaries of the Company and the general manager of one subsidiary of the Company.

#### Mr. LIANG Rui (Appointed on 19 January 2018)

Mr. Liang, aged 44, is an executive Director, and is currently a president of Shenzhen Shuibei Jewelry Group. Mr. Liang obtained a doctoral degree of Technical Economics and Management from the School of Economics and Business Administration of Chongqing University in 2007 and a postdoctoral degree in Applied Economics from the School of Economics and Finance of Xi'an Jiaotong University in 2009. From January 2000 to October 2014, he worked in the Shenzhen Luohu District People's Government, serving as an officer in the Education Bureau, deputy director-general of the State Bureau for Letters and Calls, director-level deputy director of the district (governmental) committee office, and director of the Bureau of Civil Administration. From September 2014 to November 2017, he served as Secretary and director of the Shenzhen Nanhu Sub-district Office. As at the date of this report, Mr. Liang is the director of three subsidiaries of the Company and the supervisor of one subsidiary of the Company.

# DIRECTORS AND SENIOR MANAGEMENT

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

Mr. Lam, aged 40, is an executive Director, and was recognised as an International Registered Financial Practitioner in 2006. He served as a divisional manager in AIA for 12 years since 1998. He joined Kossilon Group as a director in 2008 and assisted the group in establishing a corporate financial service division. He served as a senior branch manager in AXA in 2010 and was admitted as a life member of the Million Dollar Round Table in 2012. Mr. Lam has 10 years of experience in corporate financial services, providing professional advice to companies regarding asset restructuring and financing. He also has 15 years of experience in financial planning and asset management, having managed an asset investment with a value of HK$300 million in 2007. He also has 20 years of experience in the sales of insurance and wealth management products, leading a team of over 60 people. As at the date of this report, Mr. Lam does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

## Mr. XU Yibo (Appointed on 29 October 2019)

Mr. Xu, aged 45, is an executive vice president of the Group, responsible for R&D system supply chain of the Company. Mr. Xu obtained a bachelor`s degree in electromagnetic field from Xidian University (西安電子科技大學). Mr. Xu joined the Group in July 1998 and has about more than 15 years of experience in mobile communication, terminal security, cloud computing and mega data technology field, making contribution in standard work in more than 10 international and domestic standards organizations, such as 3GPP, IETF, IEEE, IMI-2020(5G) Promotion Group, etc. Mr. Xu participated in the research and development of dual-standby technique which led to win the second prize of National Science and Technology Progress which is the highest award in the terminal field. As at the date of this report, Mr. Xu is the director of 10 subsidiaries of the Company and the general manager of 6 subsidiaries of the Company.

## Mr. MA Fei (Appointed on 29 October 2019)

Mr. Ma, aged 37, is the chief financial officer and joint company secretary of the Group. Mr. Ma obtained a bachelor's degree in accounting from Xi'an Jiaotong University. Mr. Ma is primarily responsible for the finance and investor relations of the Group. Mr. Ma has more than 10 years of experience in accounting and finance. Mr. Ma joined the Group in 2006, and has served successively as financial manager, vice director of investor relations department. From 2018 to 2019, Mr. Ma won the Shenzhen Innovation Talent Award for two consecutive years. As at the date of this report, Mr. Ma is the director of 4 subsidiaries of the Company, the supervisor of 2 subsidiaries of the Company and the general manager of 1 subsidiary of the Company.

# DIRECTORS AND SENIOR MANAGEMENT

## Non-Executive Director

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

Mr. Ng, aged 56, is a non-executive Director, and is a practicing solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the areas of securities law, corporate law and commercial law in Hong Kong and China trades and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies in Hong Kong. Mr. Ng is currently an independent non-executive director of three companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), namely China Star Cultural Media Group Limited (currently known as Lajin Entertainment Network Group Limited, stock code: 8172), Xinyi Automobile Glass Hong Kong Enterprises Limited (stock code: 8328) and 1957 & Co. (Hospitality) Limited (stock code: 8495) (all being companies listed on the Stock Exchange) since March 2015, June 2016 and November 2017 respectively. Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited, stock code: 663), KTP Holdings Limited (currently known as Ares Asia Limited, stock code: 645), Tomorrow International Holdings Limited (currently known as Talent Property Group Limited, stock code: 760), Perception Digital Holdings Limited (currently known as HongDa Financial Holding Limited, stock code: 1822), HyComm Wireless Limited (currently known as Qingdao Holdings International Limited, stock code: 499), Tech Pro Technology Development Limited, stock code: 3823), GOME Retail Holdings Limited (stock code: 493), Kingbo Strike Limited (stock code: 1421), Trigiant Group Limited (stock code: 1300), Fortune Sun (China) Holdings Limited (stock code: 352), On Time Logistics Holdings Limited (stock code: 6123) and Sustainable Forest Holdings Limited (stock code: 723) (all being companies listed on the Stock Exchange) and resigned in February 2010, February 2011, January 2012, August 2014, September 2014, March 2017, May 2017, June 2017, August 2017, September 2017, December 2017 and December 2017 respectively. As at the date of this report, Mr. Ng does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

## Independent Non-Executive Directors

### Mr. CHAN King Chung

Mr. Chan, aged 57, is an independent non-executive Director and joined the Group in November 2004. He obtained a bachelor's degree in business administration and accountancy from the Chinese University of Hong Kong in 1987 and City University of Hong Kong in 1993, respectively. Mr. Chan also obtained a Master degree in accountancy and business administration. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Company Secretaries. Mr. Chan has more than 20 years of experience in corporate governance, management and financial controlling. As at the date of this report, Mr. Chan does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

# DIRECTORS AND SENIOR MANAGEMENT

### Dr. HUANG Dazhan

Dr. Huang, aged 62, is an independent non-executive Director and joined the Group in November 2004. Dr. Huang obtained his doctorate degree from the Victoria University of Manchester, England, the United Kingdom in 1993. Dr. Huang currently serves at China Merchants Group. As at the date of this report, Dr. Huang does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

### Mr. XIE Weixin

Mr. Xie, aged 78, is an independent non-executive Director and joined the Group in November 2004. Mr. XIE graduated from the Department of Electronics Engineering of Xi'an University of Electronics Technology in 1965. Mr. Xie was a visiting scholar in University of Pennsylvania during the period from 1981 to 1983 and from 1989 to 1990, respectively. He was honored as one of the national outstanding middle-aged and young experts. Mr. Xie currently is the chairman of the Academic Committee of Shenzhen University, a professor in College of Information Engineering of Shenzhen University, and Mr. Xie was an independent non-executive director of Shenzhen Sed Industry Co. Limited (the shares of which are listed on the Shenzhen Stock Exchange, Stock Code: 000032) from 2010 to 2014. As at the date of this report, Mr. Xie does not have any other relationship with any Directors, senior management, substantial or controlling shareholders of the Company as defined in the Listing Rules or hold any other position with the Company or any member of the Group.

### Mr. GUO Jinghui

Mr. Guo, aged 48, obtained a bachelor's degree in radio technology (無線電技術) from Taiyuan University of Technology. From November 2007 to August 2009, he served as the supervisor of Shenzhen Guangming New District Administration Human Resources Office (深圳市光明新區人力資源管理辦公室主任). From August 2009 to April 2013, he served as a member of the Party Working Committee and the head of the Organization and Personnel Bureau of Shenzhen Guangming New District (深圳市光明新區黨工委委員、組織人事局局長). From April 2013 to May 2014, he served as a standing committee member and the head of the Organization Department of the Shenzhen Nanshan District committee (深圳市南山區委常委、組織部長). From May 2014 to February 2018, he served as the deputy secretary of the party committee (黨委副書記) of Guosen Securities Company Limited.

# DIRECTORS AND SENIOR MANAGEMENT

## Senior Management

### Mr. CHANG Zhi

Mr. Chang, aged 46, joined Coolpad Group as the CEO of Group's US branch in February 2020, responsible for the US market business. Mr. Chang obtained a bachelor's degree from Peking University (北京大學), two engineering master degrees from North Carolina State University (北卡州立大學) and one MBA degree from Duke University (杜克大學). Before joining Coolpad, Mr. Chang worked as a senior vice president of Marketing and Product Management in Huawei USA, responsible for running the marketing and product management teams in wireless, fixed network, core network, public cloud, and energy products in US and Latin America. Mr. Chang has led the team to work on 5G and digital transformation of US Carriers for many years. Prior to Huawei USA, Mr. Chang worked in Huawei's West European Region, responsible for the marketing and sales team of routers and switching products in Western Europe. While in Huawei, Mr. Chang was a senior fellow of Strategy Institute and also a senior consulting expert on international relationship of Huawei Public Affair and Communication Department. Before joining Huawei, Mr. Chang worked in Nortel, Cisco, Oracle and other companies, as senior hardware engineer, senior software engineer and product manager for many years. Mr. Chang has brought many successful products to the markets and has ran may successfully projects.

Mr. Chang has worked in overseas branches of Chinese Companies for many years, who is familiar with the US telco market, and has led multiple teams with a deep understanding of Chinese and American culture and management style, which will enable Mr. Chang to play an excellent role in communication between Coolpad headquarters and US branch. We are confident that Mr. Chang will lead the US team to achieve more commercial success.

### Mr. CAO Jingsheng

Mr. Cao, aged 44, is an senior vice president of the Group, responsible for the smart hardware and accessories business of the Company. Mr. Cao obtained a bachelor's degree in computer science from Harbin Institute of Technology (哈爾濱工業大學). During his work, he participated in the AMP advanced management training of Peking University HSBC Business School. Mr. Cao joined the Group in June 2018. The smart hardware and accessory products created by his team have become the head products on the Amazon website in the United States. At the same time, the team has expanded online business of smart hardware and accessories to Germany, UK, Japan and other countries and has enabled the rapid development of the Company's global online business.

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

# REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 ("Year") to the shareholders.

## Principal Activities

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

## Key Risks and Uncertainties

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

Key risk factors and uncertainties affecting the Group include macroeconomic risks, risks of inappropriate strategies for marketing competition, risks of the fluctuation of raw materials price, risks of adjustments of policies in relation to the economy and the industry. The potential risks of macroeconomic risks arise from the effects of macro-economy's volatility, the pressure of inflation, foreign currency risk, and interest rate risk. The potential risks of inappropriate strategies for market competition arise from the risks involved in the formulation of competition strategies, risks involved in the collection of customers' information.

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

## Results, Dividends and Distribution

The Group's profit for the Year and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 74 to 192.

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

## Annual General Meeting

The forthcoming annual general meeting of the Company will be held on 19 June 2020.

# REPORT OF THE DIRECTORS

## Closure of Register of Members

For the purpose of determining shareholders' entitlement to attend and vote at the said annual general meeting, the register of members of the Company will be closed from 16 June 2020 to 19 June 2020 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the said annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 15 June 2020.

## Charitable Donations

In the year under review, the Group's charitable donations were approximately HK$6,600,000 (2018: RMB10,000).

## Summary of Financial Information

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

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Results** | | | | | |
| Revenue | **1,858,249** | 1,277,164 | 3,378,077 | 7,969,477 | 14,667,866 |
| Profit/(loss) before tax | **116,618** | (419,408) | (2,702,251) | (4,356,068) | 2,311,011 |
| Income tax (expense)/credit | **(4,524)** | 8,746 | (20,825) | (45,352) | (34,505) |
| Profit/(loss) for the year | **112,094** | (410,662) | (2,723,076) | (4,401,420) | 2,276,506 |
| Attributable to owners of the Company | **112,321** | (409,321) | (2,674,457) | (4,379,631) | 2,324,518 |

# REPORT OF THE DIRECTORS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets and liabilities** | | | | | |
| Non-current assets | **1,720,375** | 1,856,007 | 1,991,344 | 2,741,032 | 5,745,328 |
| Current assets | **1,639,603** | 1,260,759 | 2,859,486 | 7,113,372 | 8,537,979 |
| Non-current liabilities | **328,057** | 278,352 | 296,464 | 67,213 | 225,116 |
| Current liabilities | **2,323,697** | 2,423,747 | 3,764,950 | 6,248,881 | 6,641,496 |
| Net assets | **708,224** | 414,667 | 789,416 | 3,538,310 | 7,416,695 |

## Property, Plant and Equipment

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

## Investment Properties

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

## Share Capital and Share Options

Details of movements in the Company's share capital and share options during the year under review are set out in notes 31 and 32 to the financial statements, respectively.

# REPORT OF THE DIRECTORS

## Share Award Plan

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

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

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

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

## Pension Scheme

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

## Pre-Emptive Rights

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

## Permitted Indemnity Provision

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

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

During the reporting period, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

# REPORT OF THE DIRECTORS

## Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

## Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$1,662,620. The Board do not recommend the payment of any final dividend for the Year. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$1,444,121 in total as at 31 December 2019, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## Compliance with Laws and Regulations

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

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

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

## Environmental Policies and Performance

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

For details, please refer to the section headed "Environmental, Social and Governance" on pages 26 to 48 of this annual report.

## Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 91% of the total sales for the year and sales to the largest customer included therein amounted to approximately 42%. Purchases from the Group's five largest suppliers accounted for approximately 41% of the total purchases for the Year and purchases from the largest supplier included therein amounted to approximately 11%.

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

## Relationships with Customers and Suppliers

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

## Management Contracts

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

# REPORT OF THE DIRECTORS

## Directors

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

## Executive Directors

Mr. CHEN Jiajun (appointed on 17 January 2019)
Mr. LIANG Rui
Mr. MA Fei (appointed on 29 October 2019)
Mr. XU Yibo (appointed on 29 October 2019)
Mr. JIANG Chao (resigned on 11 January 2019)
Mr. LEUNG Siu Kee (resigned on 29 October 2019)
Mr. LAM Ting Fung Freeman

## Non-Executive Director

Mr. NG Wai Hung

## Independent Non-Executive Directors

Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. CHAN King Chung
Mr. GUO Jinghui (appointed on 29 October 2019)

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

In accordance with the Articles of Association, Mr. Liang Rui, Mr. Xie Weixin, Mr. Huang Dazhan and Mr. CHAN King Chung will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. Besides, Mr. Ma Fei, Mr. Xu Yibo, were appointed by the board as executive Directors on 29 October 2019, and Mr. Guo Jinghui was appointed by the board as an INED on 29 October 2019. They shall retire from office, but being eligible, have offered themselves for re-election at the forthcoming annual general meeting. Save for the aforesaid, the other remaining directors of the Company would continue in office.

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

## Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 49 to 53 of the Annual Report.

# REPORT OF THE DIRECTORS

## Directors' Service Contracts

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

Mr. Ma Fei, an executive Director, has entered into a service agreement with the Company dated 29 October 2019 for a term of three years commencing from 29 October 2019.

Mr. Xu Yibo, an executive Director, has entered into a service agreement with the Company dated 29 October 2019 for a term of three years commencing from 29 October 2019.

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

## Directors' Remuneration

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

## Directors' Interests in Transaction, Arrangement or Contract of Significance

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

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

Save as disclosed in note 38 to the financial statements, no controlling shareholders of the Company had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group subsisting at any time during the year under review or at the end of the year under review to which the Company or any of its subsidiaries was a party.

# REPORT OF THE DIRECTORS

## Issue of Convertible Bonds

On 17 October 2017, the Company entered into the subscription agreement (the "Subscription Agreement") with Centralcon Enterprises Company Limited (the "Subscriber") in respect of the issue of the convertible bonds with the nominal value of HK$581,948,000.

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

In light of the fact that one or more of the conditions precedent set out in the Subscription Agreement cannot be satisfied by the long stop date, being 30 December 2017 (which was previously extended to 30 December 2018), pursuant to the Subscription Agreement, the Subscriber has the right to terminate the Subscription Agreement or to further extend the long stop date if any of the condition precedents under the Subscription Agreement has not yet been fulfilled by the long stop date.

The Company has been informed by the Subscriber in writing on 19 July 2019 (after trading hours) that the Subscriber has decided:

(i) not to further extend the long stop date; and

(ii) to terminate the Subscription Agreement with immediate effect.

The Company has returned the deposit under the Subscription Agreement, i.e. HKD58,194,758.54, to the Subscriber within 15 Business Days pursuant to the terms of the Subscription Agreement. The Subscriber and the Company have been released from their respective obligations under the Subscription Agreement.

# REPORT OF THE DIRECTORS

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

As at 31 December 2019, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

## Long Positions in Shares of the Company:

| Name of director | *Notes* | Directly Beneficially Owned | Through spouse or minor corporation | Through controlled corporation | Beneficiary of a trust | Founder of a trust | Share Option | Total | Approximate percentage of the Company's issued share capital |
|---|---|---|---|---|---|---|---|---|---|
| Mr. CHEN Jiajun | *1* | – | – | 897,437,000 | – | – | – | 897,437,000 | 15.38 |
| Mr. CHAN King Chung | *2* | 441,600 | – | – | – | – | 1,800,000 | 2,241,600 | 0.04 |
| Dr. HUANG Dazhan | *2* | 288,000 | – | – | – | – | 1,800,000 | 2,088,000 | 0.04 |
| Mr. XIE Weixin | *2* | 384,000 | – | – | – | – | 1,800,000 | 2,184,000 | 0.04 |
| Mr. MA Fei | *2* | – | – | – | – | – | 8,848,000 | 8,848,000 | 0.15 |
| Mr. XU Yibo | *2* | 3,000,000 | – | – | – | – | 24,000,000 | 27,000,000 | 0.46 |
| Mr. LIANG Rui | *2* | – | – | – | – | – | 30,000,000 | 30,000,000 | 0.51 |
| Mr. NG Wai Hung | *2* | – | – | – | – | – | 2,800,000 | 2,800,000 | 0.05 |
| Mr. LAM Ting Fung Freeman | *2* | – | – | – | – | – | 2,800,000 | 2,800,000 | 0.05 |
| Mr. GUO Jinghui | *2* | – | – | – | – | – | 1,800,000 | 1,800,000 | 0.03 |

*Notes:*

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

2. The interests of these Directors are in the underlying Shares of the options granted to the relevant Directors by the Company under the Share Option Scheme.

# REPORT OF THE DIRECTORS

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

As at 31 December 2019, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long Positions in Shares of the Company:

| Name | *Notes* | Number of shares in which interested | Nature of interest | Total number of shares | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|
| Mr. CHEN Jiajun | *1* | 897,437,000 | Interest of controlled corporation | 897,437,000 | 15.38 |
| Mr. TU Erfan | *2* | 800,000,000 | Interest of controlled corporation | 800,000,000 | 13.71 |
| Mr. GUO Deying | *3* | 462,889,484 | Founder of a discretionary trust | 463,372,484 | 7.95 |
| | | 483,000 | Through controlled corporation | | |
| Kingkey Financial Holdings (Asia) Limited | *1* | 897,437,000 | Beneficial owner | 897,437,000 | 15.38 |
| New Prestige Developments Limited | *2* | 800,000,000 | Beneficial owner | 800,000,000 | 13.71 |
| Data Dreamland Holding Limited ("Data Dreamland") | *3* | 462,889,484 | Beneficial owner | 462,889,484 | 7.94 |
| HSBC International Trustee Limited ("HSBC Trustee") | *4* | 463,889,484 | Trustee | 463,889,484 | 7.95 |
| Zeal Limited | *5* | 551,367,386 | Beneficial owner | 551,367,386 | 9.45 |

# REPORT OF THE DIRECTORS

*Notes:*

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

2. The 800,000,000 shares were directly held by New Prestige Developments Limited and New Prestige Developments Limited is ultimately owned by Mr. Tu Erfan. Therefore, Mr. Tu Erfan is indirectly interested in the 800,000,000 shares of the Company.

3. The entire issued share capital of Data Dreamland is held by Barrie Bay (PTC) Limited. Barrie Bay (PTC) Limited is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo Deying and Ms. Yang Xiao (the spouse of Mr. Guo Deying) and the beneficiary objects of which include the children of Mr. Guo Deying and Ms. Yang Xiao. Mr. Guo Deying is taken to be interested in the 483,000 shares held by Wintech Consultants Limited as he is one out of the three directors of Wintech Consultants Limited and the other two directors are accustomed to act in accordance with Mr. Guo Deying's direction.

4. The 462,889,484 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay (PTC) Limited, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee. The rest 1,000,000 shares were held by HSBC Trustee privately as the trustee.

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

Save as disclosed above, as at 31 December 2019, so far as the Directors are aware, there are no other persons, other than the Directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

# REPORT OF THE DIRECTORS

## Directors' Rights to Acquire Shares or Debentures

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

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

| | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name or category of participant | At 1 January 2019 | Grant during the period | Exercised during the period | Expired during the period | Forfeited during the period | At 31 December 2019 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK$ per share |
| **Employees** | | | | | | | | | |
| In aggregate – granted on 10 Jan 2014 | 3,180,000 | - | - | 3,180,000 | - | - | 10-01-14 | 10-1-15 to 10-1-19 | 1.540 |
| In aggregate – granted on 22 Jan 2015 | 6,744,000 | - | - | - | - | 6,744,000 | 22-1-15 | 22-1-16 to 22-1-20 | 1.492 |
| In aggregate – granted on 22 Jan 2015 | 200,000 | - | - | - | - | 200,000 | 22-1-15 | 22-1-17 to 22-1-21 | 1.492 |
| In aggregate – granted on 16 Oct 2015 | 6,496,000 | - | - | - | - | 6,496,000 | 16-10-15 | 16-10-16 to 16-10-20 | 1.620 |
| In aggregate – granted on 13 Nov 2019 | - | 150,000,000 | - | - | - | 150,000,000 | 13-11-19 | 14-05-20 to 13-05-24 | 0.2242 |
| In aggregate – granted on 13 Nov 2019 | - | 257,000,000 | - | - | - | 257,000,000 | 13-11-19 | 14-11-20 to 13-11-24 | 0.2242 |
| Subtotal | 16,620,000 | 407,000,000 | - | 3,180,000 | - | 420,440,000 | | | |
| **Directors** | | | | | | | | | |
| In aggregate – granted on 22 Jan 2015 | 256,000 | - | - | - | - | 256,000 | 22-1-15 | 22-1-16 to 22-1-20 | 1.492 |
| In aggregate – granted on 22 Jan 2015 | 2,000,000 | - | - | - | - | 2,000,000 | 22-1-15 | 22-1-17 to 22-1-21 | 1.492 |
| In aggregate – granted on 16 Oct 2015 | 592,000 | - | - | - | - | 592,000 | 16-10-15 | 16-10-16 to 16-10-20 | 1.620 |
| In aggregate – granted on 16 Oct 2015 | 10,000,000 | - | - | - | - | 10,000,000 | 16-10-15 | 16-10-17 to 16-10-21 | 1.620 |
| In aggregate – granted on 13 Nov 2019 | - | 62,800,000 | - | - | - | 62,800,000 | 13-11-19 | 14-5-20 to 13-5-24 | 0.2242 |
| Subtotal | 12,848,000 | 62,800,000 | - | - | - | 75,648,000 | | | |
| Total | 29,468,000 | 469,800,000 | - | 3,180,000 | - | 496,088,000 | | | |

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

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

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

# REPORT OF THE DIRECTORS

## Audit Committee

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

## Directors' Interests in a Competing Business

As at 31 December 2019, none of the Directors or any of their respective associates had any interest in any business which competes or likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

## Material Legal Proceedings

During the year under review, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Board was aware of.

## Sufficiency of Public Float

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

## Operation Risk

On 11 March 2020, the World Heath Organization officially described the novel Coronavirus outbreak as a pandemic (the "Pandemic"). Overall speaking, the Pandemic is expected to have a significant adverse impact on the business performance of the Group but the actual impact has yet to be quantified. Based on our current observation and estimation, the impact of the Pandemic on the Group's performance may be in two aspects. On the one hand, the Pandemic has led to a slowdown in economic activity and a change in consumption patterns. The Pandemic in the Group's key sales regions (the US market) is intensifying, and the Group will face the risk of falling sales. On the other hand, the raw material price volatility and supply uncertainty will increase. At present, the Group's material inventory can meet current production needs. However, as the Group's electronic device suppliers are located in various countries around the world, being affected by the pandemic situation, some raw materials may have delayed supply and prices rise due to factors such as suppliers factory suspension and poor logistics.

## Foreign Exchange Exposure

During the Year, the Group has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the units' functional currencies, where the receivables and payables are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD and EUR which may affect the Group's performance and asset value for the Year. The Group has not entered into any derivative contracts to hedge against the risk in the year 2019.

# REPORT OF THE DIRECTORS

## Employees and Remuneration Policy

During the Year, the Group's staff costs (including directors' remuneration) amounted to approximately HK$179.15 million (2018: HK$182.63 million). The remuneration of the Group's employees was commensurate with their responsibilities and market rates, with discretionary bonuses and training given on a merit basis. As of 31 December 2019, the Group had 668 employees (2018: 637 employees).

## Significant Investments

Save as disclosed in note 24 to the financial statements, there were no significant investments held by the Group as at 31 December 2019.

## Material Acquisitions and Disposal

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

## Directors' Responsibilities for the Financial Statements

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

## Events after the Reporting Period

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

## Auditor

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

On behalf of the Board
**Coolpad Group Limited**

**Chen Jiajun**
*Chairman of the Board & Executive Director*

March 30 2020, Hong Kong

# INDEPENDENT AUDITOR'S REPORT

EY 安永

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

## Opinion

We have audited the consolidated financial statements of Coolpad Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 192, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Material Uncertainty Related to Going Concern

We draw attention to note 2.1 to the consolidated financial statements, which indicates that as of 31 December 2019, the Group's current liabilities exceeded its current assets by approximately HK$684 million. As stated in note 2.1, this event or condition, along with other matters as set forth in note 2.1, indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters

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

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of non-current assets* | |
| The continuing operating performance of the Group in recent years was the factor heightened the risk of impairment associated with the Group's non-current assets carried at historical cost, which comprised property, plant and equipment (including construction in progress) of HK$426,791,000, right-of-use assets of HK$164,054,000 and intangible assets of HK$3,644,000 as at 31 December 2019.<br><br>Management measures the respective recoverable amounts which are the higher of fair value less costs of disposal and their value in use. The recoverability of these assets is dependent on macroeconomic assumptions about future demands of smartphones and other intelligent devices, discount rates and exchange rates as well as internal assumptions related to future production levels and operating costs. These estimates are particularly significant due to the uncertain economic outlook, product price volatility, forecasted future production and market demand. The outcome of impairment assessment can vary significantly when different assumptions are applied.<br><br>The relevant disclosures for the Group's non-current assets are included in notes 3, 13, 15 and 16 to the consolidated financial statements. | We obtained and reviewed management's impairment assessment of these assets by comparing the carrying values of the non-current assets to their respective recoverable amounts.<br><br>For the Group's prepaid land lease payments included in the right-of-use assets and construction in progress, management determined their respective recoverable amounts based on their market values obtained from an external valuer employed by the Group. We involved our valuation specialists in obtaining independently the estimated market values of these assets and comparing them to the respective carrying amounts.<br><br>For the Group's other non-current assets such as intangible assets, leasehold improvements, motor vehicles, other right-of-use assets and other property, plant and equipment, management determined their recoverable amounts based on their value in use using a discounted cash flow model for the cash-generating unit to which they are allocated. We assessed the assumptions and methodologies (long term growth rate, budgeted prices based on the market trend and the budgeted sales quantity based on the existing production capacity) adopted by management and involved our valuation specialists in assisting us to evaluate the discount rate. We evaluated forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective assets and the business development plan.<br><br>We assessed the adequacy of disclosures about impairment of non-current assets in the consolidated financial statements. |

## Other Information Included in The Annual Report

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

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

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

## Responsibilities of The Directors for The Consolidated Financial Statements

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for The Audit of The Consolidated Financial Statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

30 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

| | Notes | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| **REVENUE** | *5* | **1,858,249** | 1,277,164 |
| Cost of sales | | **(1,426,205)** | (1,349,097) |
| Gross profit/(loss) | | **432,044** | (71,933) |
| Other income and gains | *5* | **198,713** | 213,368 |
| Gain on loss of control of subsidiaries, net | *33* | **–** | 94,590 |
| Impairment of investments in associates | *18* | **(3,196)** | (6,657) |
| Selling and distribution expenses | | **(269,105)** | (158,007) |
| Administrative expenses | | **(247,650)** | (323,082) |
| Other expenses | | **(59,802)** | (47,038) |
| Finance costs | *7* | **(44,197)** | (37,141) |
| Share of profits/(losses) of: | | | |
| A joint venture | | **129,049** | (779) |
| Associates | | **(19,238)** | (82,729) |
| **PROFIT/(LOSS) BEFORE TAX** | *6* | **116,618** | (419,408) |
| Income tax (expense)/credit | *10* | **(4,524)** | 8,746 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **112,094** | (410,662) |
| **Other comprehensive income that may be reclassified to profit or loss in subsequent periods:** | | | |
| Exchange differences on translation of foreign operations | | **8,484** | 32,126 |
| Reclassification adjustment for foreign operations disposed of during the year | *33* | **(29)** | 5,820 |
| Share of other comprehensive loss of: | | | |
| A joint venture | | **(3,090)** | (4,496) |
| Associates | | **(5,060)** | (23,800) |
| Net other comprehensive income that may be reclassified to profit or loss in subsequent periods | | **305** | 9,650 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | | |
| Gain on property revaluation | | **7,631** | 39,286 |
| Income tax effect | *30* | **(1,908)** | (9,821) |
| Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods | | **5,723** | 29,465 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | **6,028** | 39,115 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | **118,122** | (371,547) |
| Profit/(loss) for the year attributable to: | | | |
| Owners of the Company | | **112,321** | (409,321) |
| Non-controlling interests | | **(227)** | (1,341) |
| | | **112,094** | (410,662) |
| Total comprehensive income/(loss) for the year attributable to: | | | |
| Owners of the Company | | **118,354** | (370,113) |
| Non-controlling interests | | **(232)** | (1,434) |
| | | **118,122** | (371,547) |
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | *12* | **HK cents** | HK cents |
| Basic and diluted | | **2.22** | (8.13) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *13* | **547,334** | 843,867 |
| Investment properties | *14* | **389,118** | 222,563 |
| Prepaid land lease payments | *15(a)* | **–** | 184,800 |
| Right-of-use assets | *15(b)* | **164,054** | – |
| Intangible assets | *16* | **3,644** | 5,172 |
| Investment in a joint venture | *17* | **180,083** | 101,402 |
| Investments in associates | *18* | **304,341** | 339,225 |
| Financial assets at fair value through profit or loss | *24* | **94,369** | 139,932 |
| Loans receivable | *22* | **1,098** | 4,076 |
| Other non-current assets | *23* | **35,791** | 14,310 |
| Deferred tax assets | *30* | **543** | 660 |
| Total non-current assets | | **1,720,375** | 1,856,007 |
| **CURRENT ASSETS** | | | |
| Inventories | *19* | **254,255** | 194,955 |
| Trade receivables | *20* | **422,580** | 179,850 |
| Bills receivable | *21* | **–** | 8,967 |
| Short-term loans receivable | *22* | **2,272** | 4,600 |
| Prepayments, deposits and other receivables | *23* | **402,807** | 560,945 |
| Amounts due from associates | *38* | **7,080** | 27,922 |
| Pledged deposits | *26* | **66,866** | 114,966 |
| Cash and cash equivalents | *26* | **297,420** | 168,554 |
| | | **1,453,280** | 1,260,759 |
| Assets classified as held for sale | *25* | **186,323** | – |
| Total current assets | | **1,639,603** | 1,260,759 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *27* | **505,961** | 252,664 |
| Other payables and accruals | *28* | **1,402,490** | 1,609,156 |
| Interest-bearing bank and other borrowings | *29* | **240,439** | – |
| Lease liabilities | *15(c)* | **9,587** | – |
| Amounts due to associates | *38* | **52,811** | 248,891 |
| An amount due to a related party | *38* | **–** | 202,129 |
| Tax payable | | **112,409** | 110,907 |
| Total current liabilities | | **2,323,697** | 2,423,747 |
| **NET CURRENT LIABILITIES** | | **(684,094)** | (1,162,988) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,036,281** | 693,019 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,036,281** | 693,019 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | *29* | **–** | 228,258 |
| Lease liabilities | *15(c)* | **7,733** | – |
| An amount due to a related party | *38* | **269,432** | – |
| Deferred tax liabilities | *30* | **47,424** | 45,335 |
| Other non-current liabilities | | **3,468** | 4,759 |
| Total non-current liabilities | | **328,057** | 278,352 |
| Net assets | | **708,224** | 414,667 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | *31* | **58,334** | 50,334 |
| Reserves | *31* | **649,668** | 363,879 |
| | | **708,002** | 414,213 |
| **Non-controlling interests** | | **222** | 454 |
| Total equity | | **708,224** | 414,667 |

**Rui Liang**
*Director*

**Fei Ma**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

| | Notes | Share capital HK$'000 (note31(a)) | Share premium account HK$'000 (note31(b)) | Contributed surplus HK$'000 | Asset revaluation reserve HK$'000 | Statutory reserve HK$'000 (note31(b)) |
|---|---|---|---|---|---|---|
| | | Attributable to owners | | | | |
| At 31 December 2018 | | **50,334** | **1,235,632** | **390** | **107,931** | **201,560** |
| Effect of adoption of HKFRS 16 | *2.2* | – | – | – | – | – |
| At 1 January 2019 (restated) | | **50,334** | **1,235,632** | **390** | **107,931** | **201,560** |
| Profit for the year | | – | – | – | – | – |
| Other comprehensive income/(loss) for the year: | | | | | | |
| Gain on property revaluation, net of tax | | – | – | – | **5,723** | – |
| Exchange differences on translation of foreign operations | | – | – | – | – | – |
| Reclassification adjustment for foreign operations disposed of during the year | *33* | – | – | – | – | – |
| Share of other comprehensive loss of: | | | | | | |
| A joint venture | | – | – | – | – | – |
| Associates | | – | – | – | – | – |
| Total comprehensive income for the year | | – | – | – | **5,723** | – |
| Issue of shares | *31* | **8,000** | **163,964** | – | – | – |
| Share issue expenses | *31* | – | **(467)** | – | – | – |
| Equity-settled share option arrangements | *32* | – | – | – | – | – |
| Appropriation to statutory reserve | | – | – | – | – | **318** |
| At 31 December 2019 | | **58,334** | **1,399,129*** | **390*** | **113,654*** | **201,878*** |

* These reserve accounts comprise the consolidated reserves of HK$649,668,000 (2018: HK$363,879,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

| | of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share option reserve HK$'000 | Share award reserve HK$'000 | Capital redemption reserve HK$'000 *(note31(b))* | Other reserve HK$'000 *(note31(b))* | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| | 63,002 | 43,564 | 1,870 | 1,570,874 | (29,545) | (2,831,399) | 414,213 | 454 | 414,667 |
| | – | – | – | – | – | (78) | (78) | – | (78) |
| | 63,002 | 43,564 | 1,870 | 1,570,874 | (29,545) | (2,831,477) | 414,135 | 454 | 414,589 |
| | – | – | – | – | – | 112,321 | 112,321 | (227) | 112,094 |
| | – | – | – | – | – | – | 5,723 | – | 5,723 |
| | – | – | – | – | 8,489 | – | 8,489 | (5) | 8,484 |
| | – | – | – | – | (29) | – | (29) | – | (29) |
| | – | – | – | – | (3,090) | – | (3,090) | – | (3,090) |
| | – | – | – | – | (5,060) | – | (5,060) | – | (5,060) |
| | – | – | – | – | 310 | 112,321 | 118,354 | (232) | 118,122 |
| | – | – | – | – | – | – | 171,964 | – | 171,964 |
| | – | – | – | – | – | – | (467) | – | (467) |
| | 4,016 | – | – | – | – | – | 4,016 | – | 4,016 |
| | – | – | – | – | – | (318) | – | – | – |
| | 67,018* | 43,564* | 1,870* | 1,570,874* | (29,235)* | (2,719,474)* | 708,002 | 222 | 708,224 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

| | | Attributable to owners | | | | |
|---|---|---|---|---|---|---|
| | *Notes* | Share capital HK$'000 *(note31(a))* | Share premium account HK$'000 *(note31(b))* | Contributed surplus HK$'000 | Asset revaluation reserve HK$'000 | Statutory reserve HK$'000 *(note31(b))* |
| At 1 January 2018 | | 50,334 | 1,235,632 | 390 | 130,416 | 200,525 |
| Loss for the year | | – | – | – | – | – |
| Other comprehensive (loss)/income for the year: | | | | | | |
| Gain on property revaluation, net of tax | | – | – | – | 29,465 | – |
| Exchange differences on translation of foreign operations | | – | – | – | – | – |
| Reclassification adjustment for foreign operations disposed of during the year | *33* | – | – | – | – | – |
| Share of other comprehensive loss of: | | | | | | |
| A joint venture | | – | – | – | – | – |
| Associates | | – | – | – | – | – |
| Total comprehensive (loss)/income for the year | | – | – | – | 29,465 | – |
| Acquisition of non-controlling interests | | – | – | – | – | – |
| Transfer of property revaluation reserve upon disposal of investment properties | | – | – | – | (51,950) | – |
| Share of changes to other equity of associates | | – | – | – | – | – |
| Equity-settled share option arrangements | *32* | – | – | – | – | – |
| Appropriation to statutory reserve | | – | – | – | – | 1,035 |
| Disposal of subsidiaries | | – | – | – | – | – |
| At 31 December 2018 | | 50,334 | 1,235,632* | 390* | 107,931* | 201,560* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

| of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Share option reserve HK$'000 | Share award reserve HK$'000 | Capital redemption reserve HK$'000 *(note31(b))* | Other reserve HK$'000 *(note31(b))* | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| 126,006 | 43,564 | 1,870 | 1,649,638 | (39,288) | (2,472,993) | 926,094 | (54,510) | 871,584 |
| – | – | – | – | – | (409,321) | (409,321) | (1,341) | (410,662) |
| – | – | – | – | – | – | 29,465 | – | 29,465 |
| – | – | – | – | 32,219 | – | 32,219 | (93) | 32,126 |
| – | – | – | – | 5,820 | – | 5,820 | – | 5,820 |
| – | – | – | – | (4,496) | – | (4,496) | – | (4,496) |
| – | – | – | – | (23,800) | – | (23,800) | – | (23,800) |
| – | – | – | – | 9,743 | (409,321) | (370,113) | (1,434) | (371,547) |
| – | – | – | (79,194) | – | – | (79,194) | 56,494 | (22,700) |
| – | – | – | – | – | 51,950 | – | – | – |
| – | – | – | 430 | – | – | 430 | – | 430 |
| (63,004) | – | – | – | – | – | (63,004) | – | (63,004) |
| – | – | – | – | – | (1,035) | – | – | – |
| – | – | – | – | – | – | – | (96) | (96) |
| 63,002* | 43,564* | 1,870* | 1,570,874* | (29,545)* | (2,831,399)* | 414,213 | 454 | 414,667 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | **116,618** | (419,408) |
| Adjustments for: | | | |
| Bank interest income | *5* | **(2,031)** | (7,958) |
| Finance costs | *7* | **44,197** | 37,141 |
| Share of (profits)/losses of a joint venture | | **(129,049)** | 779 |
| Share of losses of associates | | **19,238** | 82,729 |
| Depreciation | *6* | **28,845** | 40,732 |
| Changes in fair value of investment properties | *5* | **(4,554)** | (3,343) |
| Amortisation of patents, licenses and computer software | *6* | **1,441** | 1,500 |
| Amortisation of product development costs | *6* | **–** | 5,859 |
| Depreciation of right-of-use assets/recognition of prepaid land lease payments | *6* | **14,960** | 4,948 |
| Loss on disposal of investment properties | *6* | **–** | 13,167 |
| Loss on disposal of items of property, plant and equipment | *6* | **8,674** | 14,059 |
| Gain on disposal of a parcel of land | *6* | **–** | (5,383) |
| Gain on disposal of investments in associates | *5* | **(2,625)** | (26) |
| Gain on loss of control of subsidiaries, net | *33* | **–** | (94,590) |
| Fair value losses/(gains) on equity investments at fair value through profit or loss | *6* | **36,657** | (21,557) |
| (Reversal of impairment)/impairment of financial assets, net | | **(16,112)** | 11,297 |
| Impairment of investments in associates | *6* | **3,196** | 6,657 |
| Impairment of right-of-use assets | *6* | **3,210** | – |
| Write-down of inventories at net realisable value | *6* | **49,594** | 16,643 |
| Loss on transfer from construction in progress to an investment property | *6* | **6,091** | – |
| Recognition/(reversal) of equity-settled share option expense | *6* | **4,016** | (63,004) |
| Dividend income received in respect of certain equity investments at fair value through profit or loss | *5* | **–** | (6,057) |
| Unrealised exchange difference | | **15,635** | 48,770 |
| | | **198,001** | (337,045) |
| Decrease in other non-current assets | | **3,298** | 3,766 |
| (Increase)/decrease in inventories | | **(114,866)** | 155,554 |
| (Increase)/decrease in trade receivables | | **(251,862)** | 434,182 |
| Decrease in bills receivable | | **8,967** | 2,605 |
| Decrease in loans receivable | | **3,989** | 72,015 |
| Decrease in prepayments, deposit and other receivables | | **132,586** | 579,558 |
| Increase in amounts due from associates | | **(4,572)** | (2,412) |
| Increase/(decrease) in trade payables | | **260,690** | (448,782) |
| Decrease in bills payable | | **–** | (42,577) |
| Decrease in other payables and accruals | | **(231,967)** | (182,961) |
| Decrease in amounts due to associates | | **(130,887)** | (7,780) |
| (Decrease)/increase in other non-current liabilities | | **(1,232)** | 3,702 |
| Cash generated (used in)/from operations | | **(127,855)** | 229,825 |
| Income tax paid | | **(77)** | (1,894) |
| Net cash flows (used in)/from operating activities | | **(127,932)** | 227,931 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Net cash flows (used in)/from operating activities | | **(127,932)** | 227,931 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **2,031** | 7,958 |
| Investment income from certain equity investments at fair value through profit or loss | | **–** | 6,057 |
| Purchases of items of property, plant and equipment | | **(171,662)** | (211,827) |
| Prepayment for the purchase of an intangible asset | | **(27,210)** | – |
| Proceeds from disposal of items of property, plant and equipment | | **11,324** | 21,439 |
| Proceeds from disposal of a parcel of land | | **–** | 34,508 |
| Proceeds from disposal of interests in associates | | **–** | 20,700 |
| Proceeds from disposal of equity investment at fair value through profit or loss | | **8,458** | 541 |
| Net inflow of cash in respect of the disposal of subsidiaries | 33 | **9,827** | 127,892 |
| Additional contribution to an associate | | **(13,842)** | – |
| Additions to equity investment at fair value through profit or loss | | **–** | (10,648) |
| Advance received for the disposal of a parcel of land and construction in progress | | **230,294** | – |
| Cash transferred to restricted bank deposits | | **(67,633)** | (391,276) |
| Cash transferred from restricted bank deposits | | **114,072** | 386,592 |
| Net cash flows from/(used in) investing activities | | **95,659** | (8,064) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | 31 | **171,964** | – |
| Share issue expenses | 31 | **(467)** | – |
| Acquisition of non-controlling interests | 34 | **(2,351)** | (4,306) |
| New bank and other borrowings | 34 | **109,785** | 11,843 |
| Repayment of bank and other borrowings | 34 | **(92,615)** | (684,419) |
| Interest paid | 34 | **(11,601)** | (18,404) |
| Repayment of lease liabilities (including principle portion) | 15,34 | **(11,183)** | – |
| Increase in an amount due to a related party | 34 | **58,471** | 206,405 |
| Repayment of the advance received in respect of a proposed issue of convertible bonds | 34 | **(58,195)** | – |
| Net cash flows from/(used in) financing activities | | **163,808** | (488,881) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **131,535** | (269,014) |
| Cash and cash equivalents at beginning of year | | **168,554** | 451,130 |
| Effect of foreign exchange rate changes, net | | **(2,669)** | (13,562) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **297,420** | 168,554 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 26 | **297,420** | 168,554 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 1. Corporate and Group Information

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

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

### Information about Subsidiaries

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 1. Corporate and Group Information (Continued)

### Information about Subsidiaries (Continued)

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

| Company | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Coolpad Overseas Limited*** | Hong Kong | US$1,550,000 | – | 100 | Sale of mobile phones |
| Coolpad Technologies Inc. | United States | US$2,300,000 | – | 100 | Sale of mobile phones |
| Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies")*** | PRC/ Mainland China | RMB100,000,000 | – | 100 | Provision of product design and software development for mobile handsets |
| Yulong Technologies (Hong Kong) Co., Ltd.*** | Hong Kong | US$1,000,000 | – | 100 | Sale of mobile phones |
| China Wireless Technologies Limited*** | Cayman Islands | US$1 | – | 100 | Investment holding |
| China Wireless Technologies Limited*** | Hong Kong | HK$1,000 | – | 100 | Investment holding |
| Xi'an Coolpad Telecommunications Equipment Co., Ltd. ("Xi'an Coolpad Equipment")* | PRC/ Mainland China | RMB300,000,000 | – | 100 | Production of mobile phones |
| Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad")*** | PRC/ Mainland China | RMB100,000,000 | – | 100 | Provision of product design and software development for mobile handsets |
| Shenzhen Huiying Finance Co., Ltd. ("Huiying")*** | PRC/ Mainland China | RMB300,000,000 | – | 100 | Provision of financing services |
| Dongguan Kule Property Management Co., Ltd.* | PRC/ Mainland China | RMB1,000,000 | – | 100 | Property management |
| Coolpad Global Inc. | Cayman Islands | US$1 | 100 | – | Investment holding |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 1. Corporate and Group Information (Continued)

### Information about Subsidiaries (Continued)

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

| Company | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Coolpad Global Limited*** | Hong Kong | US$100 | – | 100 | Investment holding |
| Xcentz Limited*** | Hong Kong | US$100,000 | – | 100 | Sale of mobile phones |
| Xcentz Inc | United States | US$1 | – | 100 | Sale of mobile phones and accessories |
| Coolpad Technologies CA, Inc | Canada | US$10 | – | 100 | Sale of mobile phones |
| Dongguan Coolpad Software Tech Co., Ltd. ("Dongguan Coolpad Software")*** | PRC/ Mainland China | RMB100,000,000 | – | 100 | Provision of product design and software development for mobile handsets |
| Shenzhen Huihengying Investment Management Co., Ltd.*** | PRC/ Mainland China | RMB500,000 | – | 100 | Investment holding |
| Shenzhen Juhechengzhang Investment Partnership Co., Ltd. ("Shenzhen Juhechengzhang") ** | PRC/ Mainland China | RMB10,000,000 | – | 100 | Investment holding |
| Hunan Helongsheng Trading Co., Ltd. ("Hunan Helongsheng") *** | PRC/ Mainland China | RMB10,000,000 | – | 60 | Dormant |
| Dongguan Yikuaixiu Technology Co., Ltd.* | PRC/ Mainland China | RMB10,000,000 | – | 100 | Mobile phone maintenance service |
| Coolpad Information Technologies Research Institute (Shenzhen) Co., Ltd.*** | PRC/ Mainland China | RMB30,000,000 | – | 100 | Product design and software development |
| Coolpad International Holding (Shenzhen) Co., Ltd.*** | PRC/ Mainland China | RMB600,000,000 | – | 100 | Investment holding |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 1. Corporate and Group Information (Continued)

### Information about Subsidiaries (Continued)

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

| Company | Place of incorporation/ registration and business | Issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Nanchang Coolpad Intelligent Technology Co., Ltd. ("Nanchang Coolpad")**** | PRC/ Mainland China | RMB800,000,000 | – | 100 | Sale of mobile phones |

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

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

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

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

As disclosed in note 33 to the financial statements, Coolpad Technologies India Pvt Ltd. was a subsidiary of the Group as at 31 December 2018 and was disposed of in 2019.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.1 Basis of Preparation

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

### Going Concern Basis

The Group reported a net current liabilities of HK$684 million as at 31 December 2019. The unrestricted cash and cash equivalent balance amounted to HK$297 million as at 31 December 2019. As at 31 December 2019, the Group's capital commitment in respect of the capital expenditure for its construction in progress to be incurred in the coming twelve months was HK$108 million. These circumstances may cast significant doubt on the Group's ability to continue as a going concern.

During the year, the Directors have taken various measures with an aim to improve the Group's liquidity position, including but not limited to, i) the implementation of cost saving measures to control the daily operation costs; and ii) the successful extension of loans in connection with the loans drawn down under the loan agreement with Kingkey Group Company Limited (京基集團有限公司) ("Kingkey Group"), from a term of 12 months to 36 months on 20 March 2019. Up to the date of this report, the cumulative loan amounts drawn down by the Group was approximately HK$246 million. The remaining undrawn loan balance was approximately HK$312 million; iii) The Company's shares resumed trading in July 2019 and subsequently the Company successfully completed a placing of 800,000,000 shares with net proceeds of approximately HK$171 million.

Further measures have been taken by or in the deliberation of the Directors to improve the liquidity position of the Group. On 20 February 2020, the Group entered into a loan agreement with an independent third party, pursuant to which, the Group obtained a loan amounting to RMB90 million for working capital purpose.

## 2.1 Basis of Preparation (Continued)

### Going Concern Basis (Continued)

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

(i) The Group has been actively negotiating with the banks to obtain additional loans to supplement its operating cash flows. Based on the communication between the banks and the Group, among others, up to the date of this report, the Group may be able to obtain additional loan amounting to RMB70 million. Nevertheless, the confirmation of the loan is subject to the final contract.

(ii) The Group has been actively negotiating with the borrower to extend other borrowings amounting to RMB200 million due in 2020 to 2022. In the view of the Directors, the Group expects to meet the conditions as set out in the agreement with the borrower to apply for the extension of maturity term of the borrowing.

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

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

Notwithstanding the above, in consideration of the concentration of the Group's operation in United States adding the vulnerability to the volatility of the new generation mobile phone business and the worldwide outbreak of coronavirus COVID-19 since January 2020 giving rise to increasing uncertainties and disruptions to the economy, material uncertainties exist as to whether the Group will be able to achieve its plans and measures as described above.

Should the Group fail to realise its plans to improve its financial position, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position as at 31 December 2019. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in these consolidated financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.1 Basis of Preparation (Continued)

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.2 Changes in Accounting Policies and Disclosures

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

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements to HKFRSs 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's consolidated financial statements. The nature and impact of the new and revised HKFRSs are described below:

**(a)** HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases* – Incentives and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

For a sublease arrangement, the classification of the sublease is made by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset.

The Group reassessed a sublease arrangement at 1 January 2019 that was previously classified as an operating lease applying HKAS 17 based on the remaining contractual terms and conditions of the head lease and sublease at 1 January 2019, and determined that this arrangement is a finance lease applying HKFRS 16. Accordingly, the Group recognised a net investment in a sublease amounting to HK$1,628,000 and derecognised the corresponding right-of-use asset of the head lease amounting to HK$1,706,000, resulting in a loss of HK$78,000 recognised in the opening balance of accumulated loss at 1 January 2019.

The Group adopted HKFRS 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 accumulated loss at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.2 Changes in Accounting Policies and Disclosures (Continued)

### (a) (Continued)

#### New definition of a lease

Under HKFRS 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 HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

#### As a lessee – leases previously classified as operating leases

##### Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of 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 HKFRS 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 leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

#### 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 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 HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

## 2.2 Changes in Accounting Policies and Disclosures (Continued)

### (a) (Continued)

#### Impacts on transition (Continued)

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.

#### Financial impact at 1 January 2019

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

| | **Increase/ (decrease) HK$'000** |
|---|---|
| Assets | |
| Increase in right-of-use assets | 215,240 |
| Decrease in prepaid land lease payments | (184,800) |
| Decrease in other non-current assets | (156) |
| Decrease in prepayments, other receivables and other assets | (5,194) |
| Increase in total assets | 25,090 |
| Liabilities | |
| Increase in lease liabilities | 25,168 |
| Increase in total liabilities | 25,168 |
| Increase in accumulated losses | (78) |
| Decrease in non-controlling interest | – |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.2 Changes in Accounting Policies and Disclosures (Continued)

### (a) (Continued)

#### Financial impact at 1 January 2019 (Continued)

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

| | HK$'000 |
|---|---|
| Operating lease commitments as at 31 December 2018 | 25,071 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019 | 1,118 |
| Add: Payments for optional extension periods not recognised as at 31 December 2018 | 3,940 |
| | 27,893 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 5.7% |
| Discounted operating lease commitments as at 1 January 2019 | 25,168 |
| Lease liabilities as at 1 January 2019 | 25,168 |

**(b)** Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group 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 continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.2 Changes in Accounting Policies and Disclosures (Continued)

**(c)** HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as" uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. 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 impact on the financial position or performance of the Group.

## 2.3 Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| HKFRS 17 | *Insurance Contracts*[2] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[1] |

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

## 2.4 Summary of Significant Accounting Policies

### Investments in Associates and Joint Ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Fair Value Measurement

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

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

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

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

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

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

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

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Impairment of Non-financial Assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties, certain buildings included in property, plant and equipment and assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset and other comprehensive income in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Related Parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

### Property, Plant and Equipment and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Property, Plant and Equipment and Depreciation (Continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Investment Properties

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

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

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

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

### Non-Current Assets Classified as Held for Sale

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

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

### Intangible Assets (Other than Goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

#### Research and development costs

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

#### Patents and licences

Purchased patents and licences are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

## 2.4 Summary of Significant Accounting Policies (Continued)

### Intangible Assets (Other than Goodwill) (Continued)

#### Computer software

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

### Leases (Applicable from 1 January 2019)

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

#### Group as a lessee

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

(a) Right-of-use assets

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

| | |
|---|---|
| Leasehold land | 30 to 50 years |
| Properties | 2 to 4 years |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Leases (Applicable from 1 January 2019) (Continued)

#### Group as a lessee (Continued)

(b) Lease liabilities

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

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

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

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

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

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Leases (Applicable from 1 January 2019) (Continued)

#### Group as a lessor

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

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

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

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

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

### Leases (Applicable before 1 January 2019)

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Investments and Other Financial Assets

#### Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Investments and Other Financial Assets (Continued)

#### Subsequent measurement

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

#### Financial assets at amortised cost (debt instruments)

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

#### Financial assets at fair value through profit or loss

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

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

### Derecognition of Financial Assets

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Derecognition of Financial Assets (Continued)

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

### Impairment of Financial Assets

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

#### General approach

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

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Impairment of Financial Assets (Continued)

#### General approach (Continued)

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

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

#### Simplified approach

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

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### Financial Liabilities

#### Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, amounts due to associates, lease liabilities, an amount due to a related party and interest-bearing bank and other borrowings.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Financial Liabilities (Continued)

#### Subsequent measurement

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

#### Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

### Derecognition of Financial Liabilities

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

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

### Offsetting of Financial Instruments

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

### Inventories

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

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

### Income Tax

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Income Tax (Continued)

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

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

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

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

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

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

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

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

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Government Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

### Revenue Recognition

#### Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Sale of mobile phone products

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

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

(i) Volume rebates

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary of Significant Accounting Policies (Continued)

### Revenue Recognition (Continued)

#### Revenue from contracts with customers (Continued)

(b) Wireless application service income

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

(c) Financing service income

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

#### Revenue from other sources

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

#### Other income

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

### Contract Liabilities

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

### Refund Liabilities

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Share-Based Payments

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

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

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

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 2.4 Summary Of Significant Accounting Policies (Continued)

### Share-Based Payments (Continued)

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

### Other Employee Benefits

#### Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### Termination benefits

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

### Borrowing Costs

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

### Foreign Currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

## 2.4 Summary of Significant Accounting Policies (Continued)

### Foreign Currencies (Continued)

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

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

## 3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

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

#### Going concern consideration

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

### Judgements (Continued)

#### Property lease classification – group as lessor

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

#### Classification between investment properties and owner-occupied properties

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

#### Income tax

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

Deferred tax liabilities have been established for withholding taxes that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. If these undistributed earnings of subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred tax charge and deferred tax liabilities would have been increased by the same amount of approximately HK$284,478,000 (2018: HK$261,466,000) (note 30).

### Estimation Uncertainty

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

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

### Estimation Uncertainty (Continued)

#### Provision for product warranties

The Group provides one-year warranties on its products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. At 31 December 2019, the best estimate of the carrying amount of provision for product warranties was HK$22,844,000 (2018: HK$21,083,000) (note 28).

#### Provision for expected credit losses on trade receivables

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

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

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

#### Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The determination of the written-down amount involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimates, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back in the period in which such estimate has been changed. At 31 December 2019, the carrying amount of inventories was approximately HK$254,255,000 (2018: HK$194,955,000) after netting off the allowance for inventories of approximately HK$99,332,000 (2018: HK$190,638,000).

#### Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of accumulated unrecognised tax losses at 31 December 2019 was HK$1,132,463,000 (2018: HK$792,594,000). Further details are set out in note 30 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

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

### Estimation Uncertainty (Continued)

#### Impairment of long-term non-financial assets (other than goodwill)

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

#### Provision for compensation to suppliers

The Group made provision for the compensation to suppliers regarding the cancellation of orders placed for procurement of raw materials yet to be received. Management estimated the provision at their best efforts for the possible amounts to be claimed by the suppliers based on historical settlement patterns and their negotiation status of each vendor affected. At 31 December 2019, the amount of the provision for compensation to suppliers included in other payables and accruals was approximately HK$64,197,000 (2018: HK$151,320,000).

#### Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

## 4. Operating Segment Information

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

(a) the mobile phone segment engages in the research, development, production and sale of mobile phones and related accessories and the provision of wireless application service;

(b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation; and

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

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

Segment assets exclude investment in a joint venture, investments in associates, equity investments at fair value through profit or loss, deferred tax assets, amounts due from associates, assets classified as held for sale, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

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

# NOTES TO FINANCIAL STATEMENTS

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## 4. Operating Segment Information (Continued)

Year ended 31 December 2019

| | Mobile phone HK$'000 | Property investment HK$'000 | Financing service HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** *(note 5)* | | | | |
| Sales to external customers | 1,858,090 | – | 159 | 1,858,249 |
| Other revenue and gains | 170,890 | 23,167 | – | 194,057 |
| Total | 2,028,980 | 23,167 | 159 | 2,052,306 |
| **Segment results** | 34,668 | 14,842 | (1,493) | 48,017 |
| *Reconciliation:* | | | | |
| Interest income | | | | 2,031 |
| Impairment of investments in associates | | | | (3,196) |
| Finance costs (other than interest on lease liabilities) | | | | (42,670) |
| Gain on disposal of investments in associates | | | | 2,625 |
| Share of profit of a joint venture | | | | 129,049 |
| Share of losses of associates | | | | (19,238) |
| Profit before tax | | | | 116,618 |
| **Segment assets** | 1,827,483 | 391,504 | 3,966 | 2,222,953 |
| *Reconciliation:* | | | | |
| Investment in a joint venture | | | | 180,083 |
| Investments in associates | | | | 304,341 |
| Corporate and other unallocated assets | | | | 652,601 |
| Total assets | | | | 3,359,978 |
| **Segment liabilities** | 1,913,452 | 3,597 | 2,335 | 1,919,384 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated liabilities | | | | 732,370 |
| Total liabilities | | | | 2,651,754 |
| **Other segment information:** | | | | |
| Reversal of impairment of financial assets, net | (16,112) | – | – | (16,112) |
| Write-down of inventories to net realisable value | 49,594 | – | – | 49,594 |
| Fair value gain on investment properties | – | 4,554 | – | 4,554 |
| Product warranty provision | 10,373 | – | – | 10,373 |
| Depreciation and amortisation | 45,231 | – | 15 | 45,246 |
| Capital expenditure* | 126,327 | – | – | 126,327 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 4. Operating Segment Information (Continued)

Year ended 31 December 2018

| | Mobile phone HK$'000 | Property investment HK$'000 | Financing service HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** *(note 5)* | | | | |
| Sales to external customers | 1,276,091 | – | 1,073 | 1,277,164 |
| Other revenue and gains | 184,767 | 20,643 | – | 205,410 |
| Total | 1,460,858 | 20,643 | 1,073 | 1,482,574 |
| **Segment results** | (395,578) | 18,567 | (1,674) | (378,685) |
| *Reconciliation:* | | | | |
| Interest income | | | | 7,958 |
| Gain on loss of control of subsidiaries, net | | | | 94,590 |
| Impairment of investments in associates | | | | (6,657) |
| Finance costs | | | | (37,141) |
| Share of loss of a joint venture | | | | (779) |
| Share of losses of associates | | | | (82,729) |
| Corporate and other unallocated expenses | | | | (15,965) |
| Loss before tax | | | | (419,408) |
| **Segment assets** | 1,989,885 | 224,911 | 9,309 | 2,224,105 |
| *Reconciliation:* | | | | |
| Investment in a joint venture | | | | 101,402 |
| Investments in associates | | | | 339,225 |
| Corporate and other unallocated assets | | | | 452,034 |
| Total assets | | | | 3,116,766 |
| **Segment liabilities** | 1,802,574 | 2,564 | – | 1,805,138 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated liabilities | | | | 896,961 |
| Total liabilities | | | | 2,702,099 |
| **Other segment information:** | | | | |
| Impairment of financial assets,net | 11,297 | – | – | 11,297 |
| Write-down of inventories to net realisable value | 16,643 | – | – | 16,643 |
| Fair value gain on investment properties | – | 3,343 | – | 3,343 |
| Product warranty provision | 3,114 | – | – | 3,114 |
| Depreciation and amortisation | 53,017 | – | 22 | 53,039 |
| Capital expenditure* | 249,671 | – | – | 249,671 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 4. Operating Segment Information (Continued)

### Geographical Information

(a) Revenue from external customers

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Mainland China | **128,531** | 193,184 |
| Overseas | **1,729,718** | 1,083,980 |
| | **1,858,249** | 1,277,164 |

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

(b) Non-current assets

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Mainland China | **1,607,010** | 1,707,350 |
| Overseas | **9,146** | 3,989 |
| | **1,616,156** | 1,711,339 |

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

### Information about Major Customers

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

| | Operating segment | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Customer A | Mobile phone | **772,333** | 812,119 |
| Customer B | Mobile phone | **693,836** | N/A |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 5. Revenue, Other Income and Gains

An analysis of revenue is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Revenue from contracts with customers | | |
| Sale of mobile phones and related accessories | **1,854,148** | 1,261,393 |
| Wireless application service income | **3,942** | 14,698 |
| Financing service income | **159** | 1,073 |
| | **1,858,249** | 1,277,164 |

### Revenue from Contracts with Customers

#### (i) Disaggregated revenue information

For the year ended 31 December 2019

| Segment | Mobile phone<br>HK$'000 | Financing service<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| Timing of revenue recognition: | | | |
| Goods and services transferred at a point of time | **1,858,090** | **–** | **1,858,090** |
| Financing income recognised overtime | **–** | **159** | **159** |
| Total revenue from contracts with customers | **1,858,090** | **159** | **1,858,249** |

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Sale of mobile phones and related accessories | **23,958** | 45,100 |

No revenue recognised during the year related to performance obligations that were satisfied in prior years (2018: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 5. Revenue, Other Income and Gains (Continued)

### Revenue from Contracts with Customers (Continued)

#### (ii) Performance obligation

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

Sale of mobile phones and related accessories

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

| Other income and gains | *Note* | **2019 HK$'000** | 2018 HK$'000 |
|---|---|---|---|
| Bank interest income | | **2,031** | 7,958 |
| Government grants and subsidies* | | **114,368** | 76,646 |
| Gross rental income from investment property operating leases: | | | |
| Fixed lease payments | | **18,613** | N/A |
| | | **18,613** | 17,300 |
| Dividend income from investments | | **–** | 6,057 |
| Sales of scrap materials | | **6** | 13,711 |
| After-sales repair service | | **17,509** | 6,360 |
| Various services income | | **16,027** | 21,662 |
| Fair value gains on investment properties | *14* | **4,554** | 3,343 |
| Gain on disposal of a parcel of land | | **–** | 5,383 |
| Fair value gain on equity investments at fair value through profit or loss, net | | **–** | 21,557 |
| Gain on disposal of investments in associates | | **2,625** | – |
| Foreign exchange gains, net | | **9,649** | – |
| Others | | **13,331** | 33,391 |
| | | **198,713** | 213,368 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 6. Profit/(Loss) Before Tax

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

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Cost of inventories sold | | **1,376,611** | 1,332,454 |
| Depreciation of property, plant and equipment | *13* | **28,845** | 40,732 |
| Depreciation of right-of-use assets (2018: amortisation of prepaid land lease payments) | *15* | **14,960** | 4,948 |
| Amortisation of intangible assets | *16* | **1,441** | 1,500 |
| Research and development costs*: | | | |
| Product development costs amortised | *16* | **–** | 5,859 |
| Current year expenditure | | **114,396** | 107,843 |
| | | **114,396** | 113,702 |
| Minimum lease payments under operating leases | | **–** | 15,829 |
| Lease payments not included in the measurement of lease liabilities | *15* | **739** | – |
| Auditor's remuneration | | | |
| Annual audit | | **3,366** | 3,766 |
| Agreed-upon procedures | | **455** | – |
| | | **3,821** | 3,766 |
| Employee benefit expense (including directors' remuneration *(note 8)*): | | | |
| Wages and salaries | | **159,325** | 213,456 |
| Staff welfare expenses | | **2,543** | 14,221 |
| Pension scheme contributions (defined contribution scheme) | | **13,261** | 17,952 |
| Equity-settled share option expense, net^ | | **4,016** | (63,004) |
| | | **179,145** | 182,625 |
| (Reversal of impairment)/impairment of other financial assets, net# | | **(22,642)** | 15,918 |
| Impairment/(reversal of impairment) of trade receivables# | | **6,530** | (4,621) |
| Impairment of right-of-use assets# | | **3,210** | – |
| Impairment of investments in associates | *18* | **3,196** | 6,657 |
| Loss on disposal of items of property, plant and equipment# | | **8,674** | 14,059 |
| Gain on disposal of a parcel of land | | **–** | (5,383) |
| Write-down of inventories to net realisable value& | | **49,594** | 16,643 |
| Direct operating expenses arising on rental-earning investment properties | | **2,234** | 2,076 |
| Product warranty provision | *28* | **10,373** | 3,114 |
| Fair value losses/(gains) on financial assets at fair value through profit or loss, net*** | | **36,657** | (21,557) |
| Loss on disposal of investment properties# | | **–** | 13,167 |
| Loss on transfer from construction in progress to an investment property# | *14* | **6,091** | – |
| Foreign exchange differences, net** | | **(9,649)** | 70,937 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 6. Profit/(Loss) Before Tax (Continued)

* Included in "Administrative expenses" in profit or loss.

^ The amount represents the net effect of i) recognition of equity-settled share option expenses amounting to HK$4,016,000 (2018: HK$7,506,000) and ii) no reversal of equity-settled share option expenses recognised in prior years as a result of forfeiture of certain share options granted (2018: HK$70,510,000).

& Included in "Cost of sales" in profit or loss.

# Included in "Other expenses" in profit or loss.

** The net foreign exchange differences, is included in "other income and gains"/"other expenses" in profit or loss.

*** The net fair value losses/(gains) on financial assets at fair value through profit or loss, is included in "other expenses"/"other income and gains" in profit or loss.

## 7. Finance Costs

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on: | | |
| Bank and other borrowings | **23,349** | 29,555 |
| An amount due to a related party | **16,202** | 7,586 |
| Interest on factoring of trade receivables | **3,119** | – |
| Interest on lease liabilities | **1,527** | – |
| | **44,197** | 37,141 |

## 8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fees | **1,155** | 720 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **9,056** | 9,407 |
| Performance related bonuses | **–** | – |
| Equity-settled share option expense | **1,598** | – |
| Pension scheme contributions | **76** | 42 |
| | **10,730** | 9,449 |
| | **11,885** | 10,169 |

## 8. Directors' Remuneration (Continued)

During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

### (a) Independent Non-executive Directors

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

| | Fees<br>HK$'000 | Equity-settled share option expense<br>HK$'000 | Total remuneration<br>HK$'000 |
|---|---|---|---|
| **2019** | | | |
| Dr. HUANG Dazhan | **360** | **16** | **376** |
| Mr. XIE Weixin | **360** | **16** | **376** |
| Mr. CHAN King Chung | **360** | **16** | **376** |
| Mr. GUO Jinghui## | **75** | **16** | **91** |
| | **1,155** | **64** | **1,219** |
| 2018 | | | |
| Dr. HUANG Dazhan | 240 | – | 240 |
| Mr. XIE Weixin | 240 | – | 240 |
| Mr. CHAN King Chung | 240 | – | 240 |
| | 720 | – | 720 |

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

# NOTES TO FINANCIAL STATEMENTS

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## 8. Directors' Remuneration (Continued)

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

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

| | Salaries, allowances and benefits in kind HK$'000 | Equity-settled share option expense HK$'000 | Pension scheme contributions HK$'000 | Total remuneration HK$'000 |
|---|---|---|---|---|
| 2018 | | | | |
| Mr. JIANG Chao### | 7,513 | – | 42 | 7,555 |
| Mr. NG Wai Hung | 230 | – | – | 230 |
| Mr. LEUNG Siu Kee | 460 | – | – | 460 |
| Mr. LIU Hong | 284 | – | – | 284 |
| Mr. LAM Ting Fung Freeman | 460 | – | – | 460 |
| Mr. LIANG Rui | 460 | – | – | 460 |
| | 9,407 | – | 42 | 9,449 |

# Appointed as executive directors on 29 October 2019
## Appointed as an independent non-executive director on 29 October 2019
### Resigned as an executive director on 11 January 2019
* Appointed as an executive director on 17 January 2019
** Resigned as an executive director on 29 October 2019

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 9. Five Highest Paid Employees

The five highest paid employees during the year included three directors (2018: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining two (2018: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | Group | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **3,941** | 5,906 |
| Equity-settled share option expense | **21** | 1,808 |
| Pension scheme contributions | **–** | 41 |
| | **3,962** | 7,755 |

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

| | **2019** | 2018 |
|---|---|---|
| HK$1,000,000 – HK$1,500,000 | **–** | 1 |
| HK$1,500,001 – HK$2,000,000 | **1** | 2 |
| HK$2,000,001 – HK$2,500,000 | **1** | – |
| HK$2,500,001 – HK$3,000,000 | **–** | – |
| HK$3,000,001 – HK$3,500,000 | **–** | 1 |
| | **2** | 4 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 10. Income Tax Expense

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

No provision for Hong Kong profits tax has been made (2018: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group's subsidiaries operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current – charge for the year | **3,414** | 2,248 |
| Deferred *(note 30)* | **1,110** | (10,994) |
| Total tax charge/(credit) for the year | **4,524** | (8,746) |

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

| | **2019** | 2018 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit/(loss) before tax | **116,618** | (419,408) |
| Tax at the statutory tax rate | **29,155** | (104,852) |
| Effect of different tax rates for certain group entities | **11,804** | 26,637 |
| Profits/(losses) attributable to a joint venture | **(32,262)** | 195 |
| Losses attributable to associates | **3,132** | 13,597 |
| Income not subject to tax | **–** | (234) |
| Expenses not deductible for tax | **3,172** | 2,436 |
| Additional deduction of research and development expenses | **(15,754)** | (15,433) |
| Effects of temporary differences | **(56,384)** | (24,184) |
| Tax losses not recognised | **61,661** | 93,092 |
| Tax charge/(credit) at the Group's effective rate | **4,524** | (8,746) |

## 10. Income Tax Expense (Continued)

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

(a) Yulong Shenzhen, the Company's wholly-owned subsidiary, was recognised as a high-technology enterprise in October 2017 and was subject to CIT at a rate of 15% for three years till 2019. Therefore, Yulong Shenzhen was subject to CIT at a rate of 15% (2018: 15%) for the year ended 31 December 2019.

(b) Xi'an Coolpad, the Company's wholly-owned subsidiary, was assessed and recognised as a high-technology enterprise in December 2017, and was subject to CIT at a rate of 15% for three years from 2017 to 2019. Therefore, Xi'an Coolpad was subject to CIT at a rate of 15% (2018: 15%) for the year ended 31 December 2019.

(c) SZ Coolpad Technologies, the Company's wholly-owned subsidiary, was assessed and recognised as a high-technology enterprise in December 2019, and is subject to CIT at a rate of 15% for three years from 2019 to 2021. In this regard, SZ Coolpad Technologies was subject to CIT at a rate of 15% (2018: 15%) for the year ended 31 December 2019.

(d) Nanjing Coolpad, the Company's wholly-owned subsidiary, was established in 2014 and assessed as a software enterprise and therefore was exempted from CIT for the first two years starting from the year when it begins to make profit and will be entitled to a 50% reduction in the applicable tax rate for CIT in the three years that follow. Nanjing Coolpad started its tax concession period from year 2015 as it began to make profit in that year. In this regard, Nanjing Coolpad was subject to CIT at a rate of 12.5% (2018: 12.5%) for the year ended 31 December 2019.

(e) Dongguan Coolpad, the Company's wholly-owned subsidiary, was established in 2014 and assessed as a software enterprise in 2017 and therefore is exempted from CIT for the first two years starting from the year when it begins to make profit and will be entitled to a 50% reduction in the applicable tax rate for CIT in the three years that follow. Dongguan Coolpad started its tax concession period from year 2017 as it made profit in that year. In this regard, Dongguan Coolpad was subject to CIT at a rate of 12.5% (2018: 0%) for the year ended 31 December 2019.

## 11. Dividend

The Directors did not recommend payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

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31 December 2019

## 12. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of the basic earnings/(loss) per share amount is based on the earnings/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,061,900,631 (2018: 5,033,407,480) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as the impact of the share options outstanding had no dilution effect on the basic earnings/(loss) per share amount presented.

## 13. Property, Plant and Equipment

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

# NOTES TO FINANCIAL STATEMENTS

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## 13. Property, Plant and Equipment (Continued)

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| Cost or valuation: | | | | | | |
| At 1 January 2018 | 499,184 | 22,089 | 281,937 | 21,306 | 515,541 | 1,340,057 |
| Additions | – | – | 15,436 | – | 234,235 | 249,671 |
| Deficit on revaluation | (6,219) | – | – | – | – | (6,219) |
| Transfer to investment properties | (178,805) | – | – | – | – | (178,805) |
| Disposals | (2,120) | (4,974) | (50,191) | (12,056) | (25,601) | (94,942) |
| Disposal of a subsidiary | – | – | – | – | (50,941) | (50,941) |
| Transfers | 1,596 | – | 520 | – | (2,116) | – |
| Exchange realignment | (16,212) | (834) | (11,596) | (503) | (31,426) | (60,571) |
| At 31 December 2018 | 297,424 | 16,281 | 236,106 | 8,747 | 639,692 | 1,198,250 |
| Accumulated depreciation and impairment: | | | | | | |
| At 1 January 2018 | 157,980 | 19,821 | 203,632 | 14,754 | – | 396,187 |
| Depreciation provided during the year | 17,388 | 1,236 | 19,980 | 2,128 | – | 40,732 |
| Transfer to investment properties | (5,823) | – | – | – | – | (5,823) |
| Disposals | (2,120) | (4,974) | (41,499) | (10,851) | – | (59,444) |
| Exchange realignment | (7,609) | (774) | (8,528) | (358) | – | (17,269) |
| At 31 December 2018 | 159,816 | 15,309 | 173,585 | 5,673 | – | 354,383 |
| Net book value: | | | | | | |
| At 31 December 2018 | 137,608 | 972 | 62,521 | 3,074 | 639,692 | 843,867 |

# NOTES TO FINANCIAL STATEMENTS

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## 13. Property, Plant and Equipment (Continued)

At 31 December 2019, the Group had yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$27,580,000 (2018: HK$35,764,000).

The Group's buildings were revalued individually at the end of the reporting period by Debenham Tie Leung Limited, independent professionally qualified valuers, at an aggregate open market value of HK$120,543,000 (2018: HK$123,207,000) as at 31 December 2019 based on their existing use. As a result, the Group recorded a revaluation reserve of HK$7,631,000 credited to other comprehensive income for the current year (2018: revaluation deficit of HK$6,219,000 charged to other comprehensive income).

The Group entered into an agreement with Xi'an Hi-Tech Industrial Development Zone in respect of the disposal of certain parcel of land and the construction in progress held by Xi'an Coolpad Equipment. As of 31 December 2019, the transfer procedures was still in progress and the Group transferred the leasehold land included in right-of-use assets and the construction in progress to assets classified as held for sale, resulting in a reduction of construction in progress of HK$166,945,000, details of which are included in note 25 to the financial statements.

In 2019, certain properties of the Group were transfered to the investment properties resulting a loss of HK$6,091,000 at the date of transfer. In 2018,certain properties were transferred to investment properties and a gain on revaluation for these properties up to the date of change-in-use was credited to other comprehensive income. Details of the above are included in note 14 to the financial statements

There was no property, plant and equipment pledged as security for liability as at 31 December 2019 (2018: Nil).

As at 31 December 2019, included in the Group's property, plant and equipment, certain buildings with a carrying amount of HK$120,543,000 (2018: HK$123,207,000) were stated at fair value using revaluation model. The remaining property, plant and equipment (including construction in progress) with a carrying amount of HK$426,791,000 (2018: HK$720,660,000) were carried at historical cost.

# NOTES TO FINANCIAL STATEMENTS

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## 13. Property, Plant and Equipment (Continued)

### Fair Value Hierarchy

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

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

| | Fair value measurement at 31 December 2018 using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Recurring fair value measurement for: | | | | |
| Industrial properties | – | – | 123,207 | 123,207 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 13. Property, Plant and Equipment (Continued)

### Fair Value Hierarchy (Continued)

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

| | Industrial properties | |
|---|---|---|
| | **2019** | 2018 |
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | **123,207** | 325,291 |
| Transfer from construction in progress | **900** | 1,596 |
| Transfer to investment properties | **–** | (172,982) |
| Depreciation provided during the year | **(8,502)** | (16,576) |
| Reserve/(deficit) on revaluation recognised in other comprehensive income | **7,631** | (6,219) |
| Exchange realignment | **(2,693)** | (7,903) |
| Carrying amount at 31 December | **120,543** | 123,207 |

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

| | Valuation technique | Significant unobservable inputs | Range or weighted average 2019 | Range or weight ed average 2018 |
|---|---|---|---|---|
| Industrial properties | Depreciated replacement cost ("DRC") approach | a. Construction cost (RMB/sq.m.) | **a. 1,119 to 3,381** | a. 1,092 to 3,299 |
| | | b. Administrative expense rate | **b. 3%** | b. 3% |
| | | c. Unpredictable expense rate | **c. 3%** | c. 3% |
| | | d. Rate of newness | **d. 80% to 90%** | d. 82% to 92% |

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 14. Investment Properties

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Carrying amount at 1 January | | **222,563** | 120,013 |
| Transferred from owner-occupied properties | *13* | **169,849** | 172,982 |
| Transferred from right-of-use asset/land use right | *15* | **6,312** | 9,125 |
| Loss on revaluation recognised in profit or loss upon change-in-use* | *6* | **(6,091)** | – |
| Surplus on revaluation recognised in other comprehensive income upon change-in-use* | | **–** | 45,505 |
| Disposal | | **–** | (118,812) |
| Net gain from a fair value adjustment recognised in profit or loss | *5* | **4,554** | 3,343 |
| Exchange realignment | | **(8,069)** | (9,593) |
| Carrying amount at 31 December | | **389,118** | 222,563 |

* Certain properties of HK$169,849,000 together with the land use right of HK$6,312,000 were transferred to investment properties and a loss on revaluation up to the date of change-in-use of HK$6,091,000 was charged to profit or loss during the current year, while in prior year, the Group transferred certain manufacturing buildings and dormitories of HK$172,982,000 together with the land use right of HK$9,125,000 to investment properties and recorded the difference at that date between the carrying amount and the fair value of HK$45,505,000 as a revaluation reserve in other comprehensive income.

The Group's investment properties consist of certain Industrial properties in Mainland China. The Group's investment properties were revalued on 31 December 2019 based on valuations performed by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$389,118,000. Each year, the Group's property manager and the chief financial officer decide on the appointment of an external valuer for the valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 14. Investment Properties (Continued)

### Fair Value Hierarchy

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

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

| | Fair value measurement at 31 December 2018 using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Recurring fair value measurement for: | | | | |
| Industrial properties | – | – | 222,563 | 222,563 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 14. Investment Properties (Continued)

### Fair Value Hierarchy (Continued)

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

| | Industrial properties HK$'000 |
|---|---|
| Carrying amount at 1 January 2018 | 120,013 |
| Transferred from owner-occupied property and land use right | 227,612 |
| Disposal | (118,812) |
| Net gain from a fair value adjustment recognised in profit or loss (note 5) | 3,343 |
| Exchange realignment | (9,593) |
| Carrying amount at 31 December 2018 and 1 January 2019 | **222,563** |
| Transferred from owner-occupied property and right-of-use asset | **170,070** |
| Net gain from a fair value adjustment recognised in profit or loss (note 5) | **4,554** |
| Exchange realignment | **(8,069)** |
| Carrying amount at 31 December 2019 | **389,118** |

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

| | Valuation technique | Significant unobservable inputs | **Range or weighted average 2019*** | Range or weighted average 2018 |
|---|---|---|---|---|
| Industrial properties | Investment approach | a. Market monthly rental (RMB/sq.m.) | **a. 18** | a. 17 |
| | | b. Discount rate | **b. 5% to 5.5%** | b. 5% to 5.5% |
| | | c. Market unit sale rate (RMB/sq.m.) | **c. 3,410 to 3,519** | c. 3,291 to 3,485 |

* The investment properties as at 31 December 2019 represented the manufacturing buildings and dormitories held for lease located in Dongguan.

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

# NOTES TO FINANCIAL STATEMENTS

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## 15. Leases

### The Group as a Lessee

The Group has lease contracts for various items of office and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 30 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms between 2 and 4 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value.

#### (a) Prepaid land lease payments (before 1 January 2019)

| | *Notes* | 2018<br>HK$'000 |
|---|---|---|
| Carrying amount at 1 January | | 277,640 |
| Recognised during the year | *6* | (4,948) |
| Transfer to investment properties | *14* | (9,125) |
| Disposal | | (29,125) |
| Disposal of a subsidiary | *33(B)(c)* | (32,665) |
| Exchange realignment | | (12,339) |
| Carrying amount at 31 December | | 189,438 |
| Current portion included in prepayments, deposits and other receivables | *23* | (4,638) |
| Non-current portion | | 184,800 |

## NOTES TO FINANCIAL STATEMENTS

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### 15. Leases (Continued)

#### The Group as a Lessee (Continued)

(b) Right-of-use assets

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

| | *Note* | Prepaid land lease payments HK$'000 | Properties HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| As at 1 January 2019 | | 189,438 | 25,802 | 215,240 |
| Additions | | – | 2,848 | 2,848 |
| Depreciation charge | *6* | (5,150) | (9,810) | (14,960) |
| Impairment | | – | (3,210) | (3,210) |
| Transfer to investment properties | | (6,312) | – | (6,312) |
| Transfer to other non-current assets | | – | (2,856) | (2,856) |
| Transfer to assets classified as held for sale | | (22,860) | – | (22,860) |
| Exchange realignment | | (3,511) | (325) | (3,836) |
| As at 31 December 2019 | | 151,605 | 12,449 | 164,054 |

(c) Lease liabilities

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

| | 2019 Lease liabilities HK$'000 |
|---|---|
| Carrying amount as at 1 January | 25,168 |
| New leases | 2,848 |
| Accretion of interest recognised during the year | 1,527 |
| Disposal | (627) |
| Payments | (11,183) |
| Exchange realignment | (413) |
| Carrying amount as at 31 December | 17,320 |
| Analysis into: | |
| Current portion | 9,587 |
| Non-current portion | 7,733 |

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 15. Leases (Continued)

### The Group as a Lessee (Continued)

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

| | **2019**<br>**HK$'000** |
|---|---|
| Interest on lease liabilities | **1,527** |
| Depreciation charge of right-of-use assets | **14,960** |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in selling expense and administrative expense) | **739** |
| Total amount recognised in profit or loss | **17,226** |

(e) The total cash outflow for leases is disclosed in note 34(c) to the financial statements. As disclosed in note 37 to the financial statements, there is no future cash outflows relating to leases that have not yet commenced as at 31 December 2019.

### The Group as a Lessor

The Group leases its investment properties (note 14) consisting of certain manufacturing buildings and dormitories in Dongguan, the PRC, under operating lease arrangements. Rental income recognised by the Group during the year was HK$18,613,000 (2018: HK$17,300,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Within one year | **17,312** | 12,906 |
| After one year but within five years | **41,683** | 42,086 |
| After five years | **–** | – |
| Carrying amount as at 31 December | **58,995** | 54,992 |

# NOTES TO FINANCIAL STATEMENTS

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## 16. Intangible Assets

| | Product development costs HK$'000 | Patents and licences HK$'000 | Computer software HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| Cost: | | | | |
| At 1 January 2019 | **441,100** | **12,086** | **12,176** | **465,362** |
| Exchange realignment | **(9,306)** | **(264)** | **(266)** | **(9,836)** |
| At 31 December 2019 | **431,794** | **11,822** | **11,910** | **455,526** |
| Accumulated amortisation: | | | | |
| At 1 January 2019 | **441,100** | **11,249** | **7,841** | **460,190** |
| Provided during the year | **–** | **228** | **1,213** | **1,441** |
| Exchange realignment | **(9,306)** | **(249)** | **(194)** | **(9,749)** |
| At 31 December 2019 | **431,794** | **11,228** | **8,860** | **451,882** |
| Net carrying amount: | | | | |
| At 31 December 2019 | **–** | **594** | **3,050** | **3,644** |
| **31 December 2018** | | | | |
| Cost: | | | | |
| At 1 January 2018 | 461,623 | 125,404 | 12,763 | 599,790 |
| Disposal | – | (111,606) | – | (111,606) |
| Exchange realignment | (20,523) | (1,712) | (587) | (22,822) |
| At 31 December 2018 | 441,100 | 12,086 | 12,176 | 465,362 |
| Accumulated amortisation: | | | | |
| At 1 January 2018 | 455,705 | 124,287 | 6,943 | 586,935 |
| Provided during the year | 5,859 | 237 | 1,263 | 7,359 |
| Disposal | – | (111,606) | – | (111,606) |
| Exchange realignment | (20,464) | (1,669) | (365) | (22,498) |
| At 31 December 2018 | 441,100 | 11,249 | 7,841 | 460,190 |
| Net carrying amount: | | | | |
| At 31 December 2018 | – | 837 | 4,335 | 5,172 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 17. Investment in a Joint Venture

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Share of net assets | **195,404** | 93,084 |
| Other* | **(23,639)** | – |
| Goodwill | **8,318** | 8,318 |
| | **180,083** | 101,402 |

Particulars of the Group's material joint venture as at 31 December 2019 are as follows:

| Name | Place of registration and business | Fully paid-up capital | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Dongguan Coolpad Tian'an Investment Development Co., Ltd. ("Dongguan Tian'an") | PRC/Mainland China | RMB 136,000,000 | 50 | Investment holding and property development |

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

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

# NOTES TO FINANCIAL STATEMENTS

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## 17. Investment in a Joint Venture (Continued)

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

| | 31 December 2019 HK$'000 | 31 December 2018 HK$'000 |
|---|---|---|
| Cash and cash equivalents | 46,543 | 3,173 |
| Properties under development | 208,336 | 425,000 |
| Other current assets | 45,790 | 70,563 |
| Current assets | 300,669 | 498,736 |
| Investment property | 863,962 | 68,363 |
| Other non- current assets | 8,659 | 5,752 |
| Non-current assets | 872,621 | 74,115 |
| Other payables and accruals | (81,227) | (345,826) |
| Other current liabilities | (3,426) | (40,169) |
| Current liabilities | (84,653) | (385,995) |
| Non-current liabilities | (697,829) | (688) |
| Net assets | 390,808 | 186,168 |
| Reconciliation to the Group's interest in the joint venture: | | |
| Proportion of the Group's ownership | 50% | 50% |
| Group's share of net assets of the joint venture | 195,404 | 93,084 |
| Other* | (23,639) | – |
| Goodwill | 8,318 | 8,318 |
| Carrying amount of the investment | 180,083 | 101,402 |

| | 31 December 2019 HK$'000 | 31 December 2018 HK$'000 |
|---|---|---|
| Revenue | 3,127 | – |
| Profit/(loss) for the year | 258,098 | (1,558) |
| Other comprehensive loss for the year | (6,180) | (8,991) |
| Total comprehensive income/(loss) for the year | 251,918 | (10,549) |

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

# NOTES TO FINANCIAL STATEMENTS

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## 18. Investments in Associates

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Share of net assets | **359,623** | 391,311 |
| Goodwill | **1,201,710** | 1,201,710 |
| | **1,561,333** | 1,593,021 |
| Impairment* | **(1,256,992)** | (1,253,796) |
| | **304,341** | 339,225 |

* In 2018, an impairment of HK$6,513,000 was provided of the Group's investment in Coolpad E-commerce Inc. ("Coolpad E-commerce") and its subsidiaries (collectively, "Coolpad E-commerce Group"). The estimated recoverable amount was determined based on the value-in-use with reference to the cash flows expected to be generated by Coolpad E-commerce Group using a pre-tax discount rate of 26.4%. No impairment loss was recognised or reversed of the Group's investment in Coolpad E-commerce Group during the year.

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

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

| Name | Place of registration and business | Fully paid-up capital | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| Coolpad E-commerce | Cayman Islands | US$20 | 25 | Investment holding |
| Shenzhen Coolpad Mobile Tech Co., Ltd. ("Coolpad Mobile") | PRC/ Mainland China | RMB 443,790,000 | 13.52 | Sale of mobile phones |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 18. Investments in Associates (Continued)

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

### Coolpad E-commerce Group

| | **31 December 2019 HK$'000** | 31 December 2018 HK$'000 |
|---|---|---|
| Cash and cash equivalents | **855,500** | 844,802 |
| Pledged deposits | **–** | 210,203 |
| Other current assets | **322,122** | 594,651 |
| Current assets | **1,177,622** | 1,649,656 |
| Non-current assets | **11,196** | 25,183 |
| Trade payables | **(176,287)** | (244,890) |
| Other current liabilities | **(173,986)** | (465,935) |
| Total current liabilities | **(350,273)** | (710,825) |
| Non-current liabilities | **(11,794)** | (60,920) |
| Net assets | **826,751** | 903,094 |
| Non-controlling interest | **(37,350)** | (28,688) |
| Equity attributable to owners of Coolpad E-commerce | **789,401** | 874,406 |
| Reconciliation to the Group's interest in Coolpad E-commerce: | | |
| Proportion of the Group's ownership | **25.0%** | 25.0% |
| Group's share of net assets of Coolpad E-commerce | **197,350** | 218,602 |
| Goodwill on acquisition (less cumulative impairment) | **166** | 166 |
| Carrying amount of the investment | **197,516** | 218,768 |

# NOTES TO FINANCIAL STATEMENTS

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## 18. Investments in Associates (Continued)

### Coolpad E-commerce Group (Continued)

| | **Year ended 31 December 2019 HK$'000** | Year ended 31 December 2018 HK$'000 |
|---|---|---|
| Revenue | **668,768** | 2,669,764 |
| Loss for the year | **(56,494)** | (316,661) |
| Other comprehensive loss for the year | **(19,849)** | (95,418) |
| Total comprehensive loss for the year | **(76,343)** | (412,079) |

### Coolpad Mobile Group

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

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

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

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 18. Investments in Associates (Continued)

### Coolpad Mobile Group (Continued)

| | 31 December 2019 HK$'000 | 31 December 2018 HK$'000 |
|---|---|---|
| Cash and cash equivalents | **8,386** | 28,950 |
| Other current assets | **133,030** | 336,512 |
| Current assets | **141,416** | 365,462 |
| Non-current assets | **87,838** | 96,556 |
| Other payables and accruals | **(125,982)** | (189,559) |
| Other current liabilities | **(70,381)** | (113,672) |
| Current liabilities | **(196,363)** | (303,231) |
| Non-current liabilities | **(111,635)** | (228,258) |
| Net liabilities | **(78,744)** | (69,471) |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **13.52%** | 13.52% |
| Group's share of net liabilities of the associate | **(10,646)** | (9,392) |
| Additional investment | **13,842** | – |
| Impairment | **(3,196)** | – |
| Provision for additional losses | **–** | 9,392 |
| Carrying amount of the investment | **–** | – |

*Note:*

In prior year, pursuant to the articles and association of Coolpad Mobile Group, the Group has the obligation to take up the excessive losses of HK$9,392,000. However, as the Group made good RMB12,400,000 (equivalent to HK$13,842,000) as an additional investment in the current year, the Group considered no provision for the share of the additional losses therefore.

| | Year ended 31 December 2019 HK$'000 | Year ended 31 December 2018 HK$'000 |
|---|---|---|
| Revenue | **839,257** | 767,263 |
| Loss for the year | **(24,181)** | (16,759) |
| Other comprehensive income for the year | **1,066** | 3,176 |
| Total comprehensive loss for the year | **(23,115)** | (13,583) |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 18. Investments in Associates (Continued)

### Other Individually Immaterial Associates

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Share of associates' losses for the year | (1,425) | (1,299) |
| Share of associates' other comprehensive (loss)/income for the year | (367) | 54 |
| Share of associates' total comprehensive loss for the year | (1,792) | (1,245) |
| Aggregate carrying amount of the Group's investments in associates | 106,825 | 120,457 |

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

## 19. Inventories

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Raw materials | 80,032 | 65,697 |
| Work in progress | 16,041 | 8,346 |
| Finished goods | 158,182 | 120,912 |
| | 254,255 | 194,955 |

## 20. Trade Receivables

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Trade receivables | 728,555 | 481,750 |
| Impairment | (305,975) | (301,900) |
| | 422,580 | 179,850 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 20. Trade Receivables (Continued)

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within 3 months | **365,773** | 158,389 |
| 4 to 6 months | **23,549** | 16,312 |
| 7 to 12 months | **37,907** | 7,774 |
| Over 1 year | **301,326** | 299,275 |
| | **728,555** | 481,750 |
| Less: Impairment | **(305,975)** | (301,900) |
| | **422,580** | 179,850 |

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At 1 January | **301,900** | 308,683 |
| Impairment/(reversal of impairment) loss *(note 6)* | **6,530** | (4,621) |
| Exchange realignment | **(2,455)** | (2,162) |
| | **305,975** | 301,900 |

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 20. Trade Receivables (Continued)

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

**As at December 2019**

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

**As at December 2018**

| | Ageing | | | |
|---|---|---|---|---|
| | Within 1 year | 1 to 2 years | Over 2 years | Total |
| Expected credit loss rate | 0.90%-8.63% | 100% | 100% | |
| Gross carrying amount (HK$'000) | 182,475 | 28,162 | 271,113 | 481,750 |
| Expected credit losses (HK$'000) | 2,625 | 28,162 | 271,113 | 301,900 |

## 21. Bills Receivable

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Within 3 months | – | 8,967 |

Bills receivable as at 31 December 2018 are non-interest-bearing.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 22. Loans Receivable

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Loans receivable | **3,370** | 8,676 |
| Non-current portion | **(1,098)** | (4,076) |
| Short-term loans receivable | **2,272** | 4,600 |

Huiying, a wholly-owned subsidiary of the Group, was established in 2014 and engaged in the provision of financing service. Those loans receivable bore interest at rates ranging from 5% to 10% per annum (2018: 5% to 13%). The grants of these loans were approved and monitored by the Group's management.

Except for loans receivable with an aggregate carrying amount of HK$2,233,000 (2018: HK$4,130,000) as at 31 December 2019, which were secured by the pledge of collateral or guarantees by certain independent third parties, the loans receivable as at 31 December 2019 were unsecured. An impairment analysis is performed at each reporting date according to the expected credit loss model. At the end of the reporting period, the loss calculated for the remaining balance of loans receivable was not material and has no impact on the Group's consolidated financial statements.

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Over 1 year | **3,370** | 8,676 |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 23. Prepayments, Deposits and Other Receivables

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Prepayments for other suppliers | **19,574** | 40,873 |
| Deposits and other receivables | **119,943** | 156,591 |
| Deductible input VAT | **271,499** | 370,492 |
| Prepaid expenses | **27,582** | 2,661 |
| Current portion of prepaid land lease payments *(note 15)* | **–** | 4,638 |
| | **438,598** | 575,255 |
| Non-current portion | **(35,791)** | (14,310) |
| | **402,807** | 560,945 |

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there are no comparable companies as at 31 December 2019 was 0.1% (2018: 0.1%).

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2019 and 2018, the loss allowance was assessed to be minimal.

## 24. Financial Assets at Fair Value Through Profit or Loss

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Listed equity investments, at fair value | **73,983** | 116,446 |
| Other unlisted investments, at fair value | **20,386** | 23,486 |
| | **94,369** | 139,932 |

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

As at 31 December 2019, the Group's listed equity investments with a carrying value of HK$71,993,000 were pledged as security for the Group's loan from a third party, as further detailed in note 29 to the financial statements.

## 25. Assets Classified as Held for Sale

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Assets classified as held for sale | **186,323** | – |

On 25 April 2019, the Group entered into an agreement with Xi'an Hi-Tech Industrial Development Zone in respect of the disposal of certain parcel of land and the construction in progress held by Xi'an Coolpad Equipment with a transaction price of RMB236,293,000 (equivalent to HK$268,716,000). As of 31 December 2019, the transfer procedures were still in progress and it was expected that the transfer of land use rights and construction in progress would be completed within one year. The assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. Therefore, the Group transferred the land use right and the construction in progress to assets held for sale with a carrying amount of HK$186,323,000.

## 26. Cash and Cash Equivalents and Pledged Deposits

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **297,420** | 168,554 |
| Time deposits | **66,866** | 114,966 |
| | **364,286** | 283,520 |
| Less: pledged deposits for: | | |
| – A performance guarantee and letter of credit | **(66,866)** | (114,966) |
| Cash and cash equivalents | **297,420** | 168,554 |

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$135,529,000 (2018: HK$102,562,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 27. Trade Payables

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Within 3 months | **332,458** | 87,231 |
| 4 to 6 months | **46,957** | 4,512 |
| 7 to 12 months | **34,629** | 17,621 |
| Over 1 year | **91,917** | 143,300 |
| | **505,961** | 252,664 |

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

## 28. Other Payables and Accruals

| | *Notes* | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|---|
| Accrued royalties | | **511,417** | 480,564 |
| Contract liabilities | *(a)* | **13,834** | 55,341 |
| Product warranty provision | *(b)* | **22,844** | 21,083 |
| Accrued sales incentives | | **74,650** | 78,624 |
| Advance in respect of a proposed issue of convertible bonds | *(c)* | **–** | 58,195 |
| Advance received for the disposal of a parcel of land and construction in progress | *(d)* | **230,294** | – |
| Other accruals | | **59,128** | 78,462 |
| Other payables | | **490,323** | 836,887 |
| | | **1,402,490** | 1,609,156 |

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

## 28. Other Payables and Accruals (Continued)

*Notes:*

(a) Details of contract liabilities are as follows:

| | 31 December 2019 HK$'000 | 31 December 2018 HK$'000 | 1 January 2018 HK$'000 |
|---|---|---|---|
| *Short-term advances received from customers* | | | |
| Sale of mobile phones and related accessories | **13,844** | 55,341 | 45,100 |

Contract liabilities include short-term advances received to deliver mobile phones and accessories. The decrease in contract liabilities in 2019 was mainly due to the decrease in short-term advances received from customers in relation to the sale of goods close to the end of the year. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers in relation to the sale of goods close to the end of the year.

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

| | *Note* | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| At 1 January | | **21,083** | 27,133 |
| Additional provision | *6* | **10,373** | 3,114 |
| Amounts utilised during the year | | **(8,464)** | (8,881) |
| Exchange realignment | | **(148)** | (283) |
| At 31 December | | **22,844** | 21,083 |

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

(c) Advance received in respect of a proposed issue of convertible bonds progress

During the year 2017, the Company entered into a subscription agreement with an independent subscriber in respect of the issue of convertible bonds with nominal value of HK$582 million (the "Convertible Bond Agreement"), under which the Group received a deposit of approximately HK$58 million. Details of the Convertible Bond Agreement are set out in the Company's announcements dated 17 October 2017 and 16 November 2017, respectively.

Up to 31 December 2019, the Convertible Bond Agreement had not come into effect and the deposit was returned.

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

During the year 2019, the Group received an amount of approximately HK$230 million from Xi'an Hi-Tech Industrial Development Zone for the disposal of a parcel of land and construction in progress located in Xi'an, as further detailed in note 25 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

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## 29. Interest-Bearing Bank and Other Borrowings

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | HK$'000 | Effective interest rate (%) | Maturity | HK$'000 |
| **Current** | | | | | | |
| Other borrowings – secured | Prime rate+2% | On demand | 17,170 | –– | – | – |
| Other borrowings – unsecured | 4.54 | 2020 | 223,269 | – | – | – |
| | | | 240,439 | | | – |
| **Non-current** | | | | | | |
| Other borrowings – unsecured | – | – | – | 4.54 | 2020 | 228,258 |
| | | | 240,439 | | | 228,258 |

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Analysed into other loans repayable: | | |
| Within one year or on demand | 240,439 | – |
| In the second to fifth year | – | 228,258 |
| | 240,439 | 228,258 |

*Notes:*

(a) At 31 December 2019, all of the Group's bank and other borrowings of HK$240,439,000 (2018: HK$228,258,000) bore interest at floating rates.

(b) Except for the unsecured other borrowing bearing a rate of 4.54% which is denominated in RMB, all borrowings are in Hong Kong dollars.

(c) Certain of the Group's other borrowings are secured by mortgages over the Group's listed equity investments, which had an aggregate carrying value at the end of the reporting period of approximately HK$71,993,000.

## 30. Deferred Tax

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

### Deferred Tax Liabilities

| | Revaluation of buildings HK$'000 | Withholding taxes HK$'000 | Adjustments to fair value of disposal of remaining equity interests of a subsidiary HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2018 | 47,614 | 8,209 | – | 55,823 |
| Charged to equity during the year | 9,821 | – | – | 9,821 |
| (Credited)/charge to profit or loss for the year *(note 10)* | (20,370) | – | 1,866 | (18,504) |
| Exchange differences | (1,805) | – | – | (1,805) |
| At 31 December 2018 and 1 January 2019 | **35,260** | **8,209** | **1,866** | **45,335** |
| Charged to equity during the year | **1,908** | **–** | **–** | **1,908** |
| Charged to profit or loss for the year *(note 10)* | **1,006** | **–** | **–** | **1,006** |
| Exchange differences | **(825)** | **–** | **–** | **(825)** |
| At 31 December 2019 | **37,349** | **8,209** | **1,866** | **47,424** |

### Deferred Tax Assets

| | Deductible amortisation allowance HK$'000 |
|---|---|
| At 1 January 2018 | 8,278 |
| Charged to profit or loss for the year *(note 10)* | (7,510) |
| Exchange differences | (108) |
| At 31 December 2018 and 1 January 2019 | **660** |
| Charged to profit or loss for the year *(note 10)* | **(104)** |
| Exchange differences | **(13)** |
| At 31 December 2019 | **543** |

# NOTES TO FINANCIAL STATEMENTS

31 December 2019

## 30. Deferred Tax (Continued)

### Deferred Tax Liabilities Not Recognised

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

At 31 December 2019, the Group has not recognised deferred tax liabilities of HK$284,478,000 (2018: HK$261,466,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$2,844,777,000 (2018: HK$2,614,656,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and determines that it is not probable that these profits will be distributed in the foreseeable future.

### Deferred Tax Assets Not Recognised

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Tax losses | **1,132,463** | 792,594 |
| Deductible temporary differences | **679,826** | 920,920 |
| | **1,812,289** | 1,713,514 |

The Group had total accumulated tax losses arising in Mainland China, United States and Hong Kong of HK$1,132,463,000 (2018: HK$792,594,000) for offsetting against future taxable profits of the companies in which the losses arose.

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

## 31. Share Capital and Reserves

### (a) Share Capital

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Authorised: | | |
| 20,000,000,000 (2018: 20,000,000,000) ordinary shares of HK$0.01 each | **200,000** | 200,000 |
| Issued and fully paid: | | |
| 5,833,407,480 (2018: 5,033,407,480) ordinary shares of HK$0.01 each | **58,334** | 50,334 |

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

| | Number of shares in issue | Issued capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2018, 31 December 2018 and 1 January 2019 | 5,033,407,480 | 50,334 | 1,235,632 | 1,285,966 |
| Issue of shares *(Note (i))* | 800,000,000 | 8,000 | 163,964 | 171,964 |
| | 5,833,407,480 | 58,334 | 1,399,596 | 1,457,930 |
| Share issue expenses | – | – | (467) | (467) |
| At 31 December 2019 | 5,833,407,480 | 58,334 | 1,399,129 | 1,457,463 |

*Notes:*

(i) On 19 December 2019, a total of 800,000,000 shares were allotted and issued by the Group to a subscriber at the subscription price of HK$0.215 per subscription share, resulting in the issue of 800,000,000 shares for a total consideration, before expenses, of HK$171,964,000.

# NOTES TO FINANCIAL STATEMENTS

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## 31. Share Capital and Reserves (Continued)

### (b) Reserves

#### (i) Share premium account

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

#### (ii) Statutory reserve

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

#### (iii) Capital redemption reserve

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

#### (iv) Other reserve

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

## 32. Share Option Scheme

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

## 32. Share Option Scheme (Continued)

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

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

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

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

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

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

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | **1.5714** | **29,468** | 1.5285 | 147,046 |
| Granted during the year | **0.2242** | **469,800** | – | – |
| Forfeited during the year | **–** | **–** | 1.5198 | (117,242) |
| Expired during the year | **1.5400** | **(3,180)** | 0.8390 | (336) |
| At 31 December | **0.2958** | **496,088** | 1.5714 | 29,468 |

No share options were exercised in 2019 (2018: No share options were exercised).

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## 32. Share Option Scheme (Continued)

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

**2019**

| **Number of options '000** | **Exercise price* HK$** | **Exercise period** |
|---|---|---|
| **7,000** | **1.492** | **22-1-16 to 22-1-20** |
| **2,200** | **1.492** | **22-1-17 to 22-1-21** |
| **7,088** | **1.620** | **16-10-16 to 16-10-20** |
| **10,000** | **1.620** | **16-10-17 to 16-10-21** |
| **53,200** | **0.2242** | **14-05-20 to 13-05-24** |
| **53,200** | **0.2242** | **14-05-21 to 13-05-24** |
| **53,200** | **0.2242** | **14-05-22 to 13-05-24** |
| **53,200** | **0.2242** | **14-05-23 to 13-05-24** |
| **64,250** | **0.2242** | **14-11-20 to 13-11-24** |
| **64,250** | **0.2242** | **14-11-21 to 13-11-24** |
| **64,250** | **0.2242** | **14-11-22 to 13-11-24** |
| **64,250** | **0.2242** | **14-11-23 to 13-11-24** |
| **496,088** | | |

2018

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

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

## 32. Share Option Scheme (Continued)

The fair value of the share options granted during the year was HK$35,651,000 (HK$0.08 each) (2018: Nil), of which the Group recognised a share option expense of HK$2,689,000 (2018: Nil) during the year ended 31 December 2019.

The Group recorded a share option expense of HK$1,327,000 (2018: reversal of HK$63,004,000) due to the amortisation of certain share options granted in prior years during the year ended 31 December 2019.

The fair value of equity-settled share options granted during the year, was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | 2019 | 2018 |
|---|---|---|
| Dividend yield (%) | – | N/A |
| Expected volatility (%) | 53-55 | N/A |
| Historical volatility (%) | 53-55 | N/A |
| Risk-free interest rate (%) | 1.70-1.71 | N/A |
| Expected life of options (year) | 4.5-5 | N/A |
| Weighted average share price (HK$ per share) | 0.80 | N/A |

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 496,088,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 496,088,000 additional ordinary shares of the Company and additional share capital of HK$4,960,880 and share premium of HK$141,777,240 (before issue expenses).

Subsequent to the end of the reporting period, a total of 7,000,000 share options were expired.

At the date of approval of these financial statements, the Company had 489,088,000 share options outstanding under the Scheme, which represented approximately 8.4% of the Company's shares in issue as at that date.

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## 33. Disposal of Subsidiaries

### (A) Year ended 31 December 2019

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

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

## 33. Disposal of Subsidiaries (Continued)

### (B) Year ended 31 December 2018

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

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

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## 33. Disposal of Subsidiaries (Continued)

### (B) Year ended 31 December 2018 (Continued)

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

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

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## 33. Disposal of Subsidiaries (Continued)

### (B) Year ended 31 December 2018 (Continued)

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

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

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Cash consideration | **–** | 141,819 |
| Consideration to be received in the following year | **–** | (11,362) |
| Consideration received for disposals in prior years | **11,322** | – |
| Cash and cash equivalents disposed of | **(1,495)** | (2,565) |
| Net inflow of cash and cash equivalents in respect of the loss of control of subsidiaries | **9,827** | 127,892 |

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## 34. Notes to the Consolidated Statement of Cash Flows

### (a) Major Non-Cash Transactions

During the year ended 31 December 2019, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$2,848,000 and HK$2,848,000, respectively, in respect of lease arrangements for offices premises (2018: Nil).

During the year ended 31 December 2019, pursuant to the relevant offsetting agreements, the Group offset its amounts due from associates with its amounts due to associates in relation of two associates amounting to HK$51,352,000.

### (b) Changes in Liabilities Arising from Financing Activities

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Bank and other loans HK$'000 | Interest payable HK$'000 | Advance in respect of a proposed issue of convertible bonds HK$'000 | An amount due to a related party HK$'000 | Lease liabilities HK$'000 | Payables for acquisition of non-controlling interest included in other payables HK$'000 |
| At 31 December 2018 | 228,258 | 14,221 | 58,195 | 202,129 | – | 11,429 |
| Effect of adoption of HKFRS 16 | – | – | – | – | 25,168 | – |
| At 1 January 2019 | 228,258 | 14,221 | 58,195 | 202,129 | 25,168 | 11,429 |
| Changes from financing cash flows | 17,170 | (11,601) | (58,195) | 58,471 | (11,183) | (2,351) |
| New leases | – | – | – | – | 2,848 | – |
| Termination of leases | – | – | – | – | (627) | – |
| Interest expense | – | 23,349 | – | 16,202 | 1,527 | – |
| Exchange realignment | (4,989) | (693) | – | (7,370) | (413) | (1,290) |
| At 31 December 2019 | 240,439 | 25,276 | – | 269,432 | 17,320 | 7,788 |

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

### (b) Changes in Liabilities Arising from Financing Activities (Continued)

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

### (c) Total Cash Outflow for Leases

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

| | **2019 HK$'000** |
|---|---|
| Within operating activities | **739** |
| Within financing activities | **11,183** |
| | **11,922** |

# NOTES TO FINANCIAL STATEMENTS

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## 35. Contingency

### (a) Litigation with Customers

A subsidiary of the Group is currently a plaintiff in a lawsuit with certain customers in the United States of America, who refused to settle trade receivables of approximately US$25,000,000 (equivalent to HK$194,696,000) (2018: US$25,000,000). In preparing these consolidated financial statements, the aforesaid lawsuit was still in progress.

### (b) Litigations with Suppliers

The Group received several civil complaints in 2019 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB36 million (equivalent to HK$41 million) (2018: RMB129 million). The arbitration procedures of the civil complaints were still in progress as at the date of approval of the consolidated financial statements.

## 36. Pledge of Assets

Details of the Group's assets pledged for the Group's other borrowings, for a loan granted to an associate, and for performance guarantee provided to a bank and issuance of letter of credit are included in notes 18, 24 and 26, respectively, to the financial statements.

## 37. Commitments

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

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Contracted, but not provided for constructions in progress | **1,142,430** | 1,243,066 |
| Capital contributions payable to certain associates or an unlisted investment measured at fair value | **22,327** | 16,170 |
| | **1,164,757** | 1,259,236 |

## 37. Commitments (Continued)

### (b) Operating Lease Commitments as at 31 December 2018

The Group lease certain of its warehouses and office equipment under operating lease arrangements. Leases for plant were negotiated for terms ranging from one to five years. Leases for office equipment were with terms of 12 months or less.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2018<br>HK$'000 |
|---|---|
| Within one year | 15,450 |
| In the second to fifth years, inclusive | 9,129 |
| After five years | 492 |
| | 25,071 |

### (c) The Group has no lease contract that has not yet commenced as at 31 December 2019.

## 38. Related Party Transactions

### (a) Balances with Related Parties:

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Amounts due from associates (i) | **7,080** | 27,922 |

| | **2019**<br>**HK$'000** | 2018<br>HK$'000 |
|---|---|---|
| Amounts due to associates (i) | **52,811** | 248,891 |
| An amount due to a related party (ii) | **269,432** | 202,129 |
| | **322,243** | 451,020 |

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

(ii) The balance represented the loan and related interest due to Kingkey Group amounting to HK$269,432,000 as at 31 December 2019, which is unsecured, with a maturity date of 20 May 2021 at an annual interest rate of 6.5%. Kingkey Group is an associate of Kingkey Financial Holdings (Asia) Limited, a substantial shareholder of the Company, and therefore a related party of the Group.

# NOTES TO FINANCIAL STATEMENTS

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## 38. Related Party Transactions (Continued)

### (b) Transactions with Related Parties:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Associates: | | |
| Sale of products | **1,178** | 492 |
| Purchase of raw materials | **3,558** | 30,623 |
| Sale of assets | **11** | 3 |
| Service income | **13,794** | 34,491 |

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Other related parties: | | |
| Loan arrangement (i) | **56,861** | 194,819 |
| Interest expense (i) | **16,202** | 7,586 |

(i) In 2018, Kingkey Group has agreed to provide a loan with a maximum amount of no more than RMB500 million to the Group for corporate operation with a term of 12 months at an annual interest rate of 6.5%. In 2019, the loan arrangement was extended to 20 May 2021. Up to 31 December 2019, the accumulated loan amount drawn down by the Group was HK$246,377,000 and the associates interest expense recognised for the current year amounted to HK$16,202,000.

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

### (c) Compensation of Key Management Personnel of the Group:

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **14,514** | 11,033 |
| Pension scheme contributions | **269** | 424 |
| Equity-settled share option expense | **264** | 1,349 |
| Total compensation paid to other key management personnel | **15,047** | 12,806 |

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## 39. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### Financial Assets

**2019**

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

2018

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

# NOTES TO FINANCIAL STATEMENTS

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## 39. Financial Instruments by Category (Continued)

### Financial Liabilities

| Financial liabilities at amortised cost | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Trade payables | **505,961** | 252,664 |
| Financial liabilities included in other payables and accruals | **1,262,312** | 1,321,144 |
| Interest-bearing bank and other borrowings | **240,439** | 228,258 |
| Lease liabilities | **17,320** | – |
| Amounts due to associates | **52,811** | 248,891 |
| An amount due to a related party | **269,432** | 202,129 |
| | **2,348,275** | 2,253,086 |

## 40. Fair Value and Fair Value Hierarchy of Financial Instruments

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

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 2019 HK$'000 | 2018 HK$'000 | 2019 HK$'000 | 2018 HK$'000 |
| **Financial assets** | | | | |
| Financial assets included in prepayments, deposits and other receivables, non-current portion | **8,209** | 5,259 | **8,209** | 5,259 |
| Financial assets at fair value through profit or loss | **94,369** | 139,932 | **94,369** | 139,932 |
| Financial assets at fair value through other comprehensive income | **322,144** | – | **322,144** | – |
| | **424,722** | 145,191 | **424,722** | 145,191 |
| **Financial liabilities** | | | | |
| An amount due to a related party | **269,432** | 202,129 | **269,432** | 202,129 |
| Interest-bearing bank and other borrowings | **240,439** | 228,258 | **240,439** | 228,258 |
| | **509,871** | 430,387 | **509,871** | 430,387 |

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

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

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

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

The fair values of the non-current portion of financial assets included in prepayments, deposits and other receivables, interest bearing bank and other borrowings and an amount due to a related party have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings and an amount due to a related party as at 31 December 2019 was were assessed to be insignificant.

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

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

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

| | Valuation technique | Significant unobservable input | Range | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Unlisted equity investments | Valuation multiples | Average P/S multiple of peers | 2019: 1.23% to -1.23% (2018: 1.13% to -1.13%) | 1% (2018: 1%) increase/decrease in multiple would result in increase/decrease in fair value by approximately HK$29,000 (2018: HK$23,000) |
| | | Discount for lack of marketability | 2019: 1.68% to -1.68% (2018: 1.18% to -1.18%) | 1% (2018: 1%) increase/decrease in multiple would result in decrease/increase in fair value by approximately HK$40,000 (2018: HK$1,343,000) |
| | Asset - based approach | Net assets | N/A | N/A |

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

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

### Fair Value Hierarchy

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

#### Assets measured at fair value:

**As at 31 December 2019**

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

As at 31 December 2018

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

The Group did not have any financial liabilities measured at fair value as at 31 December 2019.

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

### Fair Value Hierarchy (Continued)

Assets measured at fair value: (Continued)

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

| | **31 December 2019 HK$'000** | 31 December 2018 HK$'000 |
|---|---|---|
| At 1 January | **137,574** | 114,725 |
| Transfer from financial assets measured at amortised cost | **24,741** | |
| Additions | **653,230** | 10,648 |
| Total (loss)/gain recognised in the statement of profit or loss, net | **82,240** | 21,934 |
| Disposal | **(351,549)** | (2,132) |
| Transfer to level 1 | **(202,099)** | – |
| Exchange realignment | **(1,607)** | (7,601) |
| Fair value at the end of year | **342,530** | 137,574 |

Except for disclosed in the above table, there are no other transfers of fair value measurements between Level 1 and Level 2 and no other transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

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

### Fair Value Hierarchy (Continued)

Liabilities for which fair values are disclosed:

**As at 31 December 2019**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Interest-bearing bank and other borrowings | **–** | **17,170** | **223,269** | **240,439** |
| An amount due to a related party | **–** | **269,432** | **–** | **269,432** |
| As at 31 December 2018 | **–** | **286,602** | **223,269** | **509,871** |

As at 31 December 2018

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) HK$'000 | Significant observable inputs (Level 2) HK$'000 | Significant unobservable inputs (Level 3) HK$'000 | Total HK$'000 |
| Interest-bearing bank and other borrowings | – | – | 228,258 | 228,258 |

## 41. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, an amount due to a related party, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade and bills receivables, loans receivable, amounts due from associates, trade and bills payables and amounts due from/to associates, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing these risks and they are summarised below.

### Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings which bear interest at floating rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 29 to the financial statements.

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

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax HK$'000 |
|---|---|---|
| **2019** | | |
| RMB | **100** | **(2,233)** |
| RMB | **(100)** | **2,233** |
| HKD | **100** | **(172)** |
| HKD | **(100)** | **172** |

| | Increase/ (decrease) in basis points | Increase/ (decrease) in loss before tax HK$'000 |
|---|---|---|
| 2018 | | |
| RMB | 100 | 2,283 |
| RMB | (100) | (2,283) |

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## 41. Financial Risk Management Objectives and Policies (Continued)

### Foreign Currency Risk

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

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

| | **Increase/ (decrease) in USD %** | **Increase/ (decrease) in profit before tax HK$'000** |
|---|---|---|
| **2019** | | |
| If RMB weakens against USD | **5** | **(34,149)** |
| If RMB strengthens against USD | **(5)** | **34,149** |

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

## 41. Financial Risk Management Objectives and Policies (Continued)

### Foreign Currency Risk (Continued)

| | Increase/ (decrease) in EUR % | Increase/ (decrease) in profit before tax HK$'000 |
|---|---|---|
| **2019** | | |
| If RMB weakens against EUR | **5** | **783** |
| If RMB strengthens against EUR | **(5)** | **(783)** |
| If HK$ weakens against EUR | **5** | **759** |
| If HK$ strengthens against EUR | **(5)** | **(759)** |

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

### Credit Risk

#### Credit risk for the sale of mobile phones

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

#### Maximum exposure and year-end staging

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

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## 41. Financial Risk Management Objectives and Policies (Continued)

### Credit Risk (Continued)

Maximum exposure and year-end staging (Continued)

**As at 31 December 2019**

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

As at 31 December 2018

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Simplified approach HK$'000 | HK$'000 |
| Trade receivables* | – | – | – | 179,850 | 179,850 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 151,017 | – | – | – | 151,017 |
| – Doubtful** | – | – | – | – | – |
| Pledged deposits | | | | | |
| – Not yet past due | 114,966 | – | – | – | 114,966 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 168,554 | – | – | – | 168,554 |
| | 434,537 | – | – | 179,850 | 614,387 |

## 41. Financial Risk Management Objectives and Policies (Continued)

### Credit Risk (Continued)

#### Maximum exposure and year-end staging (Continued)

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had concentrations of credit risk as 83% (2018: 82%) of the Group's trade receivables were due from the Group's five largest customers.

The credit risk for pledged deposits and cash and bank balances is considered minimal as such amounts are placed with banks with good credit standing. Further quantitative data in respect of the Group's exposure to credit risk from trade receivables are disclosed in note 20 to the financial statements.

#### Credit risk for the provision of financing service

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

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

#### Transferred financial assets that are derecognised in their entirety

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

### Liquidity Risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

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## 41. Financial Risk Management Objectives and Policies (Continued)

### Liquidity Risk (Continued)

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

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

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

## 41. Financial Risk Management Objectives and Policies (Continued)

### Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

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

| | **31 December 2019 HK$'000** | 1 January 2019 HK$'000 *(note)* | 31 December 2018 HK$'000 |
|---|---|---|---|
| Interest-bearing bank and other borrowings *(note 29)* | **240,439** | 228,258 | 228,258 |
| Lease liabilities *(note 15(c))* | **17,320** | 25,168 | – |
| Trade payables | **505,961** | 252,664 | 252,664 |
| Other payables and accruals | **1,402,490** | 1,609,156 | 1,609,156 |
| Amounts due to associates | **52,811** | 248,891 | 248,891 |
| An amount due to a related party | **269,432** | 202,129 | 202,129 |
| Less: Cash and cash equivalents | **(297,420)** | (168,554) | (168,554) |
| Net debt | **2,191,033** | 2,397,712 | 2,372,544 |
| Equity attributable to owners of the Company | **708,002** | 414,135 | 414,213 |
| Capital and net debt | **2,899,035** | 2,811,847 | 2,786,757 |
| Gearing ratio | **76%** | 85% | 85% |

*Note:* The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt but the Group's gearing ratio remained unchanged on 1 January 2019 when compared with the position as at 31 December 2018.

# NOTES TO FINANCIAL STATEMENTS

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## 42. Comparative Amounts

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

## 43. Events after the Reporting Period

### Corona Virus Disease 2019

The global outbreak of the novel coronavirus ("COVID-19") subsequent to the end of reporting period and the consequential precautionary and control measures across the Group's main operating areas including China and United States have brought significant uncertainties to the Group's businesses. The Group expects the continuous spread of the virus would inevitably stunt the economy and the disruptions have being seen in the Group's supply chain and logistics.

Given the dynamic nature of the circumstances, the uncertainty of the duration of the pandemic and the possible extent of preventive measures, up to the date of this report, the Group is still assessing the related impact.

# NOTES TO FINANCIAL STATEMENTS

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## 44. Statement of Financial Position of the Company

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Interests in subsidiaries | **205,299** | 201,846 |
| Financial assets at fair value through profit or loss | **1,990** | 2,358 |
| Total non-current assets | **207,289** | 204,204 |
| **CURRENT ASSETS** | | |
| Amounts due from subsidiaries | **1,569,180** | 1,551,296 |
| Prepayments, deposits and other receivables | **–** | 69 |
| Cash and cash equivalents | **95,242** | 27,677 |
| Total current assets | **1,664,422** | 1,579,043 |
| **CURRENT LIABILITIES** | | |
| Amounts due to subsidiaries | **28,062** | 5,905 |
| Other payables and accruals | **9,855** | 61,441 |
| Total current liabilities | **37,917** | 67,346 |
| **NET CURRENT ASSETS** | **1,626,505** | 1,511,697 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | **1,833,794** | 1,715,900 |
| Net assets | **1,833,794** | 1,715,900 |
| **EQUITY** | | |
| Issued capital | **58,334** | 50,334 |
| Reserves *(note)* | **1,775,460** | 1,665,566 |
| Total equity | **1,833,794** | 1,715,900 |

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## 44. Statement of Financial Position of the Company (Continued)

*Note:*

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

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Share award reserve HK$'000 | Capital redemption reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 1,235,632 | 44,992 | 126,006 | 43,564 | 1,870 | 388 | 339,326 | 1,791,778 |
| Total comprehensive loss for the year | – | – | – | – | – | – | (63,208) | (63,208) |
| Equity-settled share option arrangements | – | – | (63,004) | – | – | – | – | (63,004) |
| At 31 December 2018 and 1 January 2019 | 1,235,632 | 44,992 | 63,002 | 43,564 | 1,870 | 388 | 276,118 | 1,665,566 |
| Issue of shares | 163,964 | – | – | – | – | – | – | 163,964 |
| Share issue expenses | (467) | – | – | – | – | – | – | (467) |
| Total comprehensive loss for the year | – | – | – | – | – | – | (57,619) | (57,619) |
| Equity-settled share option arrangements | – | – | 4,016 | – | – | – | – | 4,016 |
| At 31 December 2019 | **1,399,129** | **44,992** | **67,018** | **43,564** | **1,870** | **388** | **218,499** | **1,775,460** |

## 45. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors of the Company on 30 March 2020.