迪信通

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

2019
ANNUAL REPORT

THE FUTURE
of new retail

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code : 06188

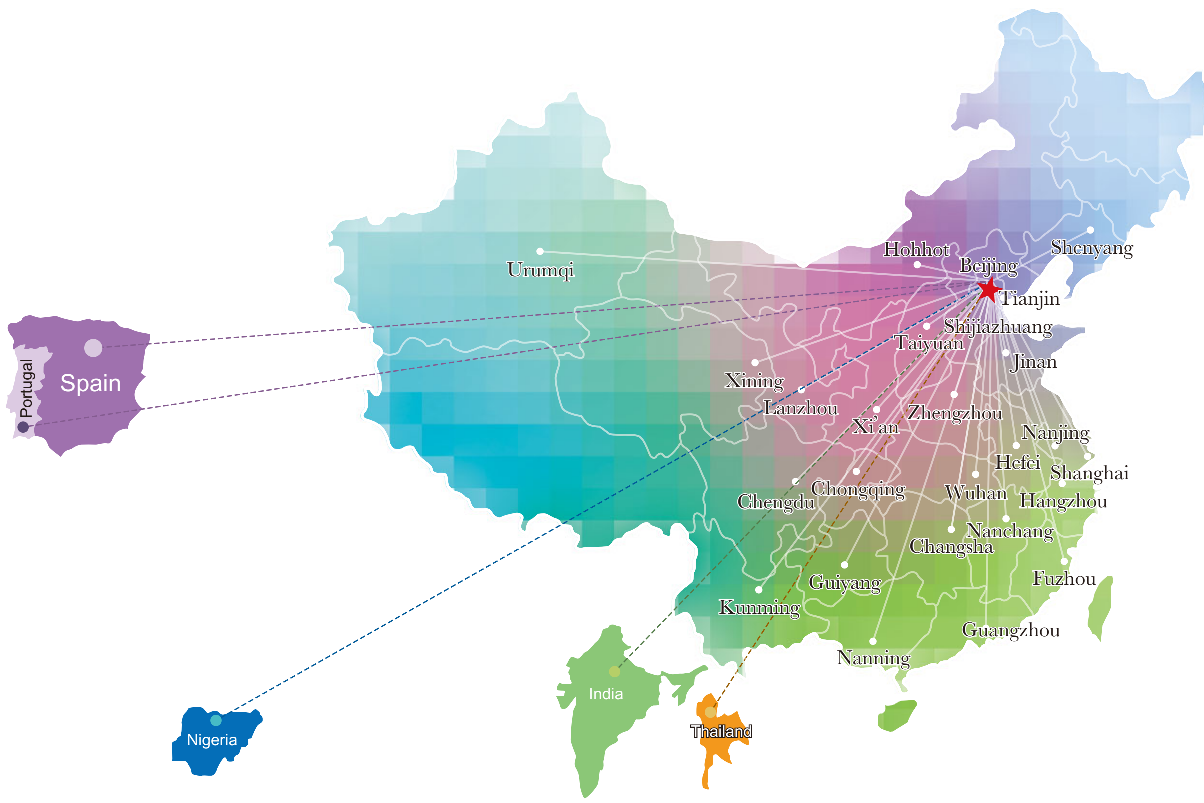
Contents

COMPANY PROFILE

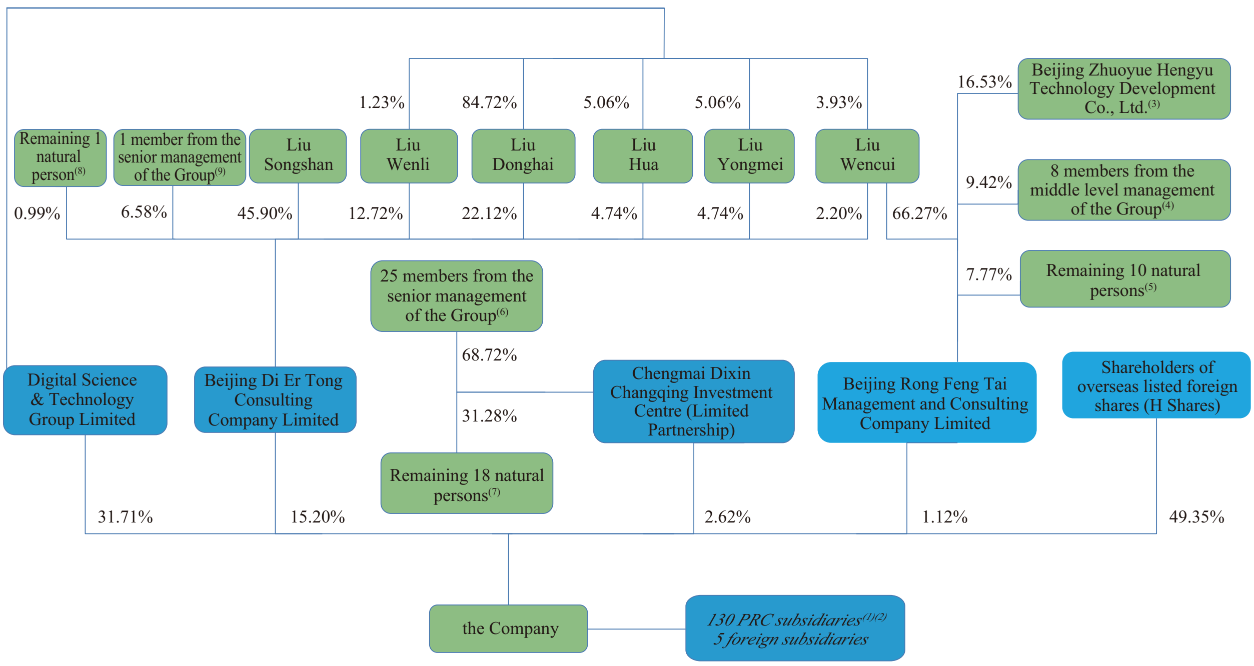
Beijing Digital Telecom Co., Ltd. (the "Company" or "Beijing Digital") was founded in 2001 and has been listed in Hong Kong (stock code: 06188.HK) since 2014.

As at 31 December 2019, the Company had over 100 subsidiaries (collectively referred to as the "Group" or "we") and had opened approximately 1,500 independently operated outlets and franchised outlets in 22 provinces and 4 municipalities over China. Since its establishment, the Group has been focusing on the sales of mobile telecommunication devices and the provision of related services. With its extensive offline sales channels and online sales platform, the Group provides comprehensive services to consumers, ranging from the sales of mobile phone hardware and accessories, provision of value-added services for software, and provision of personalized services for mobile phones and aftersales services. To better adapt to the development environment of the retail industry under the new market situation at home and abroad, the Group has steadily launched new retail business, diversified merchandise sales business and overseas business through multi-channel operation system and multi-dimensional service model in recent years, so as to consolidate market competitiveness and brand influence.

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



The corporate structure of our Group as at 31 December 2019 is set out as follows:



Notes:

(1) *As of the latest practicable date, 96 PRC subsidiaries and 3 foreign subsidiaries are wholly-owned by our Company while 34 other PRC subsidiaries and 2 foreign subsidiaries are not wholly-owned by our Company. The shareholdings of these 34 non-wholly-owned PRC subsidiaries are set out below:*

(i) *60% of the equity interests of Henan Digital Trading Company Limited (河南迪信通商貿有限公司) is held by us and the remaining 40% is held by Mr. Tang Cheng (唐成), who is an independent third party. The wholly-owned subsidiaries of Henan Digital Trading Company Limited are: Gansu Digital Trading Company Limited (甘肅迪信通商貿有限公司), Jiangxi Chuangfa Trading Company Limited (江西創發商貿有限責任公司), Henan Time Space Electronic Technology Company Limited (河南時間空間電子科技有限公司), Henan Difeng Culture Communication Company Limited (河南迪鋒文化傳播有限公司) and Henan Digital Business Management Company Limited (河南迪信通商業管理有限公司).*

(ii) *75% of equity interests of Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司), Shanghai Chuanda Communication Technology Co., Ltd. (上海川達通信技術有限公司) and Shanghai Dixin South Communication Technology Co., Ltd. (上海迪信南方通信技術有限公司) are held by us and the remaining 25% is held by Zhou Qing (周清), Li Kai (李凱), Zhou Yujing (周玉靜), Yang Zhiyong (楊志勇), Chen Xiujun (陳秀俊), Jiao Liping (焦立平) and Li Yonggang (李勇剛). As at the date of this annual report, Zhou Qing and Li Kai respectively hold 9.71% and 1.94% equity interests in Chengmai Dixin Changqing Investment Centre (Limited Partnership) (澄邁迪信長青投資中心(有限合夥)). Among them, the wholly-owned subsidiary of Shanghai Dixin Electronic Communication Technology Co., Ltd. is Jiangsu Difeng Communication Technology Co., Ltd. (江蘇迪豐通信技術有限公司), and the wholly-owned subsidiary of Shanghai Dixin South Communication Technology Co., Ltd. is Fujian Dixin Electronic Communication Technology Co., Ltd. (福建迪信電子通信技術有限公司).*

(iii) *55% of the equity interests of Beijing Yihaotong Orient Information Technology Company Limited (北京億號通東方信息技術有限公司) is held by us and the remaining 45% is held by Ms. Chen Jinling (陳金玲), who is an independent third party.*

(iv) *70% of the equity interests of Yunnan Jiyue Telecommunications Technology Company Limited (雲南繼躍通信技術有限公司) is held by us and the remaining 30% is held by Mr. Luo Jianjun (羅建軍), who holds 3.33% of the equity interests of Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司) as of the date of this annual report.*

(v) *55% of the equity interests of Beijing 19 Where Internet Technology Company Limited (北京易久維互聯科技有限公司) is held by us and the remaining 45% is held by Mr. GuiJie (桂捷), who is an independent third party.*

(vi) *80% of the equity interests of Yunnan Difeng Technology Company Limited (雲南迪峰科技有限公司) is held by us and the remaining 20% is held by Sun Wenjia (孫文佳) and Tian Huajun (田華軍) respectively, both of whom are independent third parties and 10% is held by each of them.*

(vii) *86% of the equity interests of Shenyang Dichuang Enterprise Management Company Limited (瀋陽迪創企業管理有限公司) is held by us and the remaining 14% is jointly held by Mr. Li Jiashun (李嘉順), Ms. Peng Wenqiong (彭文瓊) and the shareholders of Chengmai Dixin Changqing Investment Centre (澄邁迪信長青投資中心), namely Mr. Sun Gang (孫剛) (0.57%) and Mr. Yao Guangyuan (姚廣元) (0.11%), all of whom are independent third parties.*

(viii) *75% of the equity interests of Chongqing DIGITONE Intelligent Technology Company Limited (重慶迪信通智能技術有限公司) is held by us and the remaining 25% is held by Chongqing Youtong Equity Investment Fund Partnership (Limited Partnership) (重慶市友潼股權投資基金合夥企業(有限合夥)).Its wholly-owned subsidiaries are Hong Kong Digitone Technology Co., Limited (香港迪信通技術有限公司) and Chongqing Digitone Meizhihui Equipment Research Institute Co., Ltd. (重慶迪信通美智慧裝備研究院有限公司).*

(ix) *80% of the equity interests of Beijing Dixin Alliance Technology Co., Ltd. (北京迪信雲聚科技有限公司) is held by us and the remaining 20% is held by Mr. Jin Xin (金鑫). It owns 60% of the equity interests of its subsidiary Beijing Alliance Oriental Technology Co., Ltd. (北京雲聚東方科技有限公司).*

(x) *51% of the equity interests of Beijing Digital Technology and Trading Co., Ltd. (北京迪信通科貿有限公司) is held by us and the remaining 49% is held by Beijing Huidi Chuangxin Technology Co., Ltd. (北京惠迪創信科技有限公司).*

(xi) *51% of the equity interests of Beijing Dirong Consulting Service Company Limited (北京迪融諮詢服務有限公司) is held by us and the remaining 49% is held by Beijing Ruilei Consulting Service Company Limited (北京銳雷諮詢服務有限公司).*

(xii) *51% of the equity interests of Guangan Zhuopin Era Technology Co., Ltd (廣安卓品時代科技有限公司) is held by us and the remaining 49% is held as to 29.4% by Wang Liang (王亮) and 19.6% by Wei Wenfei (衛文斐) respectively. It owns 51% of the equity interests of its subsidiary Yunnan Yingmi Technology Company Limited (雲南英米科技有限責任公司), which owns 70% interests in the subsidiary Shenzhen Mizuan Network Technology Co., Ltd. (深圳米鑽網路科技有限公司).*

(xiii) *75% of the equity interests of Shanghai Yushen Technology Company Limited (上海昱申科技有限責任公司) is held by us and the remaining 25% is held as to 10% by Beijing Abujia Management Consulting Company Limited (北京阿卟伽管理諮詢有限公司) and 5% by independent third parties, Li Wenhua (李文華), Wen Yuguang (文宇光) and Du Li (杜莉) respectively. Shanghai Yushen Technology Company Limited owns 100% interests in the subsidiary Beijing Abu Technology Co., Ltd. (北京阿卟科技有限公司) and owns 60% interests in the subsidiary Shanghai Abujia Technology Co., Ltd. (上海阿卟伽科技有限公司), which is owned as to 15% by Shanghai Dixin Electronic Communication Technology Co., Ltd.*

(xiv) *80% of the equity interests of Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd. (北京網聚迪信優品互聯網科技有限公司) is held by us and the remaining 20% is held by an independent third party, Liu Zhigang (劉志剛).*

(xv) *60% of equity interests of Guangzhou Zhongqi Communication Technology Co., Ltd. (廣州中啟通信科技有限公司) is held by us and the remaining 40% is jointly held by Chen Jianbin (陳建斌), Luo Yan (羅豔) and Li Xishu (李西蜀), all of whom are independent third parties.*

(xvi) *75% of the equity interests of Shenzhen DIGITONE Technology Company Limited (深圳市迪信通科技有限公司) is held by us and the remaining 25% is held by an independent third party, Yang Ruhe (楊濡赫).*

(xvii) *51% of equity interests of Beijing Penglu Network Technology Co., Ltd. (北京鵬路網路科技有限公司) is held by us and the remaining 49% is held by an independent third party, Nan Yufang (南玉芳).*

(xviii) *70% of equity interests of Xi'an Jindili Information Technology Co., Ltd. (西安金迪力資訊技術有限公司) is held by us and the remaining 30% is held by Xi'an Tali Technology Co., Ltd. (西安塔力科技有限公司).*

The shareholdings of the 2 non-wholly owned foreign subsidiaries are set out below:

(i) *72% of the equity interests of New Idea Investment Pte Limited (新迪亞投資有限公司) is held by us and the remaining 28% is held as to 20% by ZTE Corporation (中興通訊股份有限公司) and 8% by Shanghai Shengshan Pushang Investment Zhongxing (Limited Partnership) (上海盛山普尚投資中興(有限合夥)) respectively. It owns 60% of the equity interests of its subsidiary Digitone Mobiles Private Limited.*

(2) As one of the largest physical retail store networks in the PRC mobile telecommunications sector, we maintain our leading position by conducting our business through 130 subsidiaries in PRC spreading across 22 provinces and 4 municipalities and 5 foreign subsidiaries. These subsidiaries are mainly to operate individual standalone outlets and liaise with local wholesalers.

(3) As at 31 December 2019, the shareholders of Beijing Zhuoyue Hengyu Technology Development Co., Ltd. (北京卓越恒宇科技發展有限公司) are Cui Mingbao (崔明寶) (60%) and Zhang Weiping (張蔚萍) (40%).

(4) As at 31 December 2019, 8 members from the middle level management of the Group include Luo Jianjun (3.33%), Hu Ping (1.33%), Zhao Shuang (1.33%), Hou Qinghong (0.93%), Huang Qiuli (0.82%), Li Xuehua (0.64%), Zhang Shuangping (0.64%) and Dong Shaorong (0.40%).

(5) As at 31 December 2019, the other 10 natural person shareholders of Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司) (formerly served as the management team of the Group, and currently no longer hold any roles in the management team of the Group) include Zhang Hui (1.33%), Li Jing (0.82%), Li Dong (0.53%), Jiang Shan (0.82%), Tian Hong (0.53%), Li Yunping (0.82%), Jiang Xuefu (0.82%), Cao Qin (1.33%), Qi Qin (0.64%) and Pei Qidi (0.13%).

(6) As at 31 December 2019, 25 members from the senior management of the Group include Jin Xin (17.14%), Zhou Qing (9.71%), Zhang Tianyu (6.86%), Bai Ren (5.83%), Liu Yajun (4.57%), Xu Guliang (2.86%), Li Xuerong (2.00%), Li Kai (1.94%), He Lingli (1.89%), Zhong Dalin (1.89%), Zhang Ning (1.71%), Chen Lin (1.43%), Li Dongmei (3.71%), Li Wanqing (1.37%), Sun Chengdong (1.31%), Ji Li (0.97%), Sun Gang (0.57%), Qiao Junjie (0.51%), Chen Hong (0.29%), He Junchao (0.29%), Peng Qiyi (0.29%), Yang Jianguo (0.27%), He Zhiwei (0.17%), Yao Guangyuan (0.11%) and Xiao Chunmei (1.03%). Liu Yajun is the vice chairman and an executive Director of our Company.

(7) As at 31 December 2019, the other 18 natural person shareholders of Chengmai Dixin Changqing Investment Centre (Limited Partnership) (formerly served as the management team of the Group, and currently no longer hold any roles in the management team of the Group) include Feng Lei (1.14%), Pang Hong (0.57%), Wang Zhifeng (0.86%), Wang Zhenfeng (0.57%), Leng Jianchuang (2.86%),Yang Xiaomei (3.17%), Ding Zhijun (2.69%), Tang Zhiqiang (2.00%), Guo Weijuan (1.94%), Jing Shulin (0.57%), Zhao Bin (0.49%), Cao Wenying (0.27%), Fang Hongbao (0.17%), Pang Hongqiang (0.17%), Huang Jianhui (2.86%), Zhang Jun (1.23%), Pei Qidi (0.57%) and Qi Feng (9.15%) respectively.

(8) As at 31 December 2019, 1 natural person shareholder of Beijing Di Er Tong Consulting Company Limited (formerly served as the management team of the Group, and currently no longer hold any roles in the management team of the Group) was Pei Qidi (0.99%).

(9) As at 31 December 2019, 1 member of the senior management of the Group was Du Guohui (6.58%).

(10) The proportion of shares in this chart has been rounded, so the total proportion of shares held by shareholders in the corresponding companies may not equal to 100%.

(11) The Directors, Supervisors and members of the senior management who directly or indirectly having an interest in the shares of the Company are as follows: (a) Liu Donghai, chairman and executive Director; (b) Liu Yajun, vice chairman and executive Director; (c) Liu Songshan, vice chairman and executive Director; (d) Liu Wencui, executive Director; (e) Zhou Qing, vice general manager; and (f) Li Dongmei, vice president, secretary to the Board of Directors, joint company secretary and chief legal officer. Each of the above Directors and members of the senior management undertakes that, upon the Listing, pursuant to the PRC Company Law, he/she will continuously declare to the Company his/her direct or indirect interest in the shares of the Company, and will comply with the following restrictions: (1) he/she shall not transfer his/her respective direct or indirect interests in the Shares within one year after Listing; (2) he/she shall not transfer more than 25% of his/her respective direct or indirect interests in the Shares each year during the tenure; and (3) he/she will not transfer any of his/her respective direct or indirect interests in the Shares within six months after his/her departure from the Company. If the undertaking is breached, each of the above Directors, Supervisors and members of the senior management agrees that since the date of breach, (1) the Company may withhold from paying his/her respective remuneration or other benefits; (2) the Company may withhold from vesting dividends under his/her respective direct or indirect interests in the Shares; and (3) the Company may terminate the employment agreement or service contract, as applicable, with the relevant person unilaterally without any recourse to the Company (save for the benefits already accrued prior to such breach).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Qi Xiangdong
Ms. Xin Xin

Independent Non-executive Directors

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

Supervisors

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

JOINT COMPANY SECRETARIES

Ms. Li Dongmei
Ms. Lam Yuk Ling

AUTHORIZED REPRESENTATIVES

Mr. Liu Yajun
Ms. Li Dongmei

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION AND ASSESSMENT COMMITTEE

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

STRATEGY COMMITTEE

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

REGISTERED OFFICE

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

HEADQUARTERS

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit D, 16/F
MG Tower
133 Hoi Bun Road
Kwun Tong
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISERS

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

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

AUDITOR

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

STOCK CODE

6188

COMPANY'S WEBSITE

www.dixintong.com

PRINCIPAL BANKERS

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

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

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

Hangseng Bank (China) Co., Ltd
(Beijing Branch)
18th Floor, South Office Tower
Beijing Kerry Centre, 1 Guanghua Road
Chaoyang District, Beijing
PRC

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

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

FINANCIAL HIGHLIGHTS

Items	2019	2018	2017	2016 (Restated)	2015
	For the year ended 31 December				
Consolidated Statement of Profit or Loss					
Revenue	**15,350,953**	15,054,664	15,974,316	15,177,126	15,830,720
Gross Profit	**1,768,877**	1,927,276	2,000,168	1,855,678	2,034,117
Profit for the year	**260,452**	322,101	322,947	357,011	356,723
Other comprehensive income profit/loss for the year	**(4,214)**	2,588	(1,075)	–	–
Total comprehensive income for the year	**256,238**	324,689	321,872	357,011	356,723
Attributable to:					
Owners of the parent	**253,227**	331,792	321,415	356,358	357,062
Non-controlling interests	**3,011**	(7,103)	457	653	(339)
Attributable to ordinary equity holders of the parent Earnings per share – Basic and diluted (RMB/per share)	**0.39**	0.49	0.48	0.53	0.54
Consolidated Balance Sheet					
Non-current assets	**1,167,898**	421,386	377,571	308,809	298,712
Current assets	**9,773,359**	7,658,717	7,976,072	7,013,306	6,848,862
Total assets	**10,941,257**	8,080,103	8,353,643	7,322,115	7,147,574
Current liabilities	**6,440,324**	4,246,398	4,245,759	4,152,501	4,301,072
Total assets less current liabilities	**4,500,933**	3,833,705	4,107,884	3,169,614	2,846,502
Non-current liabilities	**324,428**	–	596,542	–	48,000
Net assets	**4,176,505**	3,833,705	3,511,342	3,169,614	2,798,502
Share capital	**666,667**	666,667	666,667	666,667	666,667
Reserves	**3,347,591**	3,093,663	2,764,392	2,442,977	2,086,619
Equity attributable to owners of the parent	**4,014,258**	3,760,330	3,431,059	3,109,644	2,753,286
Non-controlling interests	**162,247**	73,375	80,283	59,970	45,216
Consolidated Statement of Cash Flow					
Net cash flows from/(used in) operating activities	**537,068**	266,249	69,585	461,744	(119,157)
Net cash flows from investment activities	**(367,347)**	350,890	(638,591)	(163,668)	(174,334)
Net cash flows from/(used in) financing activities	**(212,223)**	(524,234)	400,278	44,262	400,037
Net increase/(decrease) in cash and cash equivalents	**(42,502)**	92,905	(168,728)	342,338	106,546
Cash and cash equivalents at beginning of year	**708,548**	614,879	784,756	441,844	335,298
Effect of foreign exchange rate changes on cash flow	**199**	764	(1,149)	574	–
Cash and cash equivalents at end of year	**666,245**	708,548	614,879	784,756	441,844

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to announce the annual results of the Company for the year ended 31 December 2019. The total revenue of the Company amounted to RMB15,350,952,900, representing an increase of RMB296,288,960 or 1.97% from RMB15,054,663,940 for the same period last year. The net profit for the year of 2019 amounted to RMB260,452,000, representing a decrease of RMB61,649,470 or 19.14% from RMB322,101,470 for the same period last year. The Group sold 9,733,740 mobile handsets, representing a decrease of 148,040 sets or 1.50% from 9,881,780 sets for the same period last year. For detailed analysis on the financial data, please refer to the results announcement of the Company for the year 2019.

In 2019, in order to better adapt to the development needs of the retail industry amid the new domestic situation, we have put in great efforts to carry out boundaryless retail business and sales of diversified commodities while continuing to expand high-quality physical stores. We are also operating multiple channels and providing multifaceted services in different countries, thereby continuously expanding our market competitiveness and brand influence.

With regard to the boundaryless retail business, on the one hand, we continue to promote the development of UP+, building it into a leading retailer of trendy technological products in the PRC and the preferred partner of the three major PRC carriers for boundaryless retail upgrade. On the other hand, we also carried out a variety of cooperation based on our investment relations with JD.com, where we have made significant progress in areas such as online and offline boundaryless fulfillment, O2O system construction and supply chain integration. With regard to sales of diversified commodities, while continuing to create good results in the sales of mobile handsets, we continue to enlarge the proportion of futuristic technological products such as smart home, smart wear and intelligent robots in terms of sales, and currently have reached more than 20%. With regard to our channel network construction, leveraging on the impact of UP+ in the three major carriers, we have successively obtained a large number of operator benchmark reconstruction contracts in places such as Henan, Liaoning and Guangdong, and are currently exploring practical solutions for its national transformation. With regard to overseas market, in addition to continuing to strengthen our leading position in places such as Nigeria and Cameroon, we have also achieved excellent results in Western Europe, where Mi Home, Huawei Experience Store, Ali offline store and others opened in Spain became photo-taking points for local KOLs, receiving greater returns.

CHAIRMAN'S STATEMENT

In 2020, 5G technology is fully applied in the C-end and B-end markets, and 5G communication products will also be subsequently launched in the market in batches, bringing huge market opportunities for the Group. Currently, the new retail scheme that the Group has explored and formulated has also ushered in a stage of high-speed development. In 2020, our core strategy is to promote digitalization and platformization in the PRC, and internationally, to fully capture the Western European market. Specifically, we will enhance the results of the Company from the following aspects:

1. Through the promotion of partner mechanism reform, and give full play to the business initiative and potential of frontline stores and employees, transforming employees to become owners to strengthen the offline retail foundation.

2. While the outbreak of the Novel Coronavirus pandemic has a serious impact on offline business, it has also greatly stimulated the diversification of online channels. We will continue to promote the operation of all members of the community, live broadcast, etc. to build a new retail network of the Group.

3. Strengthen the cooperation with JD online platform, and carry out localized order fulfillment services with Eleme, Yonghui online, Dmall, etc.

4. Conform to the three major mobile carriers' business focus and provide optimized new retail systematic solutions for their flagship stores, main stores and community stores. At the same time, we provide them with integrated shopping center and IOT application solutions.

5. Continue to strengthen the implementation of the concept of "full-hearted loyalty" and improve standard of service.

6. In our overseas layout, the Company and Huawei will carry out comprehensive cooperation globally, especially in 7 Western European countries to help Huawei increase market share and influence, while continuing to expand distribution scale in Thailand.

7. The smart retail system "Molink" is the first customized 3C solution jointly created by the Company and Tencent. In 2020, we will achieve broader commercialization for the operator systems.

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

I. BUSINESS REVIEW

For the year ended 31 December 2019, the Group sold 9,733,740 mobile handsets, representing a decrease of 148,040 sets or 1.50% from 9,881,780 sets for the same period last year. Operating revenue for the year of 2019 amounted to RMB15,350,952,900, representing an increase of RMB296,288,960 or 1.97% from RMB15,054,663,940 (including discontinued operation) for the same period last year. Net profit for the year of 2019 amounted to RMB260,452,000, representing a decrease of RMB61,649,470 or 19.14% from RMB322,101,470 for the same period last year.

II. FINANCIAL POSITION AND OPERATING RESULTS

(I) Overview

For the year ended 31 December 2019, the Group recognized net profit of RMB260,452,000, representing a decrease of RMB61,649,470 or 19.14% from RMB322,101,470 for the same period in 2018, among which, net profit attributable to the owners of the parent of the Company amounted to RMB257,439,290, representing a decrease of RMB72,097,440 or 21.88% from RMB329,536,730 for the same period in 2018.

(II) Consolidated comprehensive income statement

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

Items	**2019** **RMB'000**	2018 RMB'000	**Change** RMB'000	**Percentage of change**
Operating revenue	**15,350,952.90**	14,957,132.81	393,820.09	2.63%
Cost of sales	**(13,582,075.85)**	(13,042,383.32)	(539,692.53)	4.14%
Gross profit	**1,768,877.05**	1,914,749.49	(145,872.44)	(7.62%)
Other income and gains	**67,576.29**	97,996.37	(30,420.08)	(31.04%)
Selling and distribution expenses	**(858,016.30)**	(992,507.70)	134,491.40	(13.55%)
Administrative expenses	**(324,563.41)**	(359,889.67)	35,326.26	(9.82%)
Other expenses	**(86,751.42)**	(80,041.85)	(6,709.57)	8.38%
Finance costs	**(232,711.71)**	(192,105.06)	(40,606.65)	21.14%
Investment gains	**(2,265.00)**	(3,359.57)	1,094.57	(32.58%)
Profit before tax	**332,145.50**	384,842.01	(52,696.51)	(13.69%)
Income tax expense	**(71,693.50)**	(78,632.97)	6,939.47	(8.83%)
Net profit from continuing operations	**260,452.00**	306,209.04	(45,757.04)	(14.94%)
Net profit from discontinued operations	–	15,892.43	(15,892.43)	(100%)
Attributable to owners of the parent	**257,439.29**	329,536.73	(72,097.44)	(21.88%)
Attributable to minority interests	**3,012.71**	(7,435.26)	10,447.97	(140.52%)

1. *Operating revenue*

For the year ended 31 December 2019, operating revenue of the Group amounted to RMB15,350,952,900, representing an increase of RMB296,288,960 or 1.97% from the operating revenue of RMB15,054,663,940 for the same period in 2018. Revenue increased mainly for the following reasons:

(1) Our foreign market has witnessed excellent performance for the year, with revenue significantly increasing;

(2) New 5g mobile phones have been launched this year, which facilitated a lot of sales opportunities for the Company;

Our sales of mobile telecommunications devices and accessories include (i) sales in our retail business including our independently operated outlets and online channels; (ii) sales in our franchise business; and (iii) sales in our wholesale business. Revenue from our retail business includes revenue from sales of mobile telecommunications devices and accessories in our independent stores and store-in-store outlets, stores in cooperation with the mobile carriers, and online sales platforms. Revenue from our franchise business includes revenue from sales of mobile telecommunications devices and accessories to our franchisees. Revenue from our wholesale business includes revenue from sales of mobile telecommunications devices and accessories we distribute to mobile carriers and other third-party retailers. Our service income from mobile carriers primarily represents various subsidies from the mobile carriers such as rental and commissions. Other service fee income includes (i) management and service fees received from suppliers of products; (ii) income from value-added services; (iii) the rental fees we earn by renting counter space to third parties who provide repair services; (iv) repair and maintenance fees; and (v) income from franchisees' services. Our revenue from the sales of properties primarily represents revenue from sales of residential units and business premises.

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

Items	For the year ended 31 December					Percentage of change
	2019		2018		Change	
	RMB'000	% of total Revenue	RMB'000	% of total Revenue	RMB'000	
Revenue from continuing operation						
(1) Sales of mobile telecommunications devices and accessories	**14,877,308.21**	**96.91%**	14,451,207.61	95.99%	426,100.60	2.95%
Including: Sales from retail of mobile telecommunications devices and accessories	**6,744,884.11**	**43.94%**	7,875,082.41	52.31%	(1,130,198.30)	(14.35%)
Sales of telecommunications devices and accessories to franchisees	**2,726,783.54**	**17.76%**	3,039,671.90	20.19%	(312,888.36)	(10.29%)
Wholesale of mobile telecommunications devices and accessories	**5,405,640.56**	**35.21%**	3,536,453.30	23.49%	1,869,187.26	52.85%
(2) Service income from mobile carriers	**312,420.80**	**2.04%**	378,336.93	2.51%	(65,916.13)	(17.42%)
(3) Other service fee income	**161,223.89**	**1.05%**	127,588.27	0.85%	33,635.62	26.36%
Revenue from discontinued operations						
Revenue from sales of properties	**0.00**	**0.00%**	97,531.13	0.65%	(97,531.13)	(100.00%)
Total	**15,350,952.90**	**100.00%**	15,054,663.94	100.00%	296,288.96	1.97%

The Group's service income from mobile carriers amounted to RMB312,420,800 for the year ended 31 December 2019, representing a decrease of RMB65,916,130 or 17.42% compared with the service income from mobile carriers of RMB378,336,930 for the same period in 2018. Decrease in the service income from mobile carriers was attributable to a decrease in subsidies granted to sales of terminal mobile phones from major carriers in 2019.

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

Items	For the year ended 31 December 2019 RMB'000	2019 % of total revenue	2018 RMB'000	2018 % of total revenue	Change RMB'000	Percentage of change
China Mobile	**140,362.55**	**44.93%**	143,811.03	38.01%	(3,448.48)	(2.40%)
China Unicom	**32,037.73**	**10.25%**	27,452.65	7.25%	4,585.08	16.70%
China Telecom	**139,843.28**	**44.76%**	207,052.44	54.73%	(67,209.16)	(32.46%)
Virtual Network Operators	**177.24**	**0.06%**	–	0.00%	177.24	–
Dixintong Telecommunications Services	**–**	**0.00%**	20.81	0.01%	(20.81)	(100.00%)
Total	**312,420.80**	**100.00%**	378,336.93	100.00%	(65,916.13)	(17.42%)

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

2. *Cost of sales*

The Group's cost of sales for the year ended 31 December 2019 amounted to RMB13,582,075,850, representing an increase of RMB454,688,280 or 3.46% from RMB13,127,387,570 (including discontinued operation) for the same period in 2018, which was mainly due to the increase in cost of sales in tandem with the increase in our operating revenue.

The following table sets forth information relating to our cost of sales for the periods indicated:

Items	For the year ended 31 December 2019 RMB'000	2019 % of total costs	2018 RMB'000	2018 % of total costs	Change RMB'000	Percentage of change
Cost of continuing operations						
(1) Sales of mobile telecommunications devices and accessories	**13,556,165.26**	**99.81%**	13,013,650.04	99.13%	542,515.22	4.17%
Including: Sales from retail of mobile telecommunications devices and accessories	**5,601,756.93**	**41.24%**	6,616,139.96	50.40%	(1,014,383.03)	(15.33%)
Sales of telecommunications devices and accessories to franchisees	**2,667,095.22**	**19.64%**	2,957,110.92	22.53%	(290,015.70)	(9.81%)
Wholesale of mobile telecommunications devices and accessories	**5,287,313.11**	**38.93%**	3,440,399.16	26.20%	1,846,913.95	53.68%
(2) Service costs from mobile carriers	**22,007.76**	**0.16%**	25,703.13	0.20%	(3,695.37)	(14.38%)
(3) Other service fee costs	**3,902.83**	**0.03%**	3,030.15	0.02%	872.68	28.80%
Cost of discontinued operations						
Cost of sales of properties	**–**	**0.00%**	85,004.25	0.65%	(85,004.25)	(100.00%)
Total	**13,582,075.85**	**100.00%**	13,127,387.57	100.00%	454,688.28	3.46%

3. *Gross profit and gross profit margin*

Gross profit represents operating revenue net of cost of sales. The Group's gross profit for the year ended 31 December 2019 amounted to RMB1,768,877,050, representing a decrease of RMB158,399,320 or 8.22% from RMB1,927,276,370 for the same period in 2018. Our overall gross profit margins for the years ended 31 December 2018 and 2019 were 12.80% and 11.52%, respectively. Decrease in our overall gross profit margin as compared to that of 2018 was primarily due to the higher proportion of wholesale revenue and the lower proportion of retail revenue in our primary operating revenue in 2019.

Items	For the year ended 31 December							
	2019			2018			Change	Percentage of change
	RMB'000	% of total gross profit	Gross profit margin	RMB'000	% of total gross profit	Gross profit margin	RMB'000	
Revenue from continuing operations								
(1) Sales of mobile telecommunications devices and accessories	**1,321,142.95**	**74.69%**	**8.88%**	1,437,557.57	74.59%	9.95%	(116,414.62)	(8.10%)
Including: Sales from retail of mobile telecommunications devices and accessories	**1,143,127.18**	**64.63%**	**16.95%**	1,258,942.45	65.32%	15.99%	(115,815.27)	(9.20%)
Sales of telecommunications devices and accessories to franchisees	**59,688.32**	**3.37%**	**2.19%**	82,560.98	4.28%	2.72%	(22,872.66)	(27.70%)
Wholesale of mobile telecommunications devices and accessories	**118,327.45**	**6.69%**	**2.19%**	96,054.14	4.99%	2.72%	22,273.31	23.19%
(2) Service income from mobile carriers	**290,413.04**	**16.42%**	**92.96%**	352,633.80	18.30%	93.21%	(62,220.76)	(17.64%)
(3) Other service fee income	**157,321.06**	**8.89%**	**97.58%**	124,558.12	6.46%	97.63%	32,762.94	26.30%
Revenue from discontinued operations								
Revenue of sales of properties	**–**	**0.00%**	**–**	12,526.88	0.65%	12.84%	(12,526.88)	(100.00%)
Total	**1,768,877.05**	**100.00%**	**11.52%**	1,927,276.37	100.00%	12.80%	(158,399.32)	(8.22%)

4. *Sales volume and average selling price of handsets*

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

Items	For the year ended 31 December 2019	2018	Change	Percentage of change
Sales of mobile handsets (in RMB thousands)	**14,473,660.38**	13,770,946.29	702,714.09	5.10%
Sales volume of mobile handsets (in sets)	**9,733,743.00**	9,881,776.00	(148,033.00)	(1.50%)
Average selling price (RMB/per set)	**1,486.96**	1,393.57	93.39	6.70%

5. *Other income and gains*

Other income and gains include: (i) interest income; (ii) government grants; (iii) gain on disposal of property, plant and equipment; (iv) gain on foreign exchange; and (v) others. The Group's other income and gains for the year ended 31 December 2019 amounted to RMB67,576,290, representing a decrease of RMB30,420,080 or 31.04% from RMB97,996,370 for the same period in 2018, which was primarily attributable to the decrease in interest income and a decrease in tax refund caused by the preferential tax policy in 2019.

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

Items	For the year ended 31 December 2019 RMB'000	2018 RMB'000	Change RMB'000	Percentage of change
Interest income	**9,142.78**	42,253.51	(33,110.73)	(78.36%)
Government grants	**46,090.76**	49,771.72	(3,680.96)	(7.40%)
Gain on disposal of items of property, plant and equipment	**281.11**	60.66	220.45	363.42%
Gain on foreign exchange	**256.81**	619.84	(363.03)	(58.57%)
Others	**11,804.83**	5,290.64	6,514.19	123.13%
Total	**67,576.29**	97,996.37	(30,420.08)	(31.04%)

6. *Selling and distribution expenses*

Items	For the year ended 31 December					
	Selling and distribution expenses		% of total expenses			
	2019 RMB'000	2018 RMB'000	**2019**	2018	**Change** RMB'000	**Percentage of change**
Staff salaries	**395,550.99**	437,250.82	**46.10%**	44.06%	(41,699.83)	(9.54%)
Office expenses	**14,112.58**	15,831.98	**1.64%**	1.59%	(1,719.40)	(10.86%)
Travelling expenses	**3,389.20**	3,680.34	**0.41%**	0.37%	(291.14)	(7.91%)
Transportation expenses	**13,901.24**	15,201.57	**1.62%**	1.53%	(1,300.33)	(8.55%)
Business entertainment expenses	**2,260.20**	3,054.45	**0.26%**	0.31%	(794.25)	(26.00%)
Communication expenses	**3,891.71**	4,250.26	**0.45%**	0.43%	(358.55)	(8.44%)
Rentals and property management expenses	**283,259.98**	328,424.50	**33.01%**	33.09%	(45,164.52)	(13.75%)
Repair expenses	**5,096.98**	5,553.69	**0.59%**	0.56%	(456.71)	(8.22%)
Advertising and promotion expenses	**42,621.47**	59,169.46	**4.97%**	5.96%	(16,547.99)	(27.97%)
Depreciation expenses	**6,442.82**	7,531.49	**0.75%**	0.76%	(1,088.67)	(14.45%)
Amortisation of long-term deferred expenses	**35,119.17**	39,920.28	**4.09%**	4.02%	(4,801.11)	(12.03%)
Amortisation of low-cost consumables	**5,139.17**	5,679.95	**0.60%**	0.57%	(540.78)	(9.52%)
Market management fees	**10,943.46**	14,461.63	**1.28%**	1.46%	(3,518.17)	(24.33%)
Utilities	**23,235.17**	34,704.52	**2.71%**	3.50%	(11,469.35)	(33.05%)
Others	**13,052.16**	17,792.76	**1.52%**	1.79%	(4,740.60)	(26.64%)
Total	**858,016.30**	992,507.70	**100.00%**	100.00%	(134,491.40)	(13.55%)

Total selling and distribution expenses of the Group for the year ended 31 December 2019 amounted to RMB858,016,300, representing a decrease of RMB134,491,400 or 13.55% from RMB992,507,700 for the same period in 2018, which was mainly due to comprehensive impact of the decreases in staff number and total amount of staff salaries as well as the decreases in rentals and property management expenses, advertising and promotion expenses and utilities.

Total staff salaries for the year ended 31 December 2019 amounted to RMB395,550,990, representing a decrease of RMB41,699,830 or 9.54% from RMB437,250,820 for the same period in 2018. Such decrease was mainly due to the decrease in the number of staff during the year resulting from streamlining of the staffing structure.

Total rentals and property management expenses for the year ended 31 December 2019 amounted to RMB283,259,980, representing a decrease of RMB45,164,520 or 13.75% from RMB328,424,500 for the same period in 2018. Such decrease was mainly due to the decrease in the number of self-owned stores and store-in-store outlets, and the effort of the Company in actively seeking rental reduction from the landlords.

Total advertising and promotion expenses for the year ended 31 December 2019 amounted to RMB42,621,470, representing a decrease of RMB16,547,990 or 27.97% from RMB59,169,460 for the same period in 2018. Such decrease was mainly attributable to the decrease in the Company's inputs to various soft and hard advertisements in 2019.

Total utilities for the year ended 31 December 2019 amounted to RMB23,235,170, representing a decrease of RMB11,469,350 or 33.05% from total utilities of RMB34,704,520 for the same period in 2018. Such decrease was mainly attributable to the decrease in the number of stores as compared with the same period, and the decrease in stores' daily expenses in 2019.

7. *Administrative expenses*

Items	For the year ended 31 December Administrative expenses		% of total expenses			
	2019 **RMB'000**	2018 RMB'000	**2019**	2018	**Change** RMB'000	**Percentage of change**
Staff salaries	**146,203.65**	141,484.45	**45.05%**	39.31%	4,719.20	3.34%
Tax expenses	**257.62**	501.92	**0.08%**	0.14%	(244.30)	(48.67%)
Office expenses	**17,803.64**	22,552.94	**5.49%**	6.27%	(4,749.30)	(21.06%)
Depreciation expenses	**8,779.95**	9,227.31	**2.70%**	2.56%	(447.36)	(4.85%)
Amortisation of intangible assets	**220.79**	1,076.04	**0.07%**	0.30%	(855.25)	(79.48%)
Amortisation of long-term deferred expenses	**1,229.67**	1,431.65	**0.38%**	0.40%	(201.98)	(14.11%)
Amortisation of low-cost consumables	**4,386.37**	4,844.92	**1.35%**	1.35%	(458.55)	(9.46%)
Travelling expenses	**7,877.16**	12,561.30	**2.43%**	3.49%	(4,684.14)	(37.29%)
Rental and property management fees	**13,583.54**	14,059.06	**4.19%**	3.91%	(475.52)	(3.38%)
Business entertainment expenses	**9,723.14**	10,703.19	**2.99%**	2.97%	(980.05)	(9.16%)
Communication expenses	**3,449.40**	3,821.42	**1.06%**	1.06%	(372.02)	(9.74%)
Agency fees	**16,654.21**	10,397.43	**5.13%**	2.89%	6,256.78	60.18%
Transportation expenses	**9,544.53**	13,881.54	**2.94%**	3.86%	(4,337.01)	(31.24%)
Financial institution charges	**69,606.25**	94,576.36	**21.45%**	26.28%	(24,970.11)	(26.40%)
Others	**15,243.49**	18,770.14	**4.69%**	5.21%	(3,526.65)	(18.79%)
Total	**324,563.41**	359,889.67	**100.00%**	100.00%	(35,326.26)	(9.82%)

The Group's total administrative expenses for the year ended 31 December 2019 amounted to RMB324,563,410, representing a decrease of RMB35,326,260 or 9.82% from RMB359,889,670 for the same period in 2018. Such decrease in administrative expenses was primarily attributable to the decrease in financial institution charges and travelling expenses.

Total financial institution charges for the year ended 31 December 2019 amounted to RMB69,606,250, representing a decrease of RMB24,970,110 or 26.40% from RMB94,576,360 for the same period in 2018. Such decrease was primarily attributable to the decrease in instalment business and handling fees of that business.

Total travelling expenses for the year ended 31 December 2019 amounted to RMB7,877,160, representing a decrease of RMB4,684,140 or 37.29% from total travelling expenses of RMB12,561,300 for the same period in 2018. Such decrease in travelling expenses was primarily attributable to the control of daily travelling expenses by the Group.

8. *Other expenses*

Our other expenses include impairment losses on assets, non-operating expenses and loss from disposal of subsidiaries. For the years ended 31 December 2018 and 2019, our other expenses amounted to RMB80,041,850 and RMB86,751,420, respectively.

Items	For the year ended 31 December			Percentage of change
	2019 RMB'000	2018 RMB'000	**Change** RMB'000	
Impairment losses on assets	**81,135.79**	72,216.82	8,918.97	12.35%
Non-operating expenses	**2,751.88**	6,424.63	(3,672.75)	(57.17%)
Loss from disposal of subsidiaries	**2,863.75**	1,400.40	1,463.35	104.50%
Total	**86,751.42**	80,041.85	6,709.57	8.38%

The Group's total other expenses for the year ended 31 December 2019 amounted to RMB86,751,420, representing an increase of RMB6,709,570 or 8.38% from RMB80,041,850 for the same period in 2018. The increase was mainly attributable to the increase in impairment losses on assets of the Group for the year resulting from the impairment loss of goodwill of subsidiaries and the increase in bad debts of current accounts.

9. *Finance costs*

Item	For the year ended 31 December			Percentage of change
	2019 RMB'000	2018 RMB'000	**Change** RMB'000	
Finance costs – interest expenses	**232,711.71**	192,105.06	40,606.65	21.14%

The Group's total finance costs for the year ended 31 December 2019 amounted to RMB232,711,710, representing an increase of RMB40,606,650 or 21.14%, from RMB192,105,060 for the same period in 2018. Such increase in finance costs was primarily attributable to the significant increase in interest expenses as compared with the same period of last year, resulting from the increase in the bank borrowings of the Group in 2019.

10. *Income tax expenses*

Our income tax expenses for the stated periods included PRC Corporate Income Tax ("CIT") and deferred income tax. In accordance with the Corporate Income Tax Implementation Regulations, our PRC subsidiaries have been required to pay tax at an income tax rate of 25% as from January 2008. For the year ended 31 December 2019, the income tax rate of 25% was applicable to all of the Group's PRC subsidiaries except Sichuan Yijialong Communication Technology Chain Co., Ltd. (四川億佳隆通訊連鎖有限公司) and Dixin Simaier Technology (Guangdong) Co., Ltd* (迪信斯麥爾科技（廣東）有限公司). Sichuan Yijialong Communication Technology Chain Co., Ltd. has been entitled to an income tax rate of 15% since 2012 as a company which is principally engaged in an industry encouraged by the State. Dixin Simaier Technology (Guangdong) Co., Ltd has been entitled to the "two-year exemption and three-year reduction" policy i.e. full exemption of CIT for the first two years and 50% reduction of CIT for the following three years from June 2018 as a software company encouraged by the State Taxation Administration. For the years ended 31 December 2018 and 2019, our effective tax rates were 19.62% and 21.70%, respectively. During the year ended 31 December 2019, we have settled the payment of all relevant taxes, and we have not been engaged in any disputes or unresolved tax matters with the taxation authorities.

The following table sets forth information relating to our income tax expenses for the periods indicated:

Items	For the year ended 31 December			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Income tax in the PRC for the year	**94,410.44**	85,929.37	8,481.07	9.87%
Deferred tax	**(22,716.94)**	(7,296.40)	(15,420.54)	211.34%
Total	**71,693.50**	78,632.97	(6,939.47)	(8.83%)

The Group's total income tax expense for the year ended 31 December 2019 amounted to RMB71,693,500, representing a decrease of RMB6,939,470 or 8.83% compared with the total income tax expense of RMB78,632,970 for the same period in 2018. Such decrease was primarily attributable to the increase in non-deductible expenses for the period.

* *For identification purpose only*

(III) Liquidity and financial resources (current assets, financial resources)

We operate in a capital-intensive industry and we finance our working capital, capital expenditure and other funding requirements mainly through income generated from operating activities and bank borrowings.

Items	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	**537,067.90**	266,248.55
Net cash (used in)/generated from investing activities	**(367,347.33)**	350,889.83
Net cash used in financing activities	**(212,222.36)**	(524,233.71)
Net (decrease)/increase in cash and cash equivalents	**(42,501.79)**	92,904.67
Cash and cash equivalents at beginning of the year	**708,548.10**	614,879.49
Effect of changes of foreign exchange rate on cash flow	**198.73**	763.94
Cash and cash equivalents at end of the year	**666,245.04**	708,548.10

1. *Net cash generated from operating activities*

Our cash generated from operating activities is primarily from sales of mobile telecommunication devices and accessories. Our cash used in operating activities is primarily for purchase of telecommunication devices and accessories from suppliers, rental expenses and staff salary and compensation. Our net cash flow used in operating activities reflects our profit before income tax, as adjusted for non-cash items, such as finance costs and depreciation of property, plant and equipment, and the effects of changes in working capital, such as increases or decreases in inventories, receivables, prepayments, trade and other payables and accruals. We had net operating cash inflow of RMB537,067,900 for the year ended 31 December 2019.

For the year ended 31 December 2019, we had net cash inflow from operating activities of RMB537,067,900, primarily due to (i) profit before tax from continuing operations of RMB332,145,500 in line with the Group's remarkable operating profits; (ii) an increase of receivables from operating activities owing to more favorable credit terms offered to the wholesale customers which offset the effect of cash inflow from the net profits; and (iii) increase in proportion of payments settled with bills payables during the year, longer credit periods of bills payables as well as increase in operating trade and bills payables.

2. *Net cash used in investing activities*

Our cash flow generated from investing activities reflects the results of our investing activities for the period, such as purchase of property, plant, equipment, proceeds from disposal of property, plant and equipment, acquisition of associated companies and joint ventures, purchase of bank financial products and loans to the third parties.

For the year ended 31 December 2019, we had net cash outflow from investing activities of RMB367,347,330, which was primarily attributable to (i) the purchase and construction of fixed assets and decoration costs of RMB41,755,520 in connection with the opening of new outlets and the renovation of old ones; (ii) the investment of RMB217,031,300 in the joint ventures and associated companies; (iii) expenses on the purchase of bank financial products of RMB200,100,000; and (iv) the net effect of the expenses of recovery of entrusted loans and loans to the third parties of RMB40,639,630.

3. *Net cash generated from financing activities*

Our net cash generated from financing activities reflects the results of our financing activities for the period, such as bank loans, proceeds from the issuance of a corporate bond, repayment of bank loans, payment of interests and other financing activities.

For the year ended 31 December 2019, we had net cash outflow from financing activities of RMB212,222,360, primarily due to (i) IFRS16 – expenses on the principal portion of RMB196,483,930; (ii) interest payment of RMB234,746,920; (iii) cash outflow generated from withdrawal by minority shareholders of RMB3,817,960; and (iv) the increase in security deposits pledged of RMB821,666,670 as compared to that of last year.

(IV) Balance Sheet Items

1. *Trade and bills receivables*

Our trade and bills receivables primarily consist of (i) trade receivables; and (ii) bills receivables. The following table sets forth information relating to our trade and bills receivables as of the dates indicated:

Items	As at 31 December			Percentage of change
	2019 RMB'000	2018 RMB'000	**Change** RMB'000	
Trade receivables	**2,667,683.59**	2,278,014.82	389,668.77	17.11%
Bills receivable	**148,057.26**	2,389.45	145,667.81	6,096.29%
	2,815,740.85	2,280,404.27	535,336.58	23.48%
Less: Impairment for trade receivables	**(126,102.63)**	(108,067.31)	(18,035.32)	16.69%
	2,689,638.22	2,172,336.96	517,301.26	23.81%

The following table sets forth information relating to trade receivables before deducting impairment as of the dates indicated:

Items	As at 31 December			Percentage of change
	2019	2018	**Change**	
	RMB'000	RMB'000	RMB'000	
Franchisees	**1,192,542.23**	974,634.03	217,908.20	22.36%
Supermarket customers	**84,030.99**	120,333.05	(36,302.06)	(30.17%)
Mobile carriers	**550,866.61**	479,869.27	70,997.34	14.80%
External wholesale customers	**840,243.76**	703,178.47	137,065.29	19.49%
	2,667,683.59	2,278,014.82	389,668.77	17.11%

To enhance sales of our handsets and enlarge our market share, we granted credit periods of 30-150 days to certain customers in 2019. Credit periods are offered to customers with the largest volume sales of telecommunication devices and accessories. We closely monitor and maintain strict control over our outstanding receivables to minimize credit risk. Overdue balances are also reviewed regularly by the management. As our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. We do not hold any collateral or other credit enhancements over our trade receivable balances. Our trade and bills receivables are non-interest-bearing. Our trade receivables less impairment as of 31 December 2019 amounted to RMB2,541,580,960, representing an increase of RMB371,633,450 or 17.13%, from RMB2,169,947,510 as of 31 December 2018. Our trade receivables before deducting impairment as of December 31, 2019 amounted to RMB2,667,683,590, representing an increase of RMB389,668,770, or 17.11% from RMB2,278,014,820 as of 31 December 2018.

Trade receivables from franchisees as of 31 December 2019 amounted to RMB1,192,542,230, representing an increase of RMB217,908,200 or 22.36%, from RMB974,634,030 as of 31 December 2018. Such increase was primarily attributable to extension of the credit periods for some of creditworthy franchisees.

Trade receivables from supermarket customers as of 31 December 2019 amounted to RMB84,030,990, representing a decrease of RMB36,302,060 or 30.17%, from RMB120,333,050 as of 31 December 2018. Such decrease was primarily attributable to the decrease of revenue from supermarket customers.

Trade receivables from mobile carriers as of 31 December 2019 amounted to RMB550,866,610, representing an increase of RMB70,997,340 or 14.80%, from RMB479,869,270 as of 31 December 2018. Such increase was primarily attributable to the appropriate extension of credit periods granted to the carriers.

Trade receivables from external wholesale customers as of 31 December 2019 amounted to RMB840,243,760, representing an increase of RMB137,065,290 or 19.49%, from RMB703,178,470 as of 31 December 2018. Such increase was primarily due to the fact that the Group granted credit periods to large-scale government agencies in order to explore the market, as well as the increase in revenue from external wholesale customers.

As of the date of this announcement, an amount of approximately RMB2,224,877,650 in our trade receivables as of 31 December 2019 was subsequently settled.

Our management regularly monitors our overdue balances of trade receivables and provides for impairment of these trade receivables. Our provisions for impairment of trade receivables as of 31 December 2019 amounted to RMB126,102,630, representing an increase of RMB18,035,320 or 16.69% from RMB108,067,310 as of 31 December 2018, primarily owing to the increased risk from bad debt resulting from the increase of the balance of trade receivables. Our Directors believe that our provisions for impairment on trade receivables are adequate.

The following table sets forth the aging analysis of our trade and bills receivables as of the dates indicated:

Items	As of 31 December	
	2019	2018
	RMB'000	RMB'000
Within 90 days	**2,347,021.06**	2,016,782.03
91 to 180 days	**184,139.87**	66,323.74
181 to 365 days	**109,487.49**	50,185.41
Over 1 year	**48,989.80**	39,045.78
Total	**2,689,638.22**	2,172,336.96

The following table sets forth our average trade receivables turnover days for the periods indicated:

Item	For the year ended 31 December			
	2019 Number of days	2018 Number of days	**Change in number of days**	**Percentage of change**
Average trade receivables turnover days	**59**	50	9	18.00%

For the year ended 31 December 2019, our average trade receivables turnover days were 59 days, which increased 9 days as compared with 2018. Such increase was primarily attributable to the increase of the balance of trade receivables and the increase of extension of credit age by some of creditworthy customers.

2. *Prepayments and other receivables*

Our prepayments and other receivables consist of (i) prepayments; and (ii) other receivables. The following table sets forth information relating to our prepayments and other receivables as of the dates indicated:

Items	As at 31 December			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Prepayments	**1,459,864.37**	1,130,937.02	328,927.35	29.08%
Other receivables	**295,197.95**	227,816.60	67,381.35	29.58%
Total	**1,755,062.32**	1,358,753.62	396,308.70	29.17%
Less: Impairment for other receivables	**(37,204.94)**	(27,310.17)	(9,894.77)	36.23%
	1,717,857.38	1,331,443.45	386,413.93	29.02%

Our prepayments represent our prepayments to suppliers of mobile telecommunication devices and accessories and prepaid rental payments to our lessors. Our prepayments as of 31 December 2019 amounted to RMB1,459,864,370, representing an increase of RMB328,927,350, or 29.08% from RMB1,130,937,020 as of 31 December 2018. Such increase was mainly attributable to the increased local procurement by the subsidiaries with shorter preferential credit period and increased procurement settled by prepayment when compared with centralized procurement.

3. Impairment of trade and other receivables

We use a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on our 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 analyzed.

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. Our historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Based on the aforesaid policy for provision, the Directors are of the view that we have made sufficient provisions for the impairment for trade and other receivables.

4. *Inventories*

Our inventories consist primarily of (i) merchandise for sale; and (ii) consumables. The following table sets forth information relating to our inventories as of the dates indicated:

Items	As at 31 December **2019** **RMB'000**	 2018 RMB'000	 **Change** RMB'000	**Percentage of change**
Merchandise for sale	**2,958,923.87**	2,563,682.15	395,241.72	15.42%
Consumables	**649.92**	769.52	(119.60)	(15.54%)
Total	**2,959,573.79**	2,564,451.67	395,122.12	15.41%
Less: Provision against inventories	**(22,398.13)**	(22,664.68)	266.55	(1.18%)
Total	**2,937,175.66**	2,541,786.99	395,388.67	15.56%

Our inventories as of 31 December 2019 amounted to RMB2,937,175,660, representing an increase of RMB395,388,670 or 15.56% from RMB2,541,786,990 as of 31 December 2018, which was mainly because the Group increased stock of best-selling models during the end of the period and the unit price of mobile handsets increased during the year.

The following table sets forth the aging analysis of our inventories as of the dates indicated:

Period	As at 31 December **2019** **RMB'000**	 2018 RMB'000	 **Change** RMB'000	**Percentage of change**
Within 30 days	**2,760,395.62**	2,380,274.69	380,120.93	15.97%
31 to 60 days	**95,215.33**	88,817.31	6,398.02	7.20%
60 to 90 days	**48,030.82**	31,841.00	16,189.82	50.85%
Over 90 days	**55,932.02**	63,518.67	(7,586.65)	(11.94%)
Total	**2,959,573.79**	2,564,451.67	395,122.12	15.41%

The following table sets forth the average inventory turnover days for the periods indicated:

Item	For the year ended 31 December			
	2019 **Number of days**	2018 Number of days	**Change in number of days**	**Percentage of change**
Average inventory turnover days	**73**	67	6	8.96%

Average inventory turnover days for the year ended 31 December 2019 were 73 days, which increased 6 days as compared with 2018. Such increase was mainly due to the fact that (i) the Group increased stock of the best-selling models in the market such as Huawei Mate30, Oppo Reno3 and Vivo X30 at the end of the period; (ii) the unit cost of the same brand of mobile handset increased as compared to 2018 with the launch of 5G mobile handsets; (iii) the slowdown in the turnover of high-priced mobile handsets also lowered the overall inventory turnover rate; and (iv) as the overseas company business has shaped, the inventory turnover days increased due to longer time of international logistics.

5. *Trade and bills payables*

Our trade and bills payables consist of (i) trade payables; and (ii) bills payables. The following table sets forth information relating to our trade and bills payables for the periods indicated:

Items	As at 31 December			
	2019 **RMB'000**	2018 RMB'000	**Change** RMB'000	**Percentage of change**
Trade payables	**323,625.40**	327,359.15	(3,733.75)	(1.14%)
Bills payables	**773,900.00**	157,517.34	616,382.66	391.31%
Total	**1,097,525.40**	484,876.49	612,648.91	126.35%

The following table sets forth the aging analysis of our trade and bills payables for the periods indicated:

	As at 31 December			
Period	**2019**	2018	**Change**	**Percentage of change**
	RMB'000	RMB'000	RMB'000	
Within 90 days	**644,120.98**	308,797.32	335,323.66	108.59%
91 to 180 days	**84,413.32**	160,858.24	(76,444.92)	(47.52%)
181 to 365 days	**365,360.87**	11,467.40	353,893.47	3,086.08%
Over 1 year	**3,630.23**	3,753.53	(123.30)	(3.28%)
Total	**1,097,525.40**	484,876.49	612,648.91	126.35%

The following table sets forth our average trade and bills payables turnover days for the periods indicated:

	As at 31 December			
Item	**2019**	2018	**Change in number of days**	**Percentage of change**
	Number of days	Number of days		
Average trade and bills payables turnover days	**21**	13	8	61.54%

Our trade payables are non-interest bearing and are normally settled within 30-45 days. Our trade and bills payables for the year ended 31 December 2019 amounted to RMB1,097,525,400, representing an increase of RMB612,648,910 or 126.35% from RMB484,876,490 for the year ended 31 December 2018. The increase in trade and bills payables for this period was mainly due to the increase of bills payables. The proportion of settlement of bills payables increased due to the good cooperation between the Group and the suppliers during the period. The longer credit periods for bills payables resulted in an increase in turnover days.

6. *Other payables and accruals*

Other payables and accruals consist of (i) contract liabilities; (ii) payroll and welfare payables; (iii) accrued expenses; (iv) other payables; and (v) interest payables. The following table sets forth information relating to our other payables and accruals as of the dates indicated:

Items	As at 31 December			
	2019 RMB'000	2018 RMB'000	**Change** RMB'000	**Percentage of change**
Contract liabilities	**117,666.29**	130,737.04	(13,070.75)	(10.00%)
Payroll and welfare payables	**29,486.17**	31,604.16	(2,117.99)	(6.70%)
Accrued expenses	**6,425.54**	8,676.95	(2,251.41)	(25.95%)
Other payables	**124,219.21**	137,153.54	(12,934.33)	(9.43%)
Bond interest payables	**32,456.25**	33,750.00	(1,293.75)	(3.83%)
Total	**310,253.46**	341,921.69	(31,668.23)	(9.26%)

Our advances from contract liabilities represent advance payments by customers for their procurements. Our contract liabilities as of 31 December 2019 amounted to RMB117,666,290, representing a decrease of RMB13,070,750 or 10.00% from RMB130,737,040 as of 31 December 2018. The decrease was mainly because the properties segment of the Group during the year was not consolidated into its balance sheet at the end of the period of consolidated statements due to disposal, which resulted in the decrease in advance payment received from the property buyers.

Our payroll and welfare payables represent accrued payroll and welfare expenses to our employees. Our payroll and welfare payables as of 31 December 2019 amounted to RMB29,486,670, representing a decrease of RMB2,117,490 or 6.70% from RMB31,604,160 as of 31 December 2018. Such decrease was primarily due to the decrease in the number of staff in order to control the labor costs of the Group.

Our accrued expenses represent other current liabilities. Our accrued expenses as of 31 December 2019 amounted to RMB6,425,040, representing a decrease of RMB2,251,910 or 25.95% from RMB8,676,950 as of 31 December 2018. Such decrease was primarily due to the decrease in the overall number of stores of the Group in 2019, resulting in a decrease in related operating expenses.

Our other payables as of 31 December 2019 amounted to RMB124,219,210, representing a decrease of RMB12,934,330 or 9.43% from RMB137,153,540 as of 31 December 2018. Such decrease was primarily due to the decrease in agency receipt and payment in 2019.

7. *Net current assets position*

The following table sets forth our current assets and liabilities as of the dates indicated:

Items	As at 31 December 2019 RMB'000	 2018 RMB'000	 Change RMB'000	Percentage of change
Current assets				
Inventories	**2,937,175.66**	2,541,786.99	395,388.67	15.56%
Trade and bills receivables	**2,689,638.22**	2,172,336.96	517,301.26	23.81%
Prepayments, other receivables and other assets	**1,717,857.38**	1,331,443.45	386,413.93	29.02%
Financial assets at fair value through profit or loss	**201,204.73**	–	201,204.73	100.00%
Loan receivables	–	40,639.53	(40,639.53)	(100.00%)
Due from controlling shareholders	–	35,000.00	(35,000.00)	(100.00%)
Due from related parties	**76,162.51**	168,711.06	(92,548.55)	(54.86%)
Pledged deposits	**1,485,075.31**	660,251.41	824,823.90	124.93%
Cash and cash equivalents	**666,245.04**	708,547.70	(42,302.66)	(5.97%)
Total current assets	**9,773,358.85**	7,658,717.10	2,114,641.75	27.61%
Current liabilities				
Interest-bearing bank loans and other loans	**3,968,773.00**	3,066,638.12	902,134.88	29.42%
Trade and bills payables	**1,097,525.40**	484,876.49	612,648.91	126.35%
Other payables and accruals	**310,253.46**	341,921.69	(31,668.23)	(9.26%)
Tax payable	**426,187.90**	348,709.24	77,478.66	22.22%
Lease liabilities	**205,276.00**	–	205,276.00	100.00%
Due to related parties	**432,308.50**	4,252.55	428,055.95	10065.87%
Total current liabilities	**6,440,324.26**	4,246,398.09	2,193,926.17	51.67%
Net current assets	**3,333,034.59**	3,412,319.01	(79,284.42)	(2.32%)

Our net current assets as of 31 December 2019 amounted to RMB3,333,034,590, representing a decrease of RMB79,284,420 or 2.32% from RMB3,412,319,010 as of 31 December 2018. Such decrease was primarily due to the increase in bills payable and lease liabilities in 2019.

8. *Capital expenditure*

For the year ended 31 December 2019, the Group's capital expenditure amounted to RMB41,755,520, which was incurred mainly in relation to purchase and construction of fixed assets and decoration costs in connection with the opening of new outlets and the renovation of old ones.

9. *Related party transactions*

(a) The following table sets forth the total amounts of transactions that have been entered into with related parties during the years ended 31 December 2019 and 31 December 2018 and the balance with the related parties as of 31 December 2019 and 31 December 2018:

	Year	Sales to related parties RMB'000	Purchases from related parties RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Controlling shareholder:					
Digital Science & Technology Group Limited	2019	–	–	–	–
	2018	–	–	35,000.00	–
Associates:					
Shenzhen Dixin Nuclear	2019	–	–	707.25	–
Communications Co., Ltd.[1]	2018	–	0.16	507.25	–
Shenzhen Aizuji Technology Co., Ltd.[1]	2019	11,058.17	–	–	–
	2018	–	–	–	–
Yangzhou D-phone Science and	2019	771.25	–	–	–
Technology Information Co., Ltd.[1]	2018	–	–	–	–
Beijing Xinyi Technology Co., Ltd.[2]	2019	–	–	–	–
	2018	132.60	2,725.34	10,963.65	10.71
Shanghai Diju Information	2019	–	33,571.04	–	2,095.27
Technology Co., Ltd.[3]	2018	47,826.25	–	–	–
Comservice Commercial Factoring Co., Ltd.[4]	2019	–	–	–	74,213.36
	2018	–	–	–	–
Beijing Jingdixin Technology Co., Ltd.[5]	2019	–	619,618.90	–	349,081.74
	2018	–	–	–	–
Joint ventures:					
Hollard-D.Phone (Beijing)	2019	–	13,002.92	–	6,717.53
Technology Development Co., Ltd.[5]	2018	–	21,897.57	–	3,950.25
Guangzhou Zhongqi Energy	2019	48,308.06	28,226.38	52,497.31	–
Technology Co., Ltd.[5]	2018	92,448.46	12,442.29	55,619.78	–
Yunnan Dphone Investment Co., Ltd.[6]	2019	186.19	–	–	–
	2018	–	–	–	–

	Year	Sales to related parties RMB'000	Purchases from related parties RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
A subsidiary of joint venture:					
Yunfu Zhongqi	2019	292.55	–	464.85	–
Communication Technology Co., Ltd.[7]	2018	–	–	–	–
Fellow subsidiaries:					
Beijing Dphone	2019	–	26.55	11,227.04	112.54
Communication Services Co., Ltd.[8]	2018	1,586.00	–	10,653.10	291.59
Guang'an Dixin Cloud	2019	231.51	–	459.80	–
Communication Technology Co., Ltd.[8]	2018	253.87	–	275.68	–
Fushun Shenshang	2019	–	–	–	–
Commercial Real Estate Co., Ltd.[8]	2018	–	–	90,000.00	–
Companies significantly influenced by the controlling shareholders:					
Beijing Tianxingyuanjing	2019	–	–	–	88.06
Technology Development Co., Ltd.[9]	2018	3,862.99	–	687.97	–
Luzhou Digital Science and	2019	10.99	–	–	–
Technology Co., Ltd.[10]	2018	–	–	–	–
A subsidiary of non-controlling shareholder:					
Beijing Digital China Limited[11]	2019	–	6.28	0.15	–
	2018	–	15.08	2.92	–

1 *The investment in the associates, Shenzhen Dixin Nuclear Communications Co., Ltd., Shenzhen Aizuji Technology Co., Ltd. and Yangzhou D-phone Science and Technology Information Technology Co., Ltd., are directly held by the Company.*

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

3 *The investment in the associate, Shanghai Diju Information Technology Co., Ltd., is directly held by Shanghai Chuanda Communication Technology Co., Ltd. which is a subsidiary of the Group.*

4 *The Group entered into trade receivable factoring arrangement and transferred certain trade receivables to Comservice Commercial Factoring Co., Ltd.. The secured other loans bear interest at a rate ranging from 6.65% to 10.8% and are secured by trade receivables amounting to RMB102,089,000.*

5 *The investments in the joint venture entities, Hollard-D.Phone (Beijing) Technology Development Co., Ltd., Guangzhou Zhongqi Energy Technology Co., Ltd. and Beijing Jingdixin Technology Co., Ltd., are directly held by the Company.*

6 *The investment in the joint venture, Yunnan Dphone Investment Co., Ltd., is indirectly held by the Company.*

7 *The joint venture, Yunfu Zhongqi Communication Technology Co., Ltd., is a wholly-owned subsidiary of Guangzhou Zhongqi Energy Technology Limited Company which is a joint venture entity of the Group.*

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

9 *The investment in the entity, Beijing Tianxingyuanjing Technology Development Co., Ltd., is respectively held by Mr. Liu Donghai, the controlling shareholder of the Company, and Mr. Jin Xin, the former CEO. They directly and indirectly hold 20.53% equity interests in aggregate and have significant influence over the entity.*

10 *40% of equity interests in Luzhou Digital Science and Technology Co., Ltd. are held by the controlling shareholders of the Company.*

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

The Board is of opinion that such related party transactions were based on normal commercial terms and conducted on an arm's length basis.

(b) Compensation of key management personnel of the Group:

	For the year ended 31 December	
	2019 **RMB'000**	2018 RMB'000
Salaries, allowances, bonuses and other expenses	**3,994**	4,724
Equity-settled share-based payments	**25,295**	–
Total compensation paid to key management personnel	**29,289**	4,724

10. Interest-bearing bank and other borrowings

For the year ended 31 December 2019, our bank borrowings were primarily short term in nature and repayable within one year. The following table sets forth our outstanding borrowings as of the dates indicated:

	2019		2018	
	Maturity	**RMB'000**	Maturity	RMB'000
Current				
Bank loans:				
Unsecured, repayable within one year	**2020**	**710,984.69**	2019	950,500.00
Secured, repayable within one year	**2020**	**2,615,621.00**	2019	1,411,990.00
Corporate bond:				
Current portion	**2019**	**576,660.46**	2019	598,013.00
Other loans:				
Unsecured, repayable within one year	**2020**	**65,506.80**	2019	71,551.00
Secured, repayable within one year	**2020**	**–**	2019	34,584.00
		3,968,772.95		3,066,638.00

(V) Key financial ratios

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

	As at 31 December			
Items	**2019**	2018	**Change**	**Percentage of change**
Current ratio	**1.52**	1.80	(0.28)	(15.56%)
Gearing ratio	**39.49%**	38.08%	1.41%	3.70%
Net debt-to-equity ratio	**65.27%**	61.51%	3.76%	6.11%

Current ratio is our current assets divided by our current liabilities at the end of each financial period. Our current ratio remained relatively stable during the year ended 31 December 2019.

Gearing ratio is net debt divided by the sum of net debt and total equity at the end of each financial period and multiplied by 100%. Net debt includes interest-bearing bank loans plus bonds payable, less cash and cash equivalents. Our gearing ratio increased from 38.08% as of 31 December 2018 to 39.49% as of 31 December 2019. Such increase was primarily due to the increase in short-term borrowings of the Company for 2019. Total equity as of 31 December 2019 amounted to RMB4,176,504,610, representing an increase of RMB342,799,540 or 8.94% from RMB3,833,705,070 as of 31 December 2018, and growth in total equity was primarily due to the increase in shareholders' equity capital for 2019. The Group's total retained profit as of 31 December 2019 amounted to RMB2,523,558,570, representing an increase of RMB231,694,590 or 10.11% from the total retained profit of RMB2,291,863,980 for the same period in 2018. Surplus reserves as of 31 December 2019 amounted to RMB302,358,900, representing an increase of RMB25,743,840 or 9.31% from RMB276,615,060 as of 31 December 2018. Net debt as of 31 December 2019 amounted to RMB2,725,868,440, representing an increase of RMB367,778,020 or 15.60% from RMB2,358,090,420 as of 31 December 2018.

Net debt-to-equity ratio equals net debt divided by total equity as the end of the financial period and multiplied by 100%. Our net debt-to-equity ratio as of 31 December 2019 was 65.27%, which was 3.76% higher than 61.51% as of 31 December 2018, representing an increase ratio of 6.11%. This was primarily due to the Company's significant increase in net debt for 2019. Net debt as of 31 December 2019 amounted to RMB2,725,868,440, representing an increase of RMB367,778,020 or 15.60% from RMB2,358,090,420 as of 31 December 2018. Increase in our net debt was primarily due to the increase in short-term borrowings of the Group for 2019.

(VI) Material acquisitions and disposals

Details of the Group's material acquisitions during the year ended 31 December 2019 are set out in the section headed "Material investments".

(VII) Contingent liabilities

As of 31 December 2019, the Group had no material contingent liabilities.

(VIII) Use of proceeds

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

The following table sets forth details of the proceeds in the special account as of the date indicated:

As of 31 December 2019 **Account holder**	**Banker**	**Account number**	Unit: HK$'000 **Amount**
Beijing Digital Telecom Co., Ltd.	Standard Chartered Bank (Hong Kong) Limited	44717867377	99.72

As of 31 December 2019, HK$883,235,380 out of the net proceeds had been utilized. As of 31 December 2019, the balance of the proceeds in the special account amounted to HK$99,720 (including accrued interest of HK$11,590). The balance will be used to pay service fees to overseas companies that provide listing compliance work to the Group in 2020.

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

In accordance with the plan for the public offering, proceeds from the public offering of shares applied as to approximately 53.49% in the expansion of our retail and distribution network, approximately 13.44% in the repayment of bank loans, approximately 6.29% in the upgrade of information systems for further enhancement of our management ability, approximately 3.90% in the upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC, approximately 4.99% in multi-functional mobile internet projects, approximately 9.01% as working capital and for general corporate purpose and approximately 8.88% as payment of listing agency fees. The applications of our proceeds as of the date indicated are set out in the following table:

	For the year ended 31 December 2019	
Items	**Amount paid** HK$'000	**Percentage**
Expansion of retail and distribution network	**472,414.94**	53.49%
Repayment of bank loans	**118,703.28**	13.44%
Upgrade of information system to further improve management capability	**55,584.09**	6.29%
Upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC	**34,472.32**	3.90%
Undertaking multi-functional mobile internet projects	**44,060.18**	4.99%
Working capital and other general corporate purpose	**79,538.25**	9.01%
Payment of listing agency fees	**78,462.32**	8.88%
Total	**883,235.38**	100.00%

(IX) Foreign exchange rate risks

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

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR and HKD exchange rates, with all other variables held constant, of the Group's profit after tax and the Group's equity.

2019

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit after tax and equity RMB'000**
If RMB weakens against USD	**5.00**	**1,237.00**
If RMB strengthens against USD	**(5.00)**	**(1,237.00)**
If RMB weakens against HKD	**5.00**	**5.00**
If RMB strengthens against HKD	**(5.00)**	**(5.00)**
If RMB weakens against EUR	**5.00**	**2,284.00**
If RMB strengthens against EUR	**(5.00)**	**(2,284.00)**

2018

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit after tax and equity RMB'000
If RMB weakens against USD	5.00	8,081.00
If RMB strengthens against USD	(5.00)	(8,081.00)
If RMB weakens against HKD	5.00	845.00
If RMB strengthens against HKD	(5.00)	(845.00)
If RMB weakens against EUR	5.00	3,060.00
If RMB strengthens against EUR	(5.00)	(3,060.00)

(X) Pledge of assets

As of 31 December 2019, the Group had no other pledge of assets except for the pledged deposits amounting to RMB1,485,075,310, pledged trade receivables amounting to RMB102,089,000 and wealth management product amounting to RMB201,104,730.

(XI) Material investments

On 24 July 2019, the 17th meeting of the third session of the Board considered and approved the resolution regarding the joint investment of RMB400,000,000 by the Company and Suqian Jiashi Information Technology Co., Ltd. to establish the joint venture company to commence operation, of which 49% was contributed by the Company. On 2 September 2019, the joint venture company, Beijing Jingdixin Technology Co., Ltd., was approved by the branch of Beijing Economic-Technology Development Area of Beijing Administration for Industry and Commerce.

(XII) Equity arrangements

For the year ended 31 December 2019, no equity subscription was conducted by the Group. As of the date of this announcement, no equity scheme was made by the Group.

(XIII) Employees, remunerations and training programs for the employees

For the year ended 31 December 2019, the Group had 5,997 employees. Salary costs and employees' benefit expenses amounted to approximately RMB541,754,640 for the 12 months ended 31 December 2019. Remunerations for the Group's existing employees include salaries, performance-based bonus, social insurance, housing provident fund and other benefits.

In order to improve the overall quality of the employees, the operation efficiency of the Company and the quality of its services, the Group has already held and will continue to hold various training programs for the employees, including training on professional quality, corporate culture, exchange of product and business information, and management skills for middle and senior management members. The trainings are carried out in various forms, mainly through online learning, seminars and conferences and on-site skill specific training programs.

(XIV) Capital

No material change occurred in the capital structure of the Company during the year ended 31 December 2019.

(XV) Future material investment

The Group does not have any material investment plan in the near future.

(XVI) Explanations for any material variances

The material variances between the financial data disclosed in this announcement and the figures disclosed in the announcement of unaudited results of the Company on 30 March 2020 are as follows:

	2019 RMB'000 (Unaudited)	2019 RMB'000 (Audited)	Variances RMB'000
Financial assets at fair value through profit or loss	**100**	**201,205**	201,105
Pledged deposits	**1,687,875**	**1,485,075**	(202,800)

The difference occurred as the auditor reclassified structured deposits of RMB201,105,000 pledged to the bank from pledged deposits to financial assets at fair value through profit or loss in accordance with the reply information of the bank confirmation. In accordance with the requirements of the income recognition standard, there was a decrease of RMB3,825,000 in interest income recognised and an increase of RMB1,105,000 in the changes in fair value gains and losses recognised for the interest income related to the structured deposits.

III. BUSINESS OUTLOOK FOR 2020

The biggest environmental change in 2020 comes from the comprehensive application of 5G technology in C-end and B-end. The mass-quantity launching of 5G mobile phones brings huge market opportunities to Beijing Digital, and the new retail scheme that has been explored and formulated has also ushered in a stage of high-speed development. In 2020, we will enhance the Company's performance through the following approaches in response to the market development:

(I) To carry out system reform and strengthen the offline retail foundation by unleashing the front-line initiative

By promoting the reform of the "partnership system", the front-line staff will become the "boss" with a sense of ownership, and under the unified guidance of management norms, the store output will be greatly improved. In this process, we will sort out and record the quality and development space of existing stores, optimize existing outlets and appropriately expand new high-quality outlets.

(II) To actively explore and advocate all-staff engagement into the promotion of new online channel development

While the outbreak of the Novel Coronavirus pandemic has a serious impact on offline business, it has greatly stimulated the potential of new online channels, and new retail models such as community and live broadcast have emerged. For these new channels, we have now explored an effective path, and will continue to promote the operation of all members of the community, live broadcast, etc. throughout the year to build a new retail network of Beijing Digital.

(III) To take JD cooperation as the core and explore the practical solutions of marketing through multiple paths in all channels

In August 2019, JD became a shareholder of Beijing Digital. At present, JD has carried out various O2O explorations with Beijing Digital, such as offline performance for the 3C categories of JD, online "JD daojia" for all stores, construction of JD special area in Beijing Digital stores, and helping its supply chain penetrate into surrounding small stores, and the pilot cooperation project of O+O flagship stores for cool tech appliances points. In addition to JD, we have also carried out localized order fulfillment services with Eleme, Yonghui online, Dmall, etc.

(IV) To help the three major mobile carriers to realize new retail upgrading and enrich IOT solutions

The three major mobile carriers' business focus in 2020 is to realize new retail upgrading across their networks and provide solutions for IOT industry. After years of exploration, our new retail brand portfolio of UP+, Mini UP+ and automated vending machines are currently the best new retail systematic solutions for the channel network of flagship stores, main stores and community stores of mobile carriers, which will be widely adopted and implemented this year. At the same time, based on our understanding of shopping centers and the IOT supply chain, we are able to provide carriers with integrated shopping center and IOT application solutions.

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

In 2016, we introduced customer service hotline with dedicated staff solving the problems our end users might face. Our concept of "full-hearted loyalty" has been well received by our large amount of customers and has accumulated a large number of fans of Beijing Digital. In 2017, we opened a dedicated customer services and call center to fulfill the after-sale demand from our customers to the greatest extent. In 2020, we shall continue to intensively pursue the "full-hearted loyalty" concept in order to enhance our prestige and reputation through provision of quality services, so as to enhance the Group's brand influence and ultimately achieve sales growth.

(VI) To continue expanding overseas 3C business

Since 2016, Beijing Digital has grown into an influential 3C chain brand in Nigeria and Spain, with outstanding profit performance. In 2019, we increased our investment in the distribution business in Thailand, and now we are the largest distributor of Mi Homes in Thailand, and we are getting good returns. In 2020, Beijing Digital will help Huawei to focus on developing retail business in 7 western European countries, while continuing to expand distribution scale in Thailand, and strive for greater brand influence and investment returns.

(VII) To create the "smart retail" system and platform solution for the 3C industry and unleash the technology output

After more than a year of exploration, the first customized 3C solution, namely the "Molink" system, created by us and Tencent has been forged and commercialized. Building on the remarkable achievements made in Beijing Digital's systems, it now begins to be delivered to the carriers' systems. It is currently the only system and platform in China that simultaneously realize product online, employee online and customer online. It is expected to be introduced by provincial carriers on a large scale.

USE OF NET PROCEEDS FROM LISTING

Details for the use of the proceeds from listing during the year ended 31 December 2019 are set out in the section headed "Use of Proceeds" under "Management Discussion and Analysis".

FINAL DIVIDEND

The Board does not recommend any final dividend for the year ended 31 December 2019.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Donghai (劉東海), aged 53, joined the Company in June 2001 and has been the chairman of the Board since December 2013. Mr. Liu joined the Group in December 1997 and held various positions in the Group, including the vice chairman of the Board from July 2010 to December 2013, the general manager of the Company from March 2011 to December 2013 and the internal risk control officer of the Company from June 2001 to March 2011. He is primarily responsible for formulating the overall business strategies of the Company and overseeing the execution of the business strategies and the operation of the Company.

Prior to joining our Group, from April 1991 to March 1993, he served as the sales director of Beijing Hamamatsu Technology Co., Ltd. (北京濱松光子技術有限公司), which was set up as a company providing comprehensive services including research, development and provision of a variety of products for photonics field as a whole, mainly responsible for formulating sales policies, proposals and targets, and planning and overseeing the implementation of sales proposals. Mr. Liu has been the vice president of China Electronic Chamber of Commerce since December 2012 up to this date.

Mr. Liu obtained his master degree in Business Administration from China Europe International Business School (中歐國際工商學院) in September 2003.

Mr. Liu Yajun (劉雅君), aged 62, joined the Company in August 2010 as an executive Director and has been elected as the vice chairman of the Board since March 2014, primarily responsible for formulating investment plans and leading investment negotiations of the Company. Prior to joining our Group, he held various positions, including a director and the vice president of Shenzhen Development Bank Tianjin Branch (深圳發展銀行天津分行), which provided various financial service including corporate business, retailing business, inter-bank business, etc. from May 2003 to July 2008. He was mainly responsible for the credit business in the abovementioned bank.

Mr. Liu obtained his master degree in Economics from Chinese Academy of Social Sciences (中國社會科學院) in November 1991.

Mr. Liu Songshan (劉松山), aged 46, joined the Company in May 2001 and was the chairman of the Board from November 2009 to December 2013. Mr. Liu joined the Group in February 1998 and held various positions in the Group, including an executive Director and the general manager of the Company from May 2001 to March 2011, an executive director of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from February 1998 to May 2009, and the general manager of Beijing Dphone Electronic Communication Technology Co., Ltd. from May 2009 to October 2010. He is primarily responsible for formulating business operation strategies and investment plans of the Company, and leading annual procurement and sales planning of the Company.

Mr. Liu obtained his certificate for completing the course on practical innovative enterprises management from advanced training class of Peking University in May 2011.

Ms. Liu Wencui (劉文萃), aged 45, joined the Group since February 1998 and has been an executive Director since June 2007 and the deputy director of the procurement center of the Company since April 2004. She is primarily responsible for organizing and implementing annual business and investment plans of our Group, implementing annual procurement plans of our Group and tracing delivery status of the procured products, establishing database for suppliers and facilitating communication with them, executing contracts on behalf of our Group under the authorization of the chairman of the Board as well as handling other matters under authorization of the chairman of the Board.

Non-Executive Directors

Mr. Qi Xiangdong (齊向東), aged 56, joined the Company in June 2015 and has been a non-executive Director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. Mr. Qi was a staff member/served as a deputy director of the Communication Technology Agency of Xinhua News Agency from September 1986 to August 2003; worked at Beijing Yahoo! Information and Technology Co., Ltd. (北京雅虎網信息技術有限公司) as the vice president for China region (and at 3721 Information Technology (Beijing) Co., Ltd. as the general manager) from August 2003 to August 2005; and served as chief executive officer of Qihoo 360 Company from August 2005 to July 2016. He has been the chairman of 360 Enterprise Security Group (360企業安全集團) from July 2016 and up to this date.

Mr. Qi received an executive master degree in Business Administration from Beijing University of Science and Technology in 2007.

Ms. Xin Xin (辛昕), aged 42, joined the Company in June 2018 and has been a non-executive Director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. From April 2008 to December 2017, Ms. Xin Xin had served successively as deputy general manager in financial services department and deputy general manager of corporate development department of Digital China Holdings Limited; as secretary of the board of directors, chief financial officer and director of Digital China Information Services Company Limited; as vice president, chief financial officer and senior vice president of Digital China Holdings Limited. Ms. Xin Xin has served as financial controller of Digital China Group Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 000034.SZ) since December 2017 and has served concurrently as its director since January 2018 and up to this date.

Ms. Xin Xin graduated from Northeastern University with a bachelor's degree in management majoring in accounting in July 1998.

Independent Non-Executive Directors

Mr. Lv Tingjie (吕廷杰), aged 64, has been an independent non-executive Director since November 2009, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He has served as a professor, a doctoral tutor and the executive dean of School of Economics Management of Beijing University of Posts and Telecommunications (北京郵電大學) since May 1997, June 1999 and September 2007, respectively, the standing director of the International Telecommunication Society (國際電信協會) since June 2007, mainly responsible for coordinating the economic cooperation and academic exchanges in Asia and Greater China region, a member of the Telecommunications Experts Committee, Ministry of Industry and Information Technology (工業和信息化部電信專家委員會) since 2004, mainly responsible for policy consultation, examination and appraisal work, and the vice chairman of the Electronic Commerce Teaching Steering Committee, Ministry of Education (教育部電子商務教學指導委員會) since 2008, mainly responsible for revising education plans for e-commerce. Mr. Lv is currently an independent non-executive director of GOHIGH Data Networks Technology Co., Ltd. (大唐高鴻數據網絡技術股份有限公司), which is listed on the Shenzhen Stock Exchange (Stock Code: 000851) and dedicates itself to the provision of telecommunications devices, business and overall solution with respect to industry informatization. Mr. Lv was conferred the teaching qualification certificate of senior high education by the PRC Ministry of Education in July 1997.

Mr. Lv obtained his engineering doctor degree in Systematic Engineering from Kyoto University (日本京都大學) in November 1997, his master degree in Management Engineering and his bachelor degree in radio engineering from Beijing University of Posts and Telecommunications in April 1985 and July 1982, respectively.

Mr. Lv Pingbo (吕平波), whose pseudonym is Shui Pi, aged 55, is a well-known financial columnist and has been an independent non-executive Directors since June 2019, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He was the director of the editorial department and deputy editor-in-chief of the China Business Times from July 1989 to March 2007. Since April 2007, Mr. Lv Pingbo has served as a director of Beijing Huaxia Shibao Media Ad Co., Ltd.

Mr. Lv obtained his bachelor's degree in journalism from Fudan University in July 1982 and a master's degree in journalism from the Graduate School of Chinese Academy of Social Sciences in June 1989.

Mr. Zhang Senquan (張森泉), formerly known as Zhang Min (張敏), aged 43, has been an independent non-executive Director since June 2018, mainly responsible for attending meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He received his bachelor's degree in economics from Fudan University in July 1999. He is a member of Hong Kong Institute of Certified Public Accountants, China Institute of Certified Public Accountants and American Institute of Certified Public Accountants, and has more than 10 years of experience in accounting and auditing. Mr. Zhang Senquan worked at Ernst & Young, KPMG and Deloitte Touche Tohmatsu serving several positions from audit staff to audit partner from October 1999 to October 2012. Mr. Zhang currently is an independent non-executive director of Jiande International Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 865); an independent non-executive director of Natural Food International Holding Limited, a company listed on the Stock Exchange (stock code: 1837); an independent non-executive director of Bonny International Holding Limited, a company listed on the Stock Exchange (stock code: 1906); an independent director of Jiangsu Aidea Pharmaceutical Co., Ltd. (江蘇艾迪藥業股份有限公司); and an independent non-executive director of Sang Hing Holdings (International) Ltd., a company listed on the Stock Exchange (stock code: 1472). Currently, Mr. Zhang is also the chief executive officer of Zhong Rui Capital (Hong Kong) Limited, a consultancy company, and serves as the company secretary of Pengrun Holding Limited (鵬潤控股有限公司) since February 2020 and the company secretary of Kunda Mining Holdings Company Limited (坤達礦業控股有限公司) since March 2020. Mr. Zhang was the head of the Strategic Development Department of Goodbaby International Holdings Limited, a company listed on the Stock Exchange (stock code: 1086), from March 2013 to April 2014; the chief financial officer and joint company secretary of Huazhong In-Vehicle Holdings Company Limited, a company listed on the Stock Exchange (stock code: 6830), from May 2014 to July 2015; an independent director of Topchoice Medical Investment Co. Inc., a company listed on the Shanghai Stock Exchange (stock code: 600763), from December 2014 to March 2017, an independent non-executive director of Casablanca Group Limited, a company listed on the Stock Exchange (stock code: 2223), from April 2015 to April 2018; and the managing director of Southwest Securities International Securities Limited, a company listed on the Stock Exchange (stock code: 812), from February 2016 to March 2020.

BOARD OF SUPERVISORS

The Board of Supervisors consists of three members, including an employee representative Supervisor. According to the articles of association of the Company (the "Articles of Association"), Supervisors are all elected by shareholders, except for the employee representative Supervisor. The Supervisors will serve for a term of three years, and are eligible for re-election upon expiry of their terms. The terms of reference of the Board of Supervisors include, but not limited to, reviewing and verifying the financial reports, business reports and profit distribution proposals prepared by the Board, and if in doubt, engaging certified public accountants and auditors to review the financial information of the Company; monitoring the financial activities of the Company; supervising the performance of the Directors and the senior management and monitoring whether they have violated the laws, regulations and the Articles of Association in performance of their duties; requiring the Directors and senior management to correct their behaviors which are harmful to the interests of the Company; exercising other powers granted to them by the Articles of Association.

The table below provides certain information in respect of the Supervisors.

Name	Age	Position	Date of Appointment	Date of Joining the Group
Wei Shuhui (魏淑慧)	56	Chairwoman of Board of Supervisors and employee representative Supervisor	6 June 2017	May 1999
Li Wanlin (李萬林)	57	Supervisor	20 May 2014	May 2014
Hu Yuzhong (胡玉忠)	61	Supervisor	20 May 2014	May 2014

SUPERVISORS

Ms. Wei Shuhui (魏淑慧), aged 56, joined the Group in May 1999 and has been an employee representative Supervisor and chairwoman of Board of Supervisors since June 2017. She has also acted as head sales representative of various retail shops of Beijing Dphone Electronic Communication Technology Co., Ltd. since May 1999. Ms. Wei is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members in performance of their duties for the Company.

Ms. Wei obtained her junior college degree from Business Management Cadre College (工商管理幹部學院) in 2005.

Mr. Li Wanlin (李萬林), aged 57, joined the Group in May 2014 and has been a Supervisor since then. Before joining our Group, he served as a professor leading the major national mobile telecommunications laboratory at Southeast University (東南大學) from 2010 to 2012. Mr. Li also has served as general manager of Beijing EVERSINO Technology Ltd. (北京華恒銘聖科技發展有限責任公司) since 2007 and up to this date. From 1998 to 2007, Mr. Li held various positions within Siemens Ltd., China, including the senior vice president and the chief technology officer of the group. Mr. Li is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members in performance of their duties for the Company.

Mr. Li obtained his Ph.D. degree in Information Science from Karlsruhe Institute of Technology in Germany in 1991.

Mr. Hu Yuzhong (胡玉忠), aged 61, joined the Group in May 2014 and has been a Supervisor of the Company since then. Since 2003 and up to this date, Mr. Hu has served as chairman of the board of Beijing Times Hongxun Investment Company Limited (北京時代宏訊投資有限公司). From 1992 to 2002, he served as the executive vice president of China Post Putai Mobile Telecom Equipments Company Limited (中郵普泰移動通訊設備股份有限公司). Mr. Hu is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members in performance of their duties for the Company.

Mr. Hu obtained his MBA degree in Asia International Open University (Macau) in 2004.

SENIOR MANAGEMENT

The following table sets out certain information relating to our senior management members:

Name	Age	Position	Date of Appointment	Date of Joining the Group
Du Guohui (杜國輝)	41	General manager	13 July 2018	June 2018
Zhou Qing (周清)	51	Vice general manager	24 November 2009	May 2002
Su Fengjuan (蘇鳳娟)	36	Chief financial officer	7 November 2016	February 2009
Li Dongmei (李冬梅)	41	Secretary to the Board and chief legal officer	24 November 2009	April 2006

Mr. Du Guohui (杜國輝), aged 41, graduated from Hebei University of Economics and Business with a major in International Trade in 2008. He attended the Marketing Strategy and Management programme in the University of Hong Kong School of Professional and Continuing Education's Institute for China Business from 2013 to 2015 as an on-job postgraduate student. Prior to joining the Company, Mr. Du Guohui held various positions in Shenzhen Aisidi Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002416) from November 2002 to May 2014, including general manager of Yunnan Branch, general manager of Jiangsu Branch, manager of product and sales department under China Unicom business department, director of customer operations center, etc. He also worked as general manager of channel marketing department in Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. from April 2015 to December 2015, and the retail account management department head of Honor business department (China region) in Huawei Device Co., Ltd. from June 2016 to June 2018.

Mr. Du studied management at the University of Hong Kong in June 2015 and obtained a postgraduate degree.

Mr. Zhou Qing (周清), aged 51, joined the Company in May 2002 and has been the vice general manager of the Company since November 2009. Mr. Zhou joined the Group in May 2002 and has served as the general manager of Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司) since May 2002. Mr. Zhou is primarily responsible for the operation and management of Shanghai Dixin Electronic Communication Technology Co., Ltd.

Prior to joining our Group, he served as the head of the branch factory and the director of Energy Measurement Department of Guizhou Tyre Co., Ltd. (貴州輪胎股份有限公司), the principal business activity of which was tire manufacturing, from October 1993 to January 1998, responsible for team management, business development and safe production with an aim to realize the company's sales targets; and the general manager of Guizhou Fuhai Building Equipments Co., Ltd. (貴州富海樓宇設備有限公司), the principal business activity of which was the wholesale of mechanical and electronic equipments, from March 2000 to March 2002, responsible for team management, business development and safe production with an aim to realize the company's sales target. Mr. Zhou was certified as an engineer by Guiyang Personnel Bureau in September 1997.

Mr. Zhou obtained his master degree in Business Administration from China Europe International Business School in September 2009.

Ms. Su Fengjuan (蘇鳳娟), aged 36, joined the Company in February 2009, has served as ORACLE financial function consultant, head of financial management department, assistant to chief financial officer and trainee chief financial officer of the Company. Ms. Su Fengjuan is primarily responsible for accounting, establishment of internal budget system and internal control, coordination of financial resources and business operations, and formulation of the Company's management, profitability and investment plans.

Ms. Su obtained her master degree in Business Administration (accounting) from North China University of Technology (北方工業大學) in June 2009 and obtained Certificate for Passing the National Uniform CPA Examination of the PRC.

Ms. Li Dongmei (李冬梅), aged 41, joined the Company in April 2006 and has served as the secretary to the Board and the chief legal officer since November 2009, and also one of the joint company secretaries since March 2014. Ms. Li is primarily responsible for preparing for the Board meetings and Shareholders' meetings, disclosing data of the Company in a complete, accurate and prompt manner, ensuring the Directors, Supervisors and senior management members to have complied with law, regulations and rules, providing legal opinions for the operation and management of the Company as well as participating in the drafting of contracts and negotiations for material contracts. In November 2016, she was appointed as vice president of the Company, and is responsible for the securities affairs, material investment and legal affairs.

Prior to joining our Group, she served as the legal manager of Enn Group Co., Ltd. (新奧集團股份有限公司) from September 2004 to April 2006. The principal business activities of this company were production, application and sales of clean energy. Ms. Li was responsible for the listing related work of CIMC Enric Holdings Limited, which is listed on the Hong Kong Stock Exchange (stock code: 03899) and formerly known as Enric Energy Equipment Holdings Limited, a subsidiary of Enn Group Co., Ltd.

Ms. Li passed the PRC bar exam in October 2002 with her legal qualifications conferred by PRC Ministry of Justice. Ms. Li obtained her master degree in Law from University of International Business and Economics (對外經濟貿易大學) in June 2004.

BOARD OF DIRECTORS' REPORT

The board of directors of the Company (the "**Board**") is pleased to present the Group's report together with the audited financial statements for the year ended 31 December 2019.

CORPORATE INFORMATION AND GLOBAL OFFERING

The Company was converted from a then foreign-invested limited liability company into a foreign-invested joint stock limited liability company under PRC Company Law on 28 December 2009. The shares were listed on the Stock Exchange on 8 July 2014 (the "**Listing**" or the "**Listing Date**").

PRINCIPAL ACTIVITIES

The principal activities of the Company are to engage in the retail sales of mobile telecommunications devices and accessories and the provision of related services. Analysis of the principal activities of the Group is set out in note 1 to the financial statements from pages 132 to 136.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out from pages 124 to 125 of the financial statements.

BUSINESS REVIEW

Operating Results and Financial Position

For the year ended 31 December 2019, the Group sold 9,733,740 mobile handsets, representing a decrease of 148,040 sets or 1.50% compared with 9,881,780 sets for the same period last year. Operating revenue for the year of 2019 amounted to RMB15,350,952,900, representing an increase of 296,288,960 or 1.97% from RMB15,054,663,940 for the same period last year. Net profit for the year of 2019 amounted to RMB260,452,000, representing a decrease of RMB61,649,470 or 19.14% from RMB322,101,470 for the same period last year.

For a detailed analysis on the Group's operating results and financial position, please refer to the section headed "Management Discussion & Analysis" set out from pages 13 to 43 of this annual report.

MAJOR RISK FACTORS AND UNCERTAINTY

Risk of Failure to Renew the Leases for Our Leased Properties before the Expiry of the Leases and Increase in Rental

Most of the Group's retail stores are leased properties and the Group may face the risks of failure to renew the leases before the expiry of the leases or increase in rental, which may affect the overall operating results of the Group.

Solution: On the one hand, we may build long-term relationships with the lessors of the properties by word-of-mouth brand recognition and sound reputation. On the other hand, the Company keeps implementing its operation strategy of more visible presence in business districts, finding suitable shop premises to open stores in various locations in prime business districts and at the same time identifying if there are any other suitable properties in surrounding areas so that we are able to find a replacement property in time in case of failure in renewal of the lease of a store or increase in rental to avoid affecting the overall operating results of the Group.

Risk for Overstocking Inventory

The Group is primarily engaged in retail and wholesale of communication devices. In order to ensure the Company's stable operation, it is necessary for us to maintain a certain level of product inventory. However, as the product life cycle becomes shorter, the Group also has to face a potential operating risk brought from inventory overstocking.

Solution: Our Procurement Department, Finance Department and Sales Department work together for our daily inventory management to maintain healthy inventory turnover days. The process begins from the reporting of their procurement plans by each of our subsidiaries. The Procurement Department at the headquarters will then combine those procurement plans and prepare a payment plan. The Finance Department will determine the priority for the procurement of various brand products based on their current inventory turnover days. Funds will first be allocated to the products with better inventory turnover days and the procurement volume for the products with poor inventory turnover days will be reduced. Meanwhile, the Procurement Department and the Sales Department will be notified to put more efforts on promoting the sales of such products. The risk of inventory overstocking will be mitigated through various measures such as promotional campaigns or return and exchange of goods.

Risk of Liquidity

Although the inventory and trade receivable may help the Company maintain continuous and stable operation, they reduce part of the Company's daily working capital, which brings considerable pressures on the Group's cash flow.

Solution: The Group has implemented a management system for the Group's capital pool since many years ago. The revenues of the Group's subsidiaries will be collected on real-time basis and the fund's flow is strictly controlled by the Group. Furthermore, the Group proactively helps franchisees complete supply chain finance in order to enhance their operating ability and repayment ability, thus facilitating the turnover of the Group's amounts due from franchisees.

FUTURE PROSPECT

For the Group's future development and business outlook, please refer to the section headed "Management Discussion & Analysis" set out from pages 41 to 42 of this annual report.

EMPLOYEES, ENVIRONMENTAL POLICIES AND PERFORMANCE AND RELEVANT LAWS AND REGULATIONS

For the analysis on the Group's environmental policies and performances, its relationship with its employees, and relevant laws and regulations, please refer to the section headed "Environmental, Social and Governance Report" set out from pages 87 to 118 of this annual report.

FINAL DIVIDENDS

The Board does not recommend any final dividend for the year ended 31 December 2019.

During the year, the Company has adopted a dividend policy as follows:

1. Way of dividend distribution:

   The Company may use cash, shares or a combination of both to distribute dividend.

2. Currency denominated for dividend:

   Ordinary dividend shall be denominated and declared in RMB. Dividend of domestic shares shall be made in RMB. Dividend or other distributions of overseas listed foreign shares shall be made in the currency of the listing place of such foreign shares (in case of having more than one listing place, it will be made in the currency of the primary listing place determined by the Board). Dividend of non-listed foreign shares shall be made in HK$.

   For the dividend made in foreign currency, the applicable exchange rate would be the medium price of average RMB exchange rate with regard to foreign exchange reported by the People's Bank of China five trading days preceding the declaration of dividend and other distribution.

3. Ratification procedures for the dividend distribution plan:

   The dividend distribution plan of the Company is formulated by the Board and subject to the consideration and approval by the general meeting.

   After the Board's consideration of the financial position of the Company and in accordance with the relevant requirements of laws and regulations, an ordinary resolution may be proposed by the Board at the general meeting to authorize the Board to distribute and pay dividend.

4. The Company pays dividends out of distributable profits, which are equal to the remaining amount of profit after tax after withdrawal of the below items by sequence:

   1) loss recovery;

   2) withdrawal of statutory reserve funds;

   3) any withdrawal of reserve funds after the approval by the general meeting.

5. The Board will review the dividend policy of the Company from time to time based on several factors below to determine whether to declare and pay dividend. Those factors include: operating results, cash flow, financial position, shareholders' interests, overall business conditions and strategies, capital requirement, cash dividend paid to the Company by the subsidiaries, and other factors as the Board may deem relevant.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years are set out on page 8 of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF PROCEEDS FROM LISTING

The net proceeds from the Listing of the Company (after deducting underwriting commission and related expenses) amounted to approximately HK$840.22 million, which is intended to be used for the purposes as set forth in the Company's prospectus dated 25 June 2014 (the "**Prospectus**").

Details of the use of the proceeds from Listing during the year ended 31 December 2019 are set out in the section headed "Use of proceeds – Management Discussion & Analysis" of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year 2019, the Company's transaction volume with its five largest customers accounted for 12.71% of the Company's operating revenue for the year ended 31 December 2019. The Company's transaction volume with its single largest customer accounted for 4.27% of the Company's operating revenue for the year 2019.

Major Suppliers

For the year 2019, the Company's transaction volume with its five largest suppliers accounted for 38.69% of the Company's operating costs for the year ended 31 December 2019. The Company's transaction volume with its single largest supplier accounted for 16.53% of the Company's operating costs for the year 2019.

During the year, to the knowledge of the Directors, none of the Directors, Supervisors, any of their close associates or any shareholders of the Company (who to the knowledge of the Directors are interested in more than 5% of the Company's shares) had any interest in the Company's five largest suppliers or customers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year are set out in note 15 to the financial statements from pages 177 to 178.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 34 to the financial statements on page 198.

RESERVES

Details of changes in the reserves of the Company and the Group for the year are set out in the consolidated statement of changes in equity from pages 128 to 129 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the PRC Company Law, amounted to approximately RMB2,523,559,000 (as at 31 December 2018: approximately RMB2,291,864,000).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and its subsidiaries as at 31 December 2019 are set out in note 33 to the financial statements from pages 197 to 198.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year ended 31 December 2019 and up to the date of this annual report are as follows:

Executive Directors:

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

Non-executive Directors:

Mr. Qi Xiangdong
Ms. Xin Xin

Independent Non-executive Directors:

Mr. Lv Tingjie
Mr. Bian Yongzhuang (resigned on 5 June 2019)
Mr. Lv Pingbo (appointed on 5 June 2019)
Mr. Zhang Senquan

Supervisors:

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

Mr. Bian Yongzhuang resigned from his position as independent non-executive Director due to personal development reason, and Mr. Lv Pingbo was appointed as independent non-executive Director, effective from 5 June 2019.

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management are set out from pages 44 to 49 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has made a confirmation on independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company considers all of the independent non-executive Directors to be independent during the year ended 31 December 2019 in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The members of the third session of the Board, namely Mr. Liu Donghai, Mr. Liu Yajun, Mr. Liu Songshan, Ms. Liu Wencui, Mr. Qi Xiangdong, Mr. Lv Tingjie entered into service agreements with the Company respectively on 6 June 2017 with a fixed term of three years effective from 6 June 2017 until the expiry of the third session of the Board of the Company. Ms. Xin Xin and Mr. Zhang Senquan were appointed respectively as a non-executive Director and an independent non-executive Director on 7 June 2018. They entered into service agreements with the Company respectively on 7 June 2018, effective from 7 June 2018 until the expiry of the third session of the Board. Mr. Lv Pingbo was appointed as an independent non-executive Director on 5 June 2019. He entered into a service agreement with the Company on 5 June 2019, effective from 5 June 2019 until the expiry of the third session of the Board. The service agreements entered into between the Company and each of the Directors are subject to renewal in accordance with the Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

The members of the third session of the Board of Supervisors of the Company, namely, Ms. Wei Shuhui, Mr. Li Wanlin and Mr. Hu Yuzhong, entered into service agreements with the Company respectively on 6 June 2017 with a fixed term of three years commencing from 6 June 2017 and ending at the expiry of the third session of the Board of Supervisors of the Company. The service agreements that the Company entered into with respective Supervisors are subject to renewal in accordance with the Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

Save as disclosed above, none of the Directors and Supervisors has a service contract with the Group which cannot be terminated by the Company within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the connected transaction as disclosed in the "Connected Transaction" under the section headed "Directors' Report" of this annual report, during the year ended 31 December 2019, no other Directors, Supervisors or connected entities with such Directors or Supervisors directly or indirectly had any material interests in any material transactions, arrangements or contracts of significance in relation to the Group's business, to which the Company, its subsidiaries or fellow subsidiaries was a party.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year ended 31 December 2019.

EMOLUMENT POLICY

A remuneration and assessment committee was set up for formulating the Group's emolument policy and structure of the Directors and senior management, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors, Supervisors and five highest paid individuals are set out in notes 10 and 11 to the financial statements on from pages 171 to 174.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 8 to the financial statements on page 170.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT MEMBERS

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

Save as disclosed in this annual report, there was no change in any information relating to any Directors, Supervisors and the senior management members which were required to be disclosed in accordance with paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the reporting period.

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

As at 31 December 2019, the interests and short positions of the directors of the Company (the "**Directors**"), the supervisors of the Company (the "**Supervisors**") and chief executives of the Company (the "**Chief Executives**") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Name	Type of Shares	Nature of Interests	Number of shares/ underlying shares held (long position/ short position/ lending pool)	Percentage of the relevant class of share capital (%) *(Note 1)*	Percentage of the total share capital (%) *(Note 1)*
Liu Donghai *(Note 2)*	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	42.69
Liu Songshan *(Note 2)*	Domestic shares	Interest of controlled corporation	101,300,000 (long position)	30.00	13.83
Liu Wencui *(Notes 2&3)*	Domestic shares	Interest of controlled corporation	320,200,000 (long position)	94.82	43.72

Notes:

1. *The percentage is calculated with the number of the relevant class of shares of the Company issued as at date of this annual report divided by the total number of shares.*

2. *Beijing Di Er Tong Consulting Company Limited (北京迪爾通諮詢有限公司, "**Di Er Tong**") and Digital Science & Technology Group Limited (迪信通科技集團有限公司, "**Digital Science & Technology**"), directly hold 101,300,000 domestic shares and 211,400,000 domestic shares of the Company respectively, and Liu Donghai, Liu Hua, Liu Songshan, Liu Wencui and Liu Yongmei respectively holds 34.89%, 5.13%, 52.33%, 2.52% and 5.13% equity interests in Di Er Tong; Liu Donghai, Liu Hua, Liu Wencui, and Liu Yongmei respectively holds 47.75%, 5.13%, 2.52%, and 5.13% equity interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Liu Donghai and Liu Wencui are deemed to be interested in 101,300,000 domestic shares and 211,400,000 domestic shares held by Di Er Tong and Digital Science & Technology respectively, and Liu Songshan is deemed to be interested in 101,300,000 domestic shares held by Di Er Tong.*

3. *Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司, "**Rong Feng Tai**") directly hold 7,500,000 domestic shares of the Company, and Liu Wencui holds 66.63% equity interests in Rong Feng Tai. Accordingly, pursuant to the SFO, Liu Wencui is deemed to be interested in 7,500,000 domestic shares held by Rong Feng Tai.*

Save as disclosed above, as at 31 December 2019, none of the Directors, the Supervisors and the Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2019, to the knowledge of the Directors, the following persons (other than the Directors, the Supervisors and the Chief Executives) had interests or short positions in the shares or underlying shares of the Company which fell to be noticed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and were recorded in the register to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholder	Type of Shares	Nature of Interests	Number of shares/ underlying shares held (long position/ short position/ lending pool)	Percentage of the relevant class of share capital (%) *(Note 1)*	Percentage of the total share capital (%) *(Note 1)*
Liu Yongmei *(Note 2)*	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	42.69
Liu Hua *(Note 2)*	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	42.69
Liu Wenli *(Note 2)*	Domestic shares	Interest of controlled corporation	211,400,000 (long position)	62.60	28.86
Di Er Tong *(Note 2)*	Domestic shares	Beneficial owner	101,300,000 (long position)	30.00	13.83
Digital Science & Technology *(Note 2)*	Domestic shares	Beneficial owner	211,400,000 (long position)	62.60	28.86
Lenovo Group Limited	H shares	Beneficial owner	32,435,500 (long position)	8.22	4.43

Name of Shareholder	Type of Shares	Nature of Interests	Number of shares/ underlying shares held (long position/ short position/ lending pool)	Percentage of the relevant class of share capital (%) *(Note 1)*	Percentage of the total share capital (%) *(Note 1)*
Digital China Group Co., Ltd. ("**Digital China Group**") *(Note 3)*	H shares	Interest of controlled corporation	158,350,000 (long position)	40.11	21.62
Digital China (China) Limited ("**Digital China (China)**") *(Note 3)*	H shares	Interest of controlled corporation	158,350,000 (long position)	40.11	21.62
Digital China (HK) Limited ("**Digital China**") *(Note 3)*	H shares	Beneficial owner	158,350,000 (long position)	40.11	21.62
Dawn Galaxy International Limited	H shares	Beneficial owner	42,000,000 (long position)	10.64	5.73
Liu Qiangdong *(Note 4)*	H shares	Trust Beneficiary	65,793,400 (long position)	16.67	8.98
Nelson Innovation Limited *(Note 4)*	H shares	Beneficial owner	65,793,400 (long position)	16.67	8.98
Max Smart Limited *(Note 4)*	H shares	Interest of controlled corporation	65,793,400 (long position)	16.67	8.98
JD.com, Inc. *(Note 4)*	H shares	Interest of controlled corporation	65,793,400 (long position)	16.67	8.98
JD.com Investment Limited *(Note 4)*	H shares	Interest of controlled corporation	65,793,400 (long position)	16.67	8.98

Notes:

1. *The percentage is calculated with the number of the relevant class of shares of the Company issued as at date of this annual report divided by the total number of shares.*

2. *Di Er Tong and Digital Science & Technology directly hold 101,300,000 domestic shares and 211,400,000 domestic shares of the Company respectively, Liu Yongmei and Liu Hua hold controlling interests in Di Er Tong and Digital Science & Technology, and Liu Wenli holds controlling interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Liu Yongmei and Liu Hua are deemed to be interested in 101,300,000 domestic shares and 211,400,000 domestic shares held by Di Er Tong and Digital Science & Technology respectively, and Liu Wenli is deemed to be interested in 211,400,000 domestic shares held by Digital Science & Technology.*

3. *Digital China directly holds 158,350,000 H shares of the Company, and Digital China Group holds 100% equity interests in Digital China through Digital China (China), its wholly-owned company. Accordingly, pursuant to the SFO, Digital China Group and Digital China (China) are deemed to be interested in 158,350,000 H shares held by Digital China.*

4. *Nelson Innovation Limited directly holds 65,793,400 H shares of the Company, and Liu Qiangdong holds 72.90% equity interests in JD.com, Inc. through Max Smart Limited, his wholly-owned company, and JD.com, Inc. holds 100% equity interests in Nelson Innovation Limited through JD.com Investment Limited, its wholly-owned company. Accordingly, pursuant to the SFO, Liu Qiangdong, Max Smart Limited, JD.com, Inc. and JD.com Investment Limited are deemed to be interested in 158,350,000 H shares held by Nelson Innovation Limited.*

Save as disclosed above, as at 31 December 2019, there was no other person (other than the Directors, the Supervisors and the Chief Executives) to the Directors' knowledge who had interests or short positions in the shares or underlying shares of the Company which fell to be noticed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or which have been recorded in the register to be kept by the Company pursuant to Section 336 of the SFO.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDER

On 16 September 2019, Digital Science & Technology and Di Er Tong, the controlling shareholders of the Company, pledged 58,700,080 domestic shares of the Company (representing approximately 8.81% of the total issued shares of the Company as at 16 September 2019) and 101,300,000 domestic shares of the Company (representing approximately 15.19% of the total issued shares of the Company as at 16 September 2019), respectively, to Jiangsu Jingdong Information Technology Co., Ltd. (江蘇京東信息技術有限公司) ("**Jiangsu Jingdong**") as a guarantee for the delivery credit facility of approximately RMB340,000,000 provided by Jiangsu Jingdong to Beijing Jingdixin Technology Company Limited (北京京迪信科技有限公司) ("**Jingdixin**"), an investee company of the Company.

On 28 October 2019, Digital Science & Technology and Di Er Tong released all pledges over the abovementioned domestic shares of the Company, respectively.

On 18 December 2019, Di Er Tong pledged 63,270,000 domestic shares of the Company (representing approximately 9.5% of the total issued shares of the Company as at 18 December 2019) to Jingdixin, as a guarantee for the delivery credit facility of approximately RMB380,000,000 provided by Jingdixin to the Company.

EQUITY-LINKED AGREEMENT

During the year ended 31 December 2019, the Company and its subsidiaries neither entered into any agreements in relation to equity-linked products nor participated in any arrangement to purchase equity-linked wealth management products.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

During the year ended 31 December 2019, shareholders of the Company had no pre-emptive rights or any share option arrangements in accordance with applicable PRC laws and the Articles of Association.

NON-COMPETITION UNDERTAKING

The controlling shareholders of the Company (Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui, and three investment holding companies namely, Digital Science & Technology, Di Er Tong and Rong Feng Tai) issued a non-competition undertaking on 4 March 2014 in favor of the Group (the "**Non-competition Undertaking**").

Pursuant to the Non-competition Undertaking, each of the controlling shareholders has irrevocably undertaken that, among others: it would not and will procure that its associates (except any members of the Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the core business of any member of the Group (the "**Restricted Business**") from time to time; if there is any new business opportunity in the Restricted Business, it shall within seven days refer such new business opportunity to the Group. Such business opportunity shall have first been offered or made handling available to us and be considered by our Board or its committees which do not have a material interest in the business opportunity. Each of the controlling shareholders shall not invest, participate, be engaged in and/or operate in such business opportunity unless the Board or its committees have declined in writing or failed to respond within six months after being notified of such opportunity; if it intends to transfer, sell, lease or license to a third party any business interests which compete, or may lead to competition, directly or indirectly, with the Restricted Business or its MVNO (as defined below) business, the Company shall have a pre-emptive right over these interests. The controlling shareholders must provide us written notice as soon as possible in advance of any sale as described above. The Company must reply within six months (or such other period as may be agreed between the parties) after receiving the selling notice, in order to exercise our right. The exercise of such rights by the Company shall be permitted by the relevant regulations, in particular, the regulations of the MIIT by then with respect to the MVNO business. If the Company intends to exercise the right, the terms will be determined at fair market value. The controlling shareholders (except for any members of the Group) shall not dispose such business and equity to any third party, unless the Board (including independent non-executive Directors) has refused in writing to purchase such business or equity, or the controlling shareholders has not received any notice about exercising the pre-emptive rights from the Group post to our receipt of the selling notice. In addition, any conditions of disposal offered by the controlling shareholders shall not be more favorable than those to be given to the Group; and to grant us the option to acquire any business that has been engaged by the controlling shareholders or any equity of such business based upon the above new business opportunity. The Company is entitled to request at any time to acquire any business that has been engaged by the controlling shareholders or any equity of such business under the above new business opportunity, and the controlling shareholders shall grant us the option for acquisition on the condition that the considerations of the acquisition are made in the ordinary course of business following negotiation between the parties under the fair and reasonable principle. The acquisition shall be based on the valuation conducted by independent valuer consisting of our independent non-executive Directors and also in the best interest of the Group. The controlling shareholders have granted us the option to acquire any business that has been engaged by them or any equity of such business based upon the above new business opportunity.

Please refer to the Prospectus of the Company for details of the above Non-competition Undertaking.

The Company has received from each of its controlling shareholders an annual written confirmation in respect of the compliance by them and their associates with the Non-competition Undertaking

The independent non-executive Directors have reviewed and assessed if the controlling shareholders have complied with the Non-competition Undertaking. The independent non-executive Directors have confirmed that the controlling shareholders have not been in breach of the Non-competition Undertaking during the year ended 31 December 2019.

DIRECTORS' AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the year of 2019, none of the Directors, the Supervisors and their associates had any competing interest in any business which competes or may compete directly or indirectly with the businesses of the Company.

CONNECTED TRANSACTIONS

The Group's connected transactions during the year of 2019 set out as below:

1. On 28 June 2019, the Company and Digital Science & Technology entered into the equity transfer agreement, pursuant to which, the Company agreed to acquire and Digital Science & Technology agreed to dispose of 15% of the equity interests in China Ocean Intelligent Equipment Manufacturing (Shenzhen) Company Limited for a consideration of RMB7.5 million, which shall be settled in cash by the Company to Digital Science & Technology. The Company invests in the area of robot industry by acquiring partial equity interests in China Ocean Intelligent, so as to enhance the sources of profit growth of the Company.

   As at the date of signing the equity transfer agreement, Digital Science & Technology directly held 31.71% of the equity interests in the Company, and Digital Science & Technology was held as to 84.72%, 5.06%, 3.93%, 5.06% and 1.23% by Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli, respectively. Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui, Ms. Liu Yongmei and Ms. Liu Wenli are siblings, and Ms. Liu Wencui indirectly held 1.12% of the equity interests in the Company through her non-wholly owned holding company Rong Feng Tai. Since Digital Science & Technology directly and indirectly held 32.83% of the equity interests in the Company, it was a controlling shareholder as defined under the Listing Rules, and thus is a connected person of the Company. Therefore, such transaction constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

   For details of the above-mentioned connected transaction, please refer to the announcement of the Company dated 28 June 2019.

2. To motivate the key members of the management team of Shanghai Subsidiaries, the Company and Mr. Zhou Qing, Mr. Li Kai, Ms. Zhou Yujing, Mr. Yang Zhiyong, Ms. Chen Xiujun, Mr. Jiao Liping and Mr. Li Yonggang (collectively referred to as the "**Transferees**") entered into equity transfer agreements respectively on 15 July 2019, pursuant to which, the Company agreed to dispose of and the Transferees agreed to purchase totaling 25% of the equity interests in each of Shanghai Chuanda Communication Technology Co., Ltd., Shanghai Dixin Electronic Communication Technology Co., Ltd. and Shanghai Dixin South Communication Technology Co., Ltd. (collectively referred to as the "**Shanghai Subsidiaries**") for a total consideration of RMB70 million.

   As at the date of signing the equity transfer agreement, each of the Shanghai Subsidiaries was the Company's wholly-owned subsidiary and Mr. Zhou Qing served as the general manager of the Shanghai Subsidiaries, and thus was a connected person of the Company. Therefore, such transactions constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

   For details of the above-mentioned connected transactions, please refer to the announcements of the Company dated 15 July 2019 and 30 August 2019.

CONTINUING CONNECTED TRANSACTION

The Group had the following continuing connected transaction during the year of 2019:

Beijing Dixintong Telecommunications Services Co., Ltd. (北京迪信通通信服務有限公司) (the "**MVNO Licensee**" (MVNO means Mobile Virtual Network Operator) and a connected person of the Company) and the Company entered into an MVNO strategic cooperation agreement and a supplemental agreement on 20 March 2014 and 4 June 2014, respectively (collectively, the "**MVNO Strategic Cooperation Agreement**"). The term of the MVNO Strategic Cooperation Agreement is three years. Pursuant to the MVNO Strategic Cooperation Agreement, the MVNO Licensee and the Company (and each of our respective subsidiaries) will establish cooperative partnership to develop the MVNO market in the PRC regarding the "retail channel", "provision of telecommunications services" as well as "large-scale joint marketing activities and sales promotions".

Due to the fact that the MVNO Strategic Cooperation Agreement and its corresponding annual cap were expired on 31 December 2016, and that the Company intended to continue the transactions contemplated thereunder after 31 December 2016, the Company renewed the MVNO Strategic Cooperation Agreement with the MVNO Licensee on 10 November 2016 for a term of three years effective from 1 January 2017 to 31 December 2019 (the "**New MVNO Strategic Cooperation Agreement**"). The New MVNO Strategic Cooperation Agreement was entered into on normal commercial terms. The applicable percentage ratios under Chapter 14A of the Listing Rules for the transactions in the respective years were below 0.1%. Pursuant to Rule 14A.76(1)(a) of the Listing Rules, the above continuing connected transactions were not subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

During the year, the independent non-executive Directors of the Company have reviewed the aforesaid continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or, from the perspective of the Group, on terms no less favorable than the terms available to or from independent third parties; and

(iii) in accordance with relevant agreements on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The auditor of the Company has performed certain pre-determined audit procedures regarding the continuing connected transactions entered into by the Group during the year ended 31 December 2019 as set out above and stated that:

(1) the transactions have been approved by the Board;

(2) the transactions have been entered into in accordance with the relevant terms of agreements governing the transactions;

(3) the aggregate amounts of the transactions have not exceeded the relevant caps as disclosed in the Prospectus; and

(4) the transactions have been entered into in accordance with the pricing policies of the Group with reference to similar transactions with independent third parties.

The related party transactions as disclosed in note 43 to the financial statements of this annual report from pages 206 to 210 constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and were in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, during the year ended 31 December 2019, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions for the disclosure of connected transactions under Chapter 14A of the Listing Rules.

CHARITY DONATIONS

During the reporting period, the Group made no charitable and other donations.

SIGNIFICANT LEGAL PROCEEDINGS

As of 31 December 2019, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

PERMITTED INDEMNITY PROVISION

The Company purchased an insurance covering the liability of the Directors and the senior management with a validity period of 12 months with effect from 31 March 2019, and was renewed in March 2020. Except for such insurance, the Company has no valid permitted indemnity provisions (as defined in Companies (Directors' Report) Regulation of the Chapter 622D of Hong Kong Laws) during the year ended 31 December 2019 and as of the date of this annual report.

EVENTS AFTER THE FINANCIAL YEAR END DATE

Details of the major events occurring after the financial year end date are set out in note 48 to the financial statements on page 221.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Company's annual results for 2019 and the financial statements prepared in accordance with IFRSs for the year ended 31 December 2019.

CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Given Mr. Liu Donghai's background, qualifications and experience in the Company, he is considered the most suitable person to take both roles under the current circumstances. The Board is of the view that it is appropriate and in the best interests of the Company that Mr. Liu Donghai holds both positions at the current stage, as it helps to maintain the continuity of the policies and the stability and efficiency of the operation of the Company. The Board also meets regularly on a quarterly basis to review the operation of the Company led by Mr. Liu Donghai. Accordingly, the Board believes that this arrangement will not affect the balance of power and authorizations between the Board and the management of the Company. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. During the year ended 31 December 2019, save as disclosed in this annual report, the Company has complied with the other code provisions of the CG Code and adopted most of the other recommended best practices.

PUBLIC FLOAT

Based on information publicly available to the Company and to the knowledge of the Directors, the Directors confirm that, as of the date of this annual report, the Company has maintained the prescribed amount of public float as required under the Listing Rules.

AUDITOR

Ernst & Young was appointed as the auditor for the financial statements prepared in accordance with IFRSs for the year ended 31 December 2019. The accompanying financial statements prepared in accordance with IFRSs have been audited by Ernst & Young.

A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming annual general meeting.

The Company's auditor has not been changed for the past three years.

By order of the Board
Liu Donghai
Chairman

Beijing, 20 April 2020

BOARD OF SUPERVISORS' REPORT

During the year, the Board of Supervisors of the Company earnestly performed its duties under the relevant laws and regulations, strictly complied with the relevant requirements of the Company Law, the Articles of Association and Rules of Procedures for the Board of Supervisors Meeting and supervised the Company's legal compliance of its operations and the acts of Directors, managers and other senior management in performing their duties, which safeguarded the legitimate rights and interests of the Company and the shareholders and facilitated a continual and healthy growth of the Company.

I. THE BUSINESS OF BOARD OF SUPERVISORS MEETING DURING THE YEAR 2019

1. On 28 March 2019, the Company held the fifth meeting of the third session of the Board of Supervisors in Beijing. The meeting was held by way of conference call, and all of three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Ms. Wei Shuhui, the chairwoman. Upon voting, the resolutions on "the Company's annual report for 2018 and the annual results announcement for 2018", "the Company's report of the Board of Supervisors for 2018", "the Company's annual financial report for 2018" and "the Company's re-appointment of accounting firm for 2019" were approved.

2. On 30 August 2019, the Company held the sixth meeting of the third session of the Board of Supervisors in Beijing. The meeting was held by way of conference call, and all of three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Ms. Wei Shuhui, the chairwoman. Upon voting, the resolution on "the Company's interim report and the interim results announcement for 2019" was approved.

II. OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS FOR THE YEAR 2019

1. Opinion on the lawful operation of the Company

The Board of Supervisors earnestly performed its duties in accordance with the relevant requirements under the Company Law and the Articles of Association, actively attended the general meeting and Board meetings, and supervised the Company's legal compliance of its operations during 2019, and thus considered that: the Board has achieved standardized operations, reasonable decisions and legal procedures, and has earnestly implemented the resolutions passed at the general meeting, and the Directors and senior management of the Company have been diligent and faithful in performing their duties. The Board fully implemented the resolutions passed at the general meeting and the senior management thoroughly enforced the resolutions of the Board. During the reporting period, no action in violation of laws and regulations or the Articles of Association, or to the prejudice of the interests of the Company and shareholders taken by the Directors and senior management of the Company in performance of their duties and exercise of power was found.

2. Opinion on the internal control of the Company

During 2019, the Company hired a professional internal audit compliance consultant to impose a tight control and audit from the perspective of legality, justifiability and effectiveness over the business operation, operation management, investment operation and matter procedures of the Company. "The Report on Internal Control for 2019" issued by the internal audit compliance consultant showed that internal control was effectively implemented throughout the operation. "The Internal Control Plan for 2020" issued by the internal audit compliance consultant was clear and detailed in its content. The Board of Supervisors is of the opinion that a comprehensive internal control management system would effectively safeguard the steady growth in operating efficiency and standardized operation.

3. Opinion on the financial work position of the Company

In 2019, the Board of Supervisors conducted effective supervision, inspection and review of the financial position and results during the reporting period, and it is of the opinion that the Company has a sound financial system, well-established internal control system, and standardized financial operation and there was no material omission or false statement in the accounting. The Board of Supervisors strictly implemented the laws and regulations, including the Accounting Law and the Accounting Standards for Business Enterprises, and no non-compliance incident was identified. During the reporting period, the Board of Supervisors examined and reviewed carefully and meticulously the accounting statements, financial system and other relevant materials of the Company. The financial report for the year of 2019 reflected a true view of the financial position and operating results of the Company. The auditor's opinion issued by Ernst & Young for the annual financial report of the Company is objective, authentic and accurate.

4. The Board of Supervisors' opinion on the related party transactions and capital raising of the Company

For details of the Company's related party transactions, please see "II. Financial Position and Operating Results" under the section headed "Management Discussion & Analysis" in the 2019 annual report.

For details of the Company's capital raising, please see "II. Financial Position and Operating Results" under the section headed "Management Discussion & Analysis" in the 2019 annual report.

The Board of Supervisors is of the opinion that the related party transactions of the Company were carried out in compliance with relevant laws and regulations such as the Company Law, the Securities Law and the Articles of Association in 2019, which could positively affect the Company's operating results. The prices of those related party transactions were determined on the principles of equivalent consideration and fair market prices in order to ensure their fairness. There were no actions in violation of the principles of openness, fairness and justice or to the prejudice of the interests of the listed Company or the minority shareholders.

At the same time, the Board of Supervisors supervised the use of the proceeds raised by the Company. The Board of Supervisors is of the opinion that the Company has carefully managed and used the proceeds, which have been basically used up to date, and the Company did not change any actual investment projects.

5. The Board of Supervisors' opinion on acquisition and disposal of the assets by the Company

The Board of Supervisors examined the acquisition and disposal of the assets made by the Company and is of the opinion that the transaction prices for the Company's acquisition of the equity and disposal of the assets were fair and reasonable, and no insider trading, prejudice to shareholders' interests or loss of assets of the Company was found. The decision-making process of the transaction was in compliance with the Articles of Association.

6. The Board of Supervisors' opinion on the management of persons with knowledge of the Company's inside information

The Board of Supervisors supervised the management of persons with knowledge of the Company's inside information and is of the opinion that the Company and its subsidiaries have earnestly and effectively implemented the relevant systems of inside information management, strictly prevented the leakage of inside information and disclosed major events in a timely manner. During the period of periodic report disclosure, the Company conducted self-examination over Directors, Supervisors, senior management and other persons with knowledge of the Company's inside information in respect of dealing with the shares of the Company during sensitive periods such as within 60 days before the disclosure of results reports and the period when other major events were disclosed. No related persons were found to use inside information to engage in insider trading, and no violation of the Company's inside information management occurred.

III. THE WORK PLAN OF THE BOARD OF SUPERVISORS FOR THE YEAR 2020

The Board of Supervisors will continue to perform its duties strictly in accordance with relevant laws, regulations and policies of the State such as the Company Law, the Securities Law and the Articles of Association, and further promote standardized operation across the Company.

1. The members of the Board of Supervisors will take more efforts to review the Company's financial system and financial position, regularly review the Company's financial reports, financial budget and other documents such as vouchers, and maintain effective communication with the external accountants and the internal audit compliance consultant.

2. The members of the Board of Supervisors will keep ensuring the legality and compliance of the procedures for consideration and discussion of the matters put to the Board meeting and will regularly review the operation of the Board and the Company, which will diligently perform its duties of supervision conferred at the general meeting.

3. Enhancing the internal learning of the Supervisors. More investigation and research and training will be conducted to promote self-development. It will keep abreast of the new requirement of the regulatory authority and enhance learning and training so as to facilitate the self-development of the Board of Supervisors.

4. It will actively and orderly conduct other supervisory works in an innovative way. It will give full play to the internal supervision of enterprises, strengthen the link with shareholders and safeguard the rights and interests of the employees. It will continue to strengthen the oversight on the Company's major investment projects and major business decision-making and reinforce the supervision on the reasonableness and regulation of the utilization of the proceeds for 2020.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report in the annual report of the Company for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code contained in Appendix 14 of the Listing Rules. Save for those disclosed in this annual report, the Directors are of the opinion that, during the year ended 31 December 2019, the Company has complied with the code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for the day-to-day management and operation of the Group to the senior management members of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the audit committee (the "**Audit Committee**"), the remuneration and assessment committee (the "**Remuneration and Assessment Committee**"), the nomination committee (the "**Nomination Committee**") and the strategy committee (the "**Strategy Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The primary authorities exercisable by the Board include: convening shareholders' meetings to report their work and carry out the resolutions approved thereat; determining the Company's business plans and investment proposals; developing annual financial budget plans, profit distribution plans and loss recovery plans; devising plans to increase or reduce the registered capital of the Company and issue corporate bonds; putting forward plans for merger, spin-off and dissolution of the Company, determining the establishment of the Company's internal management; appointing or dismissing the Company's general manager and, according to the nomination of the general manager, appointing or dismissing the Company's deputy general managers and other senior management members, as well as determining their remunerations; establishing the Company's fundamental management system; and proposing amendments to the Articles of Association.

The Board is well-functioning, and the forms, contents, procedures and implementation of the meetings are in compliance with the Articles of Association and relevant laws and regulations. Specifically, the Board shall convene at least four regular meetings each year and other extraordinary meetings as and when necessary. The notice of a regular meeting shall be given to all Directors at least fourteen days prior to the date of the meeting to ensure their attendance. The notice of an extraordinary meeting shall be given to Directors within a reasonable time with sufficient information such as relevant background information of the matters in the agenda to be considered, as well as data and statistics of the Company's business development for their easier understanding. As adopted by the Board, two or more external Directors who consider the information insufficient or insubstantial may request the Board in writing to postpone the Board meeting or the consideration of the matters in the agenda.

The minutes of the Board meetings shall be complete and true. The attended Directors, the secretary to the Board and the minutes taker shall sign on the minutes which shall then be maintained by dedicated personnel as important evidence in clarifying the responsibilities of the Directors.

The Board may delegate certain authorities to the chairman during the recess of the Board, as defined and specified in the Articles of Association.

In the event that a Director has a connected relationship with an enterprise involved in a resolution considered in a Board meeting, he/she shall not exercise his/her voting right over the resolution, nor shall he/she exercise other Directors' voting rights on behalf of them. The Board meeting shall be held only when more than half of the unconnected Directors attend the meeting. The resolution of the Board meeting must be passed by more than half of the unconnected Directors. If there are less than three unconnected Directors attending the Board meeting, such matter shall be considered by the Shareholders at a general meeting.

The duties and responsibilities of the Company's management are primarily responsible for implementing the resolutions of the Board, the Company's business plans and investment plans, and the Company's key management systems, and supervising their implementation. They also manage the Company's revenues and expenditures and supervise the funds' flow and determine the changes in key positions.

The Company purchased an insurance policy covering the liability of the Directors and senior management with a valid period of 12 months effective from 31 March 2019 to 30 March 2020 in March 2019. In March 2020, the Company renewed the insurance with a valid period from 31 March 2020 to 30 March 2021.

Board Composition

As at the date of this annual report, the Board comprises nine members, including four executive Directors, two non-executive Directors and three independent non-executive Directors as set out below:

Executive Directors:

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

Non-executive Directors:

Mr. Qi Xiangdong
Ms. Xin Xin

Independent Non-executive Directors:

Mr. Lv Tingjie
Mr. Lv Pingbo
Mr. Zhang Senquan

The biographies of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" in this annual report.

As each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

Mr. Liu Donghai, Mr. Liu Songshan and Ms. Liu Wencui are siblings. Save as disclosed in the Directors' biographies set out in the section headed "Directors, Supervisors and Senior Management" in this annual report, none of the Directors has any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director.

All Directors, including the independent non-executive Directors, have brought a wide spectrum of invaluable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration and Assessment Committee, the Nomination Committee and the Strategy Committee.

As the code provision in the CG Code requires Directors to disclose the number and nature of offices held in listed companies or organizations and other significant commitments as well as their identities and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

Board Diversity Policy

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity of the Board. The Board diversity policy is summarized below:

Policy Statement

The Company is of the view that the diversity of the Board is one of the essential factors in sustaining the competitive edge of the Company and facilitating the sustainable development of the Company. When determining the composition of the Board, the Company will consider Board diversity in terms of various factors, including but not limited to gender, age, cultural background, ethnicity and educational background, professional experience, knowledge and skills.

Measurable Objectives

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and term of service. The ultimate decision will be made based on the merits and contribution that the selected candidates can bring to the Board.

Monitoring and Reporting

The Nomination Committee will, with due regard for the benefits of diversity of the Board, review the structure, size and composition of the Board and make recommendations or advice to the Board on the appointment of new Directors of the Company. The above review and recommendations or advice all take the benefits of Board diversity into full consideration.

Review of the Policy

The Nomination Committee will disclose the diversification of the Board's composition in the Corporate Governance Report of the Company annually and monitors the implementation of the Board diversity policy.

During the reporting period, the implementation of the Board diversity policy was as follows:

1. The Board consists of nine Directors and three independent non-executive Directors. The arrangement is in compliance with Rules 3.10(1) and 3.10A of the Listing Rules in relation to "at least one-third of the members of the Board shall be independent non-executive Directors".

2. At least one of the independent non-executive Directors has obtained financial professional qualifications. Other Directors have professional experience in law, finance, business management and public services, and also meet the requirements of Rule 3.10(2) of the Listing Rules.

3. The Directors have different educational backgrounds, including master's degree in law, bachelor's degree in accounting, doctorate in management, and doctorate in economics. Their ages range from 40 to 66 and 2 are female members. The Nomination Committee has reviewed the board diversity policy to ensure its effectiveness and believes that the members of the Board has achieved diversity.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide its Directors with updates on the latest development and changes of the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

During the year, the Directors attended the training activities as follows:

Directors	Types of training
Zhang Senquan, Lv Tingjie and Lv Pingbo	A and B
Liu Donghai, Liu Songshan, Liu Yajun, Liu Wencui, Xin Xin, Qi Xiangdong	A
Zhang Senquan	C

Notes:

A: Training sessions relating to corporate governance, Directors' duties and other relevant matters of a listed company held by the Stock Exchange or other securities regulators.

B: Training sessions, seminars and conferences on special topics such as economics, finance or management.

C: Reading materials on the regulations relating to corporate governance, Directors' duties, internal control and risk management and attendance of seminars, forums or conferences.

Chairman and Chief Executive Officer

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

Appointment and Re-Election of Directors

The members of the third session of the Board of the Company, namely Mr. Liu Donghai, Mr. Liu Yajun, Mr. Liu Songshan, Ms. Liu Wencui, Mr. Qi Xiangdong, Mr. Lv Tingjie entered into service agreements with the Company respectively on 6 June 2017 with a fixed term of three years commencing from 6 June 2017 and ending at the expiry of the third session of the Board of the Company. Ms. Xin Xin and Mr. Zhang Senquan were appointed as non-executive Director and independent non-executive Director respectively on 7 June 2018. They entered into service agreements with the Company on 7 June 2018, commencing from 7 June 2018 and ending at the expiry of the third session of the Board. Mr. Lv Pingbo was appointed as an independent non-executive Director on 5 June 2019. He entered into a service agreement with the Company on 5 June 2019, commencing from 5 June 2019 and ending at the expiry of the third session of the Board. The service agreements entered into between the Company and each of the Directors are subject to renewal in accordance with the Company's Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

Save as disclosed above, none of the Directors has a service contract with the Group which is not determinable by the Company within one year without the payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, the Company shall establish the Board of Directors which is accountable to the shareholders at general meetings. Directors shall be elected at the general meetings, with a term of office of three years. Upon expiry of their term of office, Directors are eligible for re-election. At the reelection of the Board, external Directors, being Directors who do not hold any positions in the Company, shall account for more than half of the total number of Directors. Where the number of vacancy of Directors is not more than the number specified by the Company Law or not less than two thirds of the number of Directors prescribed by the Articles of Association, the Board has the power to appoint any person as a Director to fill the causal vacancy, and any person to be appointed as a Director to fill a casual vacancy of the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors.

Board Meetings

The Company will adopt the practice of holding Board meetings regularly. Notices of not less than fourteen days will be given for all regular Board meetings to provide all Directors with an opportunity to attend regular meetings and discuss matters in the agenda.

For other committee meetings, written notices of fourteen days will be given to all committee members. Such notices will set out the agenda and relevant Board papers to ensure that the committee members have sufficient time to review the papers and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting.

Minutes of the Board meetings and committee meetings will record in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and committee meeting are/will be sent to each Director for comments within a reasonable time after the meeting is held.

During the reporting period, nine Board meetings and two general meetings were held and the attendance of each Director at these Board meetings and the general meetings is set out in the table below:

Name of Director	Attended Board Meetings/ Eligible to Attend Board Meetings	Attended General Meetings/ Eligible to Attend General Meetings
Mr. Liu Donghai	9/9	2/2
Mr. Liu Yajun	9/9	2/2
Mr. Liu Songshan	9/9	2/2
Ms. Liu Wencui	9/9	2/2
Mr. Qi Xiangdong	9/9	2/2
Ms. Xin Xin	9/9	2/2
Mr. Lv Tingjie	9/9	2/2
Mr. Bian Yongzhuang (resigned on 5 June 2019)	3/3	2/2
Mr. Lv Pingbo (appointed on 5 June 2019)	6/6	0/0
Mr. Zhang Senquan	9/9	2/2

A total of 35 Board's resolutions were passed at nine Board meetings held during the reporting period, details of which are as follows:

1. The fourteenth meeting of the third session of the Board for the year 2019 was held on 30 January 2019 at which seven resolutions were considered and approved.

2. The fifteenth meeting of the third session of the Board for the year 2019 was held on 28 March 2019 at which ten resolutions were considered and approved.

3. The sixteenth meeting of the third session of the Board for the year 2019 was held on 5 June 2019 at which four resolutions were considered and approved.

4. The first provisional written Board meeting of the third session of the Board for the year 2019 was held on 26 June 2019, at which two resolutions were considered and approved.

5. The seventeenth meeting of the third session of the Board for the year 2019 was held on 25 July 2019 at which four resolutions were considered and approved.

6. The eighteenth meeting of the third session of the Board for the year 2019 was held on 30 August 2019 at which five resolutions were considered and approved.

7. The nineteenth meeting of the third session of the Board for the year 2019 was held on 9 September 2019 at which one resolution was considered and approved.

8. The second provisional written Board meeting of the third session of the Board for the year 2019 was held on 3 December 2019, at which one resolution was considered and approved.

9. The third provisional written Board meeting of the third session of the Board for the year 2019 was held on 13 December 2019, at which one resolution was considered and approved.

Shareholders' General Meeting

Details of the shareholders' general meetings of the Company held during the reporting period are as follows:

On 18 March 2019, the Company held the first extraordinary general meeting for the year 2019 in Beijing. Six shareholders or their proxies holding 496,050,000 shares of the Company, representing approximately 74.41% of the total number of the shares of the Company, attended the meeting. The meeting was chaired by our Chairman, Mr. Liu Donghai. Certain Directors, Supervisors, senior management members also attended the meeting. Six special resolutions were approved by open voting at the meeting.

On 5 June 2019, the Company held the annual general meeting for the year 2018 in Beijing. Six shareholders or their proxies holding 496,050,500 shares of the Company, representing approximately 74.41% of the total number of the shares of the Company, attended the meeting. The meeting was chaired by our Chairman, Mr. Liu Donghai. Certain Directors, Supervisors, senior management members also attended the meeting. Eight ordinary resolutions and one special resolution were approved by open voting at the meeting.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' and Supervisors' securities transactions. Specific enquiries have been made to all Directors and Supervisors, and each of the Directors and Supervisors has confirmed that he/she has complied with the standard requirements set out in the Model Code regarding Directors' securities transactions during the reporting period.

During the year ended 31 December 2019, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standards set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves the decision for all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial data, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions to be entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance duties include:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the trainings and continuous professional developments of Directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors, Supervisors and employees; and

5. to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

BOARD COMMITTEES

Nomination Committee

The Nomination Committee currently comprises three members, including two independent non-executive Directors, namely Mr. Lv Tingjie (Chairman) and Mr. Lv Pingbo; and one executive Director, namely Mr. Liu Songshan.

The principal duties of the Nomination Committee of the Company include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; and to the largest extent possible to ensure membership diversity in the composition of the Board;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive officer; and

5. to review the Board diversity policy.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skills and ability to commit time and effort to carry out the duties. The recommendations of the Nomination Committee will then be submitted to the Board for decision. The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2019, the Nomination Committee has held one committee meeting and the attendance of each member of the Nomination Committee at the meetings is set out in the table below:

Name of Director	**Attended/ Eligible to attend**
Mr. Lv Tingjie	1/1
Mr. Liu Songshan	1/1
Mr. Lv Pingbo (appointed on 5 June 2019)	0/0
Mr. Bian Yongzhuang (resigned on 5 June 2019)	1/1

Details of the aforesaid meetings are as follows:

At the first meeting of the Nomination Committee of the third session of the Board held on 28 March 2019, the resolution on "the nomination of Mr. Lv Pingbo as independent non-executive Director of the third session of the Board" was considered and approved.

The Nomination Committee's responsibilities are to study and formulate the criteria and procedures pertaining to selecting and recommending candidates, and to examine and verify candidates for directorship, and make advice or recommendations to the Board thereon. Also, to review the structure, size and composition (including the skills, knowledge, experience, gender, age, cultural and educational background, and the term of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy, and to the largest extent possible to ensure membership diversity in the composition of the Board. Summary of the diversity policy for board members of the Company, please refer to the "Board Diversity Policy" under the section headed "Corporate Governance Report" of this annual report.

The Nomination Committee shall seek for the right candidates for the position of Directors in the Company itself, holding (joint stock) company of the Company and the talent market, and collect information about the candidates including their occupation, academic background, title, working experience in detail and all the part-time jobs to produce written materials. After obtaining consent of the nominees, the Nomination Committee shall convene its meeting, reviewing the candidates according to the qualification required by the Company. After the Nomination Committee forms a majority of votes, the Nomination Committee will conduct other follow-up work after decisions and feedback of the Board.

Remuneration and Assessment Committee

The Remuneration and Assessment Committee comprises three members, namely Mr. Lv Pingbo (Chairman), Ms. Xin Xin and Mr. Zhang Senquan. Apart from Ms. Xin Xin who is a non-executive Director, both of the other members are independent non-executive Directors.

The principal duties of the Remuneration and Assessment Committee include the following:

1. to consult the chairman and/or chief executive officer about their remuneration proposals for other executive Directors;

2. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy, and to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

3. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including compensation payable for loss or termination of their office or appointment;

5. to make recommendations to the Board on the remuneration of non-executive Directors;

6. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

7. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration and Assessment Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2019, the Remuneration and Assessment Committee has held one committee meeting and the attendance of each member of the Remuneration and Assessment Committee at the meeting is set out in the table below:

Name of Director	**Attended/ Eligible to attend**
Mr. Lv Pingbo (appointed on 5 June 2019)	1/1
Ms. Xin Xin	1/1
Mr. Zhang Senquan	1/1
Mr. Bian Yongzhuang (resigned on 5 June 2019)	0/0

Details of the meeting are as follows:

At the fourth meeting of the third session of the Remuneration and Assessment Committee of the Board held on 5 June 2019, the "Resolution on electing Mr. Lv Pingbo as chairman of the Remuneration and Assessment Committee" was considered and approved.

The Remuneration and Assessment Committee has reviewed the remuneration of Directors and senior management members for the year 2019, as well as the Company's policy and structure for the remuneration of all Directors and senior management. Based on the review, the Remuneration and Assessment Committee has made recommendations to the Board on the remuneration packages of individual executive Directors and senior management members.

Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors and Supervisors for the year ended 31 December 2019 are set out in note 10 to the financial statements from pages 171 to 173 of this annual report.

The biographies of the senior management are disclosed in the section headed "Directors, Supervisors and Senior Management" in this annual report. The remuneration by band of non-Director members of the senior management for the year ended 31 December 2019 is as follows:

Remuneration band (RMB)	**Number of individuals**
Below 300,000	12
300,000 to 500,000	7
Over 500,000	0

Audit Committee

The Audit Committee comprises three members, namely Mr. Zhang Senquan (Chairman), Mr. Lv Tingjie and Mr. Lv Pingbo, and all of them are independent non-executive Directors.

The principal duties of the Audit Committee are to review and supervise the financial reporting procedure of the Company, which include, among other things, the following:

1. to assist the Board in fulfilling its responsibilities by supervision of financial and other reporting and providing an independent review to the Board as to the effectiveness of the internal controls of the Group, and as to the adequacy of the external and internal audits;

2. to assure that appropriate accounting principles and reporting practices are followed;

3. to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the recognized independent auditor (the "**External Auditor**"), and to approve the remuneration and terms of engagement of the External Auditor, and any questions of its resignation or dismissal;

4. to serve as a focal point for communication between other Directors, the External Auditor and the internal auditor or any person responsible for internal audit function (the "**IA People**") as regards their duties relating to financial and other reporting, internal controls, external and the IA People and such other matters as the Board determines from time to time;

5. to review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

6. to audit the Company's financial information and its disclosure;

7. to develop and implement policy on engaging the External Auditor to provide non-audit services;

8. to monitor integrity of the Company's financial statements, annual reports and accounts and half-year reports (including Directors' Report, Chairman's Statement and Management Discussion & Analysis), and to review significant financial reporting judgments contained therein; and

9. to review, together with External Auditor and IA People, the Group's management as well as the adequacy of the Group's policies and procedures regarding internal control (including financial, operational and compliance controls); and to review and monitor the effectiveness of the Company's financial controls, internal control and risk management systems.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2019, the Audit Committee has held four committee meetings and the attendance of each member of the Audit Committee at the meetings in person is set out in the table below:

Name of Director	Attended/ Eligible to attend
Mr. Zhang Senquan	4/4
Mr. Lv Tingjie	4/4
Mr. Lv Pingbo (appointed on 5 June 2019)	3/3
Mr. Bian Yongzhuang (resigned on 5 June 2019)	1/1

Details of the meetings are as follows:

At the twelfth meeting of the Audit Committee of the third session of the Board held on 28 March 2019, the resolutions on "the Company's annual financial report for the year 2018 and the annual results announcement for 2018", "the Company's audit result and communication report for 2018", "the Company's internal control report for 2018 and internal control plan for 2019" and "the Company's appointment of accounting firm for 2019" were considered and approved.

At the thirteenth meeting of the Audit Committee of the third session of the Board held on 8 August 2019, the resolutions on "the Company's appointment of Ernst & Young for the interim review of 2019" and "interim review plan report for 2019" were considered and approved.

At the fourteenth meeting of the Audit Committee of the third session of the Board held on 30 August 2019, the resolutions on "the Company's interim review result report and annual audit plan for 2019 issued by Ernst & Young" and "the Company's interim report and interim results announcement for 2019" were considered and approved.

At the fifteenth meeting of the Audit Committee of the third session of the Board held on 19 December 2019, the "annual audit plan report for 2019" was considered and approved.

The Audit Committee has reviewed the financial reporting system, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function), risk management systems and processes and the reappointment of the External Auditor. The Board has not deviated from any recommendation given by the Audit Committee on the selection, appointment, resignation or dismissal of External Auditor.

The Audit Committee has also reviewed the annual results of the Company and its subsidiaries for this financial year as well as the audit report prepared by the External Auditor in relation to accounting issues and major findings in course of audit.

Strategy Committee

The Strategy Committee currently comprises five members, including three executive Directors, namely Mr. Liu Donghai (Chairman), Mr. Liu Yajun and Mr. Liu Songshan; one independent non-executive Director, namely Mr. Lv Tingjie; and one non-executive Director, namely Mr. Qi Xiangdong.

The principal duties of the Strategy Committee include the following:

1. to monitor the risk of legal sanctions against us;

2. to conduct research and make proposals on the long-term development strategies and plans of the Company;

3. to conduct research and make proposals on the significant investment and financing plans which need to be approved by the Board in accordance with the Articles of Association;

4. to conduct research and make proposals on the significant projects of capital manipulation and assets operation which need to be approved by the Board of Directors in accordance with the Articles of Association;

5. to conduct research and make proposals on the significant matters which affect the development of the Company;

6. to monitor the implementation of the above-mentioned issues; and

7. other matters that the Board has authorized it to deal with.

During the year ended 31 December 2019, the Strategy Committee has not held any meeting.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019, which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided the Board with such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report from pages 119 to 123 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board confirms its responsibility to ensure that the Company has established and maintained a sound risk management and internal control system within the Group and is responsible for reviewing its effectiveness. The system is designed to manage and reduce the risks associated with its business operation to an acceptable level, rather than to eliminate the risk of failure to meet its business objectives, and will only be able to provide reasonable, but not absolute, guarantee that no material misrepresentation, loss or fraud exists.

The Board has authorized the Audit Committee to monitor the Group's risk management and internal control system and to conduct an annual review of the effectiveness of the system. The review covers the monitoring on all major aspects, including financial monitoring, operational monitoring and compliance monitoring.

Under the Company's risk management and internal control system, the management is responsible for the design, implementation and maintenance of the risk management and internal control system to ensure that, in particular, (i) proper policies and procedures have been designed and established to safeguard the assets of the Group from not being misappropriated or improperly disposed of; (ii) relevant laws, rules or regulations have been observed and complied with; and (iii) reliable financial and accounting records are maintained in accordance with relevant audit standards and regulatory reporting requirements.

The Company's risk management and internal control system has the following key features: (i) the responsible persons of the key operating units or departments to manage and reduce the identified risks in accordance with the internal guidelines approved by the Board and the Audit Committee; (ii) the responsibility of the management to ensure that proper measures have been taken to address material risks arising from the Group's business and operation; and (iii) provision of independent confirmation from the IA People to the Board, the Audit Committee and the management on the effectiveness of the risk management and internal control system.

The key tasks under the Company's risk management and internal control system for the reporting period are as follows:

- Each key operating unit or department is responsible for day-to-day risk management activities, including identifying significant risks that may affect the performance of the Group; assessing and evaluating the identified significant risks based on its impact and possibility of occurrence; planning and implementing certain measures, control and contingency plans to manage and mitigate such risks;

- The management and the finance department monitor and review the risk management and internal control system on an on-going basis and report to the Audit Committee on the operation of the system;

- The management regularly follows up and reviews the measures, control and the contingency plans for the identified significant risks to ensure that adequate attention, control and response are in place for the identified significant risks;

- The management regularly reviews the risk management and internal control system to detect if there are any defects in the program and the monitoring, and will design and implement remedy actions to address such defects;

- The management has to ensure the normal operation of the appropriate program and measures, such as preventing of the assets from being misappropriated or disposed of without authorization, controlling the capital expenditures, maintaining proper accounting records, and ensuring the reliability of the financial data used in the business operation and publication.

The Company's internal audit function plays a role in monitoring the internal governance of the Company and the provision of independent confirmation on the adequacy and effectiveness of the Company's risk management and internal control system. The senior executives in charge of internal audit functions report directly to the Audit Committee and submit an internal audit report to the Audit Committee in accordance with the audit plan agreed by the Board. The results on the internal audit have to be reported to all Directors. During the reporting period, the internal audit function has analyzed and evaluated the adequacy and effectiveness of the Company's risk management and internal control system, in particular the inspection of the documents related to risks prepared by the operating units and the management, and conducted face to face interviews with the staff at various level. The senior executives in charge of the internal audit function attended the meetings of the Audit Committee and explained the results of the internal audit and answered the questions raised by the Audit Committee.

The Company has formulated a policy to ensure that the inside information is disclosed to the public in a fair and timely manner in accordance with applicable laws and regulations. The senior executives appointed by the Group for performance of investor relationship, corporate affairs and financial control functions are responsible for controlling and monitoring that proper procedures for disclosure of inside information are followed. Relevant senior executives may access to the inside information at any time on the "as needed" basis. The relevant personnel and other professionals involved will be reminded of keeping the inside information confidential until it is disclosed to the public. The Company has other procedures in place to avoid the possibility of erroneous handling of inside information in the Group, such as prior approval for trading of the Company's securities by the Directors and the management members, notices of the fixed lock-up period, restrictions on securities transactions by the Directors and the employees, as well as codes for identification of projects.

The Company has accepted relevant arrangements to assist the employees and other stakeholders in raising their concerns in confidence on the possible irregularities in financial reporting, internal control or other aspects. The Audit Committee reviews such arrangements on a regular basis and ensures that appropriate arrangements are in place for carrying out a fair and independent investigation and taking appropriate action on such matters.

During the reporting period, the Audit Committee reviewed the effectiveness of the Company's risk management and internal control system. The annual review covered the following aspects: (i) reviewing the reports submitted from time to time by the operating units or departments and the management on the implementation of risk management and internal control system; (ii) discussing on a regular basis with the senior executives at management level the effectiveness of the risk management and internal control and the work of the internal audit function; (iii) assessing the scopes and quality of the work done by the management for ongoing monitoring the risk management and internal control system; (iv) reviewing the effectiveness of the internal audit function to ensure the smooth cooperation between the internal units within the Group and between the internal units and the external auditors, and also ensure that the internal audit function is allocated sufficient resources for operation within the Group and has appropriate status; and (v) making recommendation to the Board the scopes and quality of the work done by the management for ongoing monitoring the risk management and internal control system.

Based on the disclosure above, the Audit Committee has not identified any significant issues that adversely affect the effectiveness and adequacy of the Company's risk management and internal control system.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, the Company engaged Ernst & Young to provide audit-related services and Ernst & Young did not provide any non-audit services. The total remuneration paid or payable to Ernst & Young and other subsidiaries for audit of the statutory financial statements by the Company amounted to RMB3,735,000 in 2019.

JOINT COMPANY SECRETARIES

Ms. Li Dongmei ("**Ms. Li**"), one of the joint company secretaries of the Company, is responsible for advising the Board on corporate governance matters and ensuring compliance with the Board policies and procedures, and the applicable laws, rules and regulations. Meanwhile, in order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company continues to engage Ms. Lam Yuk Ling ("**Ms. Lam**"), manager of TMF Hong Kong Limited (a company secretarial service provider), as another joint company secretary of the Company to assist Ms. Li to discharge her duties as company secretary of the Company. Ms. Li is the primary contact person of Ms. Lam at the Company.

Ms. Li and Ms. Lam have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules during the year ended 31 December 2019.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP

The Company considers that effective communication with shareholders is essential for enhancing investor relationship and promoting their understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of its information, which will enable shareholders and investors to make informed investment decisions.

The annual general meeting of the Company provides an opportunity for shareholders to communicate directly with the Directors. The Company's chairman and the chairman of each Board committee of the Company will attend the annual general meeting to answer enquiries from shareholders. The External Auditor will also attend the annual general meeting to answer questions about the conduct of audit, the preparation and contents of the auditor's report, the accounting policies and auditor's independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and the Company maintains a website at www.dixintong.com, where up-to-date information on the Company's business operation and development, financial data, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of Extraordinary General Meetings and Putting Forward Proposals

In accordance with the Articles of Association, an extraordinary general meeting shall be convened on the requisition of shareholder(s) who individually or jointly hold(s) ten percent or more of the Company's issued and outstanding voting shares.

Such requisition shall be made in writing to the Board or the joint company secretaries for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition.

When the Company is to convene an annual general meeting, shareholder(s) who individually or jointly hold(s) three percent or more of the Company's shares carrying voting rights shall have the right to put forward new proposals in writing to the Company. The Company shall include matters falling within the scope of responsibilities of the general meeting into the agenda of such meeting.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Shareholders who intend to put forward their enquiries about the Company to the Board could mail their enquiries to the principal place of business of the Company in Hong Kong or e-mail their enquiries to the company secretary at her email address: Fran.Lam@tmf-group.com.

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no material change to the Articles of Association during the year ended 31 December 2019.

Furthermore, as disclosed in the circular of the Company dated 18 April 2019 in relation to General Mandate and the announcement of the Company dated 5 June 2019 in relation to the poll voting results of the annual general meeting for the year 2018. According to the annual general meeting for the year 2018, the Board was authorized to make amendments that it thought fit to the Articles of Association to increase the Company's registered capital and reflect the Company's new shareholding structure after the subscription. As the completion of the subscription took place on 8 January 2020, the Company has amended the relevant articles of the Articles of Association accordingly. For details of the amendments to the Articles of Association, please refer to the announcement and latest Articles of Association published by the Company on 8 January 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board is pleased to present the Environmental, Social and Governance Report of the Company for the year ended 31 December 2019. The preparation of this report is in compliance with the relevant requirements under Environmental, Social and Governance Reporting Guidelines set out in Appendix 27 to the Listing Rules of the Hong Kong Stock Exchange. Unless indicated otherwise, the coverage of this report is consistent with that of the annual report. This report shall be read in conjunction with the 2019 Annual Report of Beijing Digital Telecom Co., Ltd..

1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE SYSTEM

The Group is committed to achieving a high level of performance on environmental, social and governance issues in order to protect the interests of the shareholders and investors, fulfilled corporate social responsibility, and enhance the sustainable development capabilities of enterprises.

1.1 Core philosophy and management framework

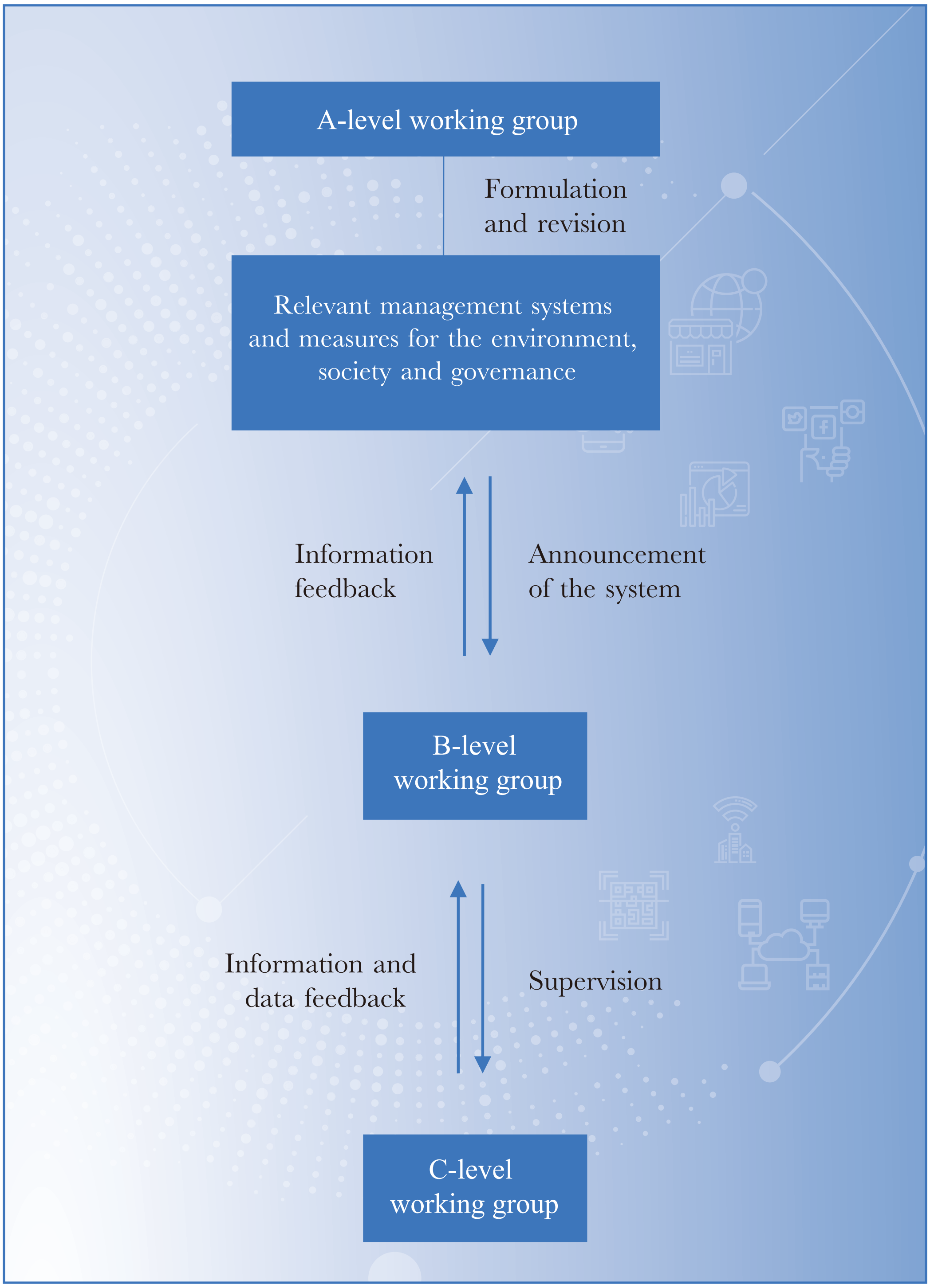
The core philosophy of the Company on environment, society and governance focuses on shouldering our environmental and social responsibility in the course of the enterprise's development. We actively identify and strictly abide by applicable national and local laws and regulations. We engrave the concept of sustainable development into our operation and management. While realizing the company's business goals, we pay attention to reducing environmental impact, supporting employees' development, and reaching a trusted partnership with suppliers, so as to create corporate social value. The Group follows the motto of "Satisfaction to the customers and the staff" under which we place emphasis on the duty of care for our products and services, to serve with heart and protect Consumers' rights. We take the initiative to understand the needs of the community and advocate and practice the spirit of charity and dedication. With regard to our employees, we place emphasis on taking care of their needs, protecting their legal rights and interests, caring for their health and safety and supporting their growth and development. At the same time, we also actively communicate with the stakeholders in order to constantly improve our performance on corporate governance.

The Group has set up a multi-level and cross-departmental environmental, social and governance working group covering all of its subsidiaries, which is responsible for the coordination and fulfilment of environmental, social and governance work to effectively ensure the implementation and improvement of related policies and systems on environmental, social and governance issues of the Company. The system includes A/B/C-level working groups as follows:

- A-level working group: the A-level working group is responsible for formulating relevant management systems and specific measures on environmental, social and governance issues, evaluating the results of the implementation, processing data and improving or updating the system, and reporting their work to the Board or its committees. The A-level working group was formed by the managers in the headquarters, namely human resource center, operation center, procurement center, legal affairs center and financial center. Among which, the manager of the human resource center is responsible for the management of labors, the managers of operation, procurement and legal affairs centers are responsible for the management of the supply chain, products and environmental resources, and the human resource center and financial center are responsible for the management of community investment.

- B-level working group: the B-level working group is responsible for supervising and guiding the work of C-level working group and collecting relevant data of environmental, social periodically. B-level working group was formed by 24 general managers of different regional subsidiaries.

- C-level working group: the C-level working group is responsible for the implementation of specific work and timely feedback on the work situation, the general manager of each subsidiary company designates 1-3 responsible persons to form a C-level working group.



1.2 The involvement of stakeholders

The Group is fully aware that the opinions and needs of the stakeholders are the driving force for continuous optimization of our operating platform, supplier cooperation, and product and service quality. We actively communicate with our stakeholders through various channels to keep abreast of and respond to the needs of stakeholders. At the same time, we also take the opinions of the stakeholders as an important factor for consideration during the business management and strategic planning of Beijing Digital.

Based on the characteristics of our business, our key stakeholders include the shareholders, suppliers, consumers, communities, employees, the government and regulators. For the year ended 31 December 2019, based on the communication from different channels with the stakeholders and the feedback, we have identified the following environmental, social and governance issues that the stakeholders of our Group concern about:

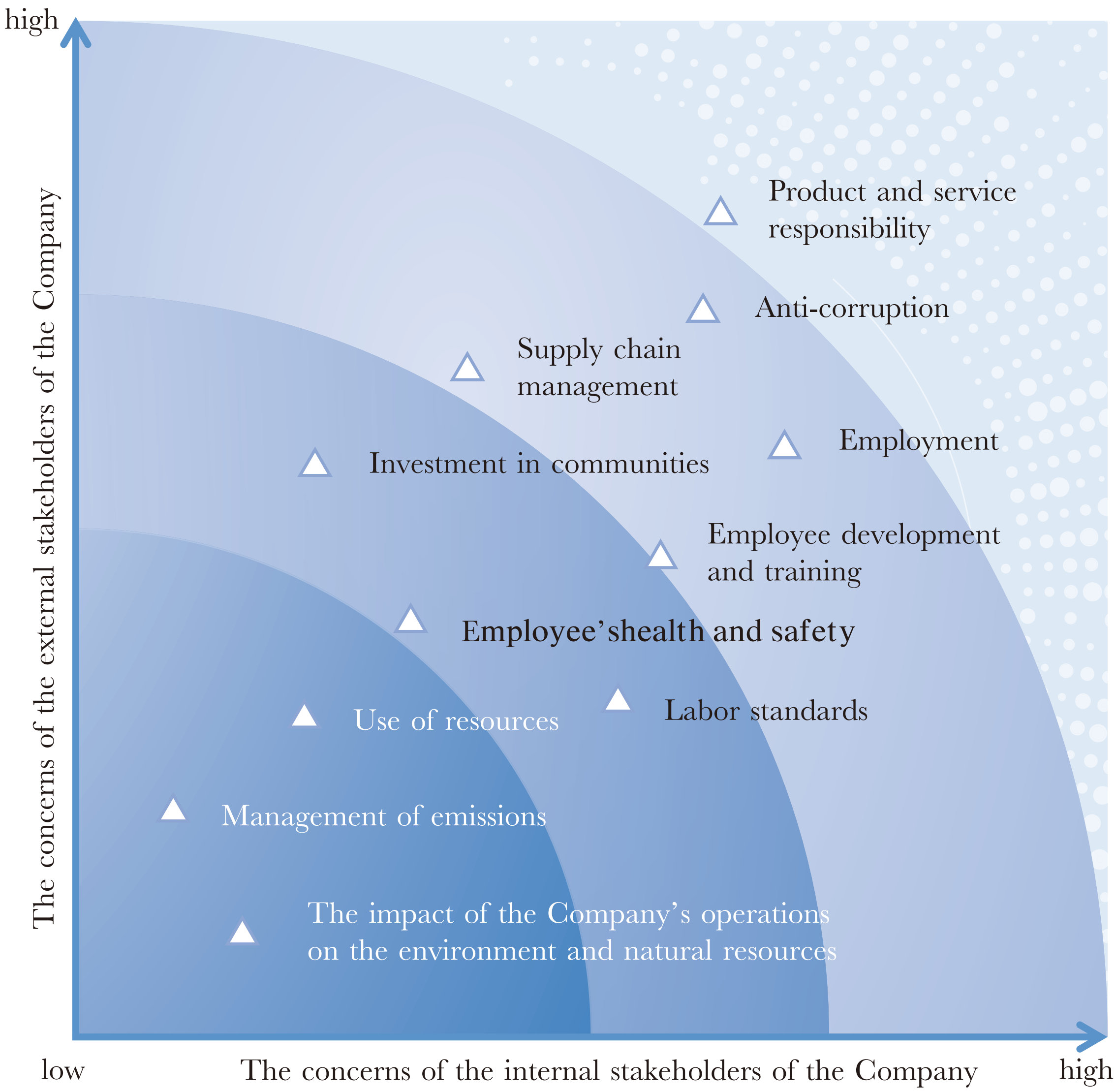
Key stakeholders	Descriptions of the stakeholders	Main concerned aspects	Major channels of communication and feedback
Shareholders/Investors	Natural person or business bodies which make investment in the Company	Product and service responsibility, employee development and training, employment, anti-corruption	Shareholders' general meetings, annual and interim reports, results announcements, corporate stock exchange announcements, relevant meetings, investor relations page
Suppliers	Enterprises or their branches which directly supply mobile handsets, accessories and provide related services to the Company	Supply chain management, product and service responsibility, anti-corruption	Suppliers management system, relevant meetings, strategic cooperation negotiation
Consumers	Members of society who purchase, use goods or receive services from the company's online platform or retail stores	Product and service responsibility, investment in communities, environment and natural resources	Surveys on consumer satisfaction, consumers reward, daily operation/communications, complaint and response mechanism and channels
Communities	A group of people who are concentrated in a fixed area through various social relationships	Emissions, use of resources, environment and natural resources, labor standards, anti-corruption	Community activities, charity activities, supporting projects in social fields, daily operation, questionnaires
Staff	Employees employed under different types of employment contracts with company, including permanent workers, contracted workers, temporary workers and interns	Employment, employee development and training, employees' health and safety, anti-corruption	Survey on staff's suggestions, staff internal meetings, corporate internal notices, feedback system for the staff, trade union
Government and regulators	Government bodies or regulators who supervise the operation of the Company	Anti-corruption, product and service responsibility, employment, labor standards	Information disclosure, correspondence, onsite visits, relevant meetings

1.3 Identification and analysis on key environmental, social and governance issues

Based on our stakeholders' suggestions and the characteristics of business development of the Group, we have identified and selected issues that are relatively important to the Group at this stage and used them as important factors for report preparation and information disclosure. Our main work procedures and contents are as follows:

Main procedures	Work content
Identify environmental, social and governance issues related to the Group's business	Based on the current business characteristics of the Group and the future business development direction, the Group identifies major relevant environmental, social and governance issues.
Analysis of major key stakeholder issues	Based on daily business development and features of the Group's business, as well as communication with various stakeholders in the operation process, the Group conducts important issues analysis.
Identify major environmental, social and governance issues	The Group identifies major environmental, social and governance issues of the Group based on stakeholder analysis and uses it as the reference for the preparation of this report and the group's next work direction.

Based on the analysis and identification of important environmental, social and governance issues, the most important issues for the Company at this stage are product and service responsibility, anti-corruption and employment. The second most important issues are employee development and training, supply chain management, labor standards, employees' health and safety, investment in communities. The relatively less important issues are the impact of the company's operations on the environment and natural resources, management of emissions and the use of resources.



1.4 Environmental, social and governance and Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) aims to provide the whole world a guideline for solutions to development issues in the three dimensions including society, economy and environment so that it can turn to the path of sustainable development, and encourage all sectors of society to actively contribute their own strength. The Company advocates the concept of responsible development. We take environmental, social and economic benefits into consideration during our operation and investment and actively explore ways of operation that allow us to efficiently make use of natural resources, improve the well-being of employees and communities, and promote sustainable supply chains. Based on communication and feedback with stakeholders, while considering our business development, we have identified the following key work directions that allow us to actively contribute to global sustainable development.

United Nations SDGs	Our acts
8 DECENT WORK AND ECONOMIC GROWTH	Actively expand business development and provide more high-quality positions for the society; Protect the legal rights and interests of employees and provide reasonable salary and welfare protection; Committed to creating a working environment that makes employees healthy, happy, and efficient; Provide quality resources for employees' development and vocational education.
11 SUSTAINABLE CITIES AND COMMUNITIES	Build a good interactive relationship with the community through the network of stores across the country, participate in community construction, and serve the public.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Carry out responsible sales and operations, establish a product quality supervision system, and strive to ensure the quality, health and safety of sold products; Serve with heart and actively respond to consumers' demands and protect their rights; Establish a supplier management mechanism, focus on the environmental, social and governance risks of the supply chain.
13 CLIMATE ACTION	Reduce greenhouse gas emissions during operations by improving efficiency of the use of resource and encouraging public transportation.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Create a clean and honest corporate culture, and adhere to compliance management and integrity operation.

2. PRODUCT AND SERVICE RESPONSIBILITY

As a retail enterprise, we regard the quality of the products we sell and the sales services we provide as the foundation of our business. At all times, the Group has strictly complied with the provisions about product and service liability under national and local laws and regulations where the business is located such as the Law of the People's Republic of China on Protection of Consumer Rights and Interests, the Product Quality Law of the People's Republic of China, the Advertising Law of the People's Republic of China, the Trademark Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, and has formulated relevant management systems and regulatory mechanisms based on the requirements under the laws, regulations and industry standards, so as to comprehensively monitor the quality of our products and services throughout the Group.

2.1 Product quality and safety assurance

The Group always places importance on offering quality and safe products to the customers. In view of the business characteristics of the Group, we guarantee the quality and safety of products that consumers purchase from the Group's sale channels are in line with national standards by strictly managing the qualifications of product suppliers and signing contract terms with them for product quality assurance. When it is found and ascertained that a product has severe safety concerns or poses a major threat to consumers' health, the Group would cooperate with the product manufacturer to take timely measures to remove the product and recall the product to avoid potential harm to consumers.

In order to enable customers to enjoy the highest quality products and services, the Group has consistently implemented high standard guarantee system for after sales service of goods and high standard service pledge, under which:

- All customers are free to return or exchange the merchandise they purchased for any reason, within seven days upon the purchase. Any customer who purchases a mobile handset from the Group's sales channel is entitled to return or exchange the handset without examination within seven days upon the purchase if the damage is not caused by man-made factor and the requirements are met.

- If the customer purchases a mobile phone during the manufacturer's warranty period and a non-artificial failure occurs, the Group provides free maintenance services during the warranty period. The customer can make an appointment through the official website or visit the store directly to make appointment of maintenance services.

- If a customer has to return to our outlet for a remedy owing to the quality issues of our products, the Group shall assume full responsibility and do its best to solve the problems, and in addition, offer a compensatory transportation expense of RMB30 to that customer.

- The Company encourages customers to voice their complaints if they are not satisfied with our services by offering a reward of RMB300 to those customers whose complaints are proved to be valid.

"Policy for return and exchange without any reason within 7 days" of the Group stipulates that if a customer meets the requirements but the store refuses to enforce the policy, once be verified, the corresponding subsidiary will be penalized.

2.2 To serve with heart

The Group uphold our philosophy of creating values to the customers with hearts and launched the "Full-hearted Loyalty" program, shaping our core value of services, "A kind heart brings goodness". Each customer may enjoy ten free services in our Beijing Digital's outlet, such as free power-charging for electronic products, free card cutting, free portable charger, free handset screen protectors, free Wi-Fi internet access, free cold and hot beverages, free software management download, free address book backup and free home delivery service. To date, the "Full-hearted Loyalty" services have been implemented for four years. Regardless of whether it is the management of our subsidiaries or our front-line staff, there has been an improvement in their service awareness and service standards. In order to continuously improve the quality of services, the Group offers service training courses through its internal information sharing platform for its employees to refer to and review at all time and all places. In the meanwhile, we have also established a "Full-hearted Loyalty" services community within the Group, and promote on a daily basis the Dicton's "Full-hearted Loyalty" service process and related requirements to our employees to constantly strengthen our employees' and management's recognition on our dedication and mission of the "Full-hearted Loyalty" services and enhance the service level of our stores.

Employees of Beijing Digital carefully answered questions from rural elderly about the use.

The customer was very satisfied with the service of the staff, so he wrote a thank-you letter in person for encouragement.

The staff helped customers who came to the store with inconvenience to walk up and down the stairs.

Meanwhile, the Group also proactively offers consumers with safe and comfortable shopping environment in the stores. We have formulated the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd. which set out strict requirements on safety and environmental protection for the fitting and decoration materials of each store so as to ensure the compliance with the relevant national regulations and standards for prevention from harming the employees' health.

The Group has made proactive efforts to understand the needs of our customers through conducting on-going customer satisfaction surveys by phone and other means. The average of customers' feedbacks each month during the year is approximately 150. Based on the customers' feedbacks each month, the Group implements the new service performance assessment system in each front line store and subsidiaries to identify the major problems in our services to continuously improve our overall services.

In addition, the Group is also actively exploring other channels to help meet customers' needs. For example, in response to the increasing demand for smart homes in the market, the Company carried out a more in-depth strategic cooperation with Shenzhen ORVIBO Electronics Co., Ltd in 2018, and fully entered into the smart home industry in order to provide customers with more professional smart home services. The employees of the Group are therefore actively involved in the training of Orvibo's product distribution and installation and obtained the OCTS technical service certification.

2.3 Listening to consumers' demand

The Group listens to the voice of each customer and positively responds to consumers' demands and constantly improves the quality of our services. We continue to deepen the management of online and offline complaints, communication channels and platforms, which includes our customer service hotline, other online customer service platforms such as WeChat, Weibo and Baidu Tieba, and offline customer's personal visit. We summarized on the annual basis the results of responses to customers' demands through official customer service and Internet platform and identified the major problems through each channels so as to give timely feedbacks to relevant management department, allowing us to continuously upgrade customer service we provide.

The Group will record, forward, handle, make advice and suggestion on the complaints received from each channel and platform. During the year, customer service department further detailed the requirement of the working report for complaint and response mechanism, with an aim to increase the efficiency of customer complaint collection while forming the relevant files, and conducting overall reporting and supervising adjustments to irregularities. In addition, the Group continued to deepen the "Implementation of the Regulations on Complaint Management" and the "New 400-week Improvement Rules and Feedback for Complaint", and continuously promoted the improvement of service quality. A customer service representative should contact the complaining customer to obtain more details on the complaint within 2 hours upon receipt of the complaint, do his/her best to reach an agreement with the complaining customer on the same day, and report the results to the call center at the headquarters of the Group within 72 hours. A subsidiary shall submit a Report on Complaint Handling to the call center at the beginning of each month. The headquarters of the Group will contact the customer again within 24 hours upon receipt of the report to check whether the complaint was handled by the subsidiary in accordance with established procedures and ask the customer whether he/she agrees on or satisfies with the results. In addition, we incorporated the handling of customer complaints into the performance assessment of subsidiaries to promote the implementation of relevant regulations.

2.4 Protection of intellectual property rights

The Group has put its best efforts on building and enhancing its brand values and kept strengthening its protection of intellectual property rights. The Group strictly complies with the laws and regulations relating to the protection of intellectual property rights, including the Trademark Law of the People's Republic of China, the Administrative Measures for Intellectual Property Certification, and formulated the Beijing Digital Measures for the Administration of Intellectual Property Rights to protect our intellectual property rights. Meanwhile, the Group also strictly regulates and centralizes the management of the use of promotional copies and various corporate logos (including the trademarks) for our major marketing campaigns to avoid the infringement of other parties' intellectual property rights. In order to strengthen the legal awareness of the Group's front-line staff on intellectual property rights and prevent the potential risk of infringing other parties' intellectual property rights, the legal affairs department of the Group held a training meeting on intellectual property rights for our front-line staff and various departments this year.

Indicator	2019
Applied Copyrights (number)	25

2.5 Advertising and management of logos

With regard to advertising and management of logos, the Group strictly complies with relevant laws and regulations such as the Advertising Law of the People's Republic of China and the Trademark Law of the People's Republic of China. During the year, the Group continued to identify the risks of potential breach of the laws in our previous advertising campaigns based on the specific provisions under relevant laws and regulations, and facilitate different departments at the Group's headquarters to understand the Advertising Law.

The legal affairs department of the Group's headquarters is responsible for carrying out specific training seminars on the rights of trademarks for brand management department under the headquarters in accordance to actual needs of the business or carrying out small training seminars on the protection of trademarks for those subsidiaries located in the areas where a large number of forgery cases on our corporate logos were found with a view to providing guidelines to them for effectively dealing with infringement on our rights of trademark. In case that our rights of trademark are infringed, evidence for the infringement must first be taken and kept promptly, and a report must be filed to competent industry and commerce authorities, and if necessary, directly pursue a civil lawsuit in People's Court.

2.6 Protection of the consumers' information

With the acceleration of the informatisation of the society, the awareness on risks such as phone scams and leakage of consumers' information increases. We also proactively take measures to protect the consumers' information safety. The Group centralizes the management of information on our consumers through our membership information system to protect consumers' information and prevents the leakage of such information by setting access authority for our employees at different levels. We newly set up the 400 platform and other management and control systems to overall improve the working quality on the protection of consumers' information and entered into a tripartite confidential agreement during the selling process of our products to effectively protect the consumers' information safety with a written agreement. In addition, our employee induction contract required that no unit or employee has the authority to gain the knowledge of or access to the information on relevant customers without valid permission. To continuously improve consumer's information safety, the Group organizes and conducts special training program on the Law on Protection of Consumer Rights and Interests from time to time to promote the awareness of consumer information protection among employees of various departments.

In 2019, we continue to improve information safety management mechanism by setting up high-level tech firewalls and strictly monitoring the operating process to avoid the risk of leakage of consumers' information. During the year ended 31 December 2019, the Group had no material leakage of consumer's information.

3. CARE FOR THE EMPLOYEES

The Group strictly abides by relevant national and local laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, Special Rules on the Labour Protection of Female Employees, the Regulation on Paid Annual Leave for Employees and the Provisions on Minimum Wages and constantly pays heed to and keeps track of their latest changes to ensure that employees of Beijing Digital are guaranteed the most basic rights and interests.

The Group has always put its focus on attraction and retention of talents to create a pleasurable work environment for employees by providing competitive remunerations, benefits, and a space for positive career development. The Group has established a comprehensive system for human resource management covering employment, remuneration and benefits, promotion, health and safety management. The Group did its best to create and maintain a decent working environment with fair opportunities, diversified development channels and emphasis on professional ethics for them. During this year, the Group did not experience any violation of related labor laws or regulations or infringement of any staff member's legal interests which brought significant impact on the Group, nor were we subject to any complaints or any penalty.

3.1 Introduction of talents

The recruitment management system of the Group strictly complies with relevant national and local laws and regulations. At the same time, we take into account the actual needs of the Group's business development. In accordance with the group recruitment management system, before conducting the recruitment or internal deployment, the director of the talent demand department will put forward the requirements, upon the approval of the first person in charge of the department, the executive vice president, and the chairman, such requirements will be submitted to the human resources center for review and record. After the completion of the above processes, the department can conduct recruitment and deployment in accordance with the relevant system requirements.

The Group introduces talents through diversified recruitment channels, such as website recruitment, campus recruitment, high-end headhunting recruitment and internal recruitment. We adhere to the principle of fair opportunity and selecting the best and the brightest to ensure that candidates who meet the recruitment conditions are treated equally. During the year, in response to the phenomenon of "delayed employment" and early attention to information regarding job application, we carried on campus recruitment speeches earlier and increased the participation in job fairs at universities with an aim to create more opportunities to have face-to-face communication with the outstanding graduates.

The Group has been focusing on developing a high-qualified talents team. Take the example of management trainees' recruitment as a management reserve, the Group strictly selects talents, provides fair equal employment opportunities, a good remuneration model and a specific promotion fostering channels, attracting the attention of many graduates of universities to apply for. This provides favourable resource advantages for the Group in terms of talent selection. The Group also continuously improves the internal competition mechanism for a higher position, actively encourages our employees to participate in the internal recruitments and selects the most suitable candidates in the recruitment process. We upgrade the internal team structure of the group to fully benefit from the advantages of internal talents while providing favourable promotion opportunities for internal talents with outstanding performance. In 2019, to further improve the developing level of Beijing Digital's talent teams, the Group raised the degree requirement for recruitment in the headquarters of the Company and strictly reviewed the relevant approval of the staff in each department. In the course of social recruitment, the Group required that all the employees in the Company's headquarters should achieve undergraduate degree or above. As for campus recruitment, employees who apply for management trainees should achieve master degrees or above.

The Group has imposed strict prohibition from employing child labors. Staff members of human resources department are required to check against the basic information of a candidate to ensure no under-aged candidate is recruited. The Group strictly prohibits all types of discrimination during the recruitment process, including race, gender, birthplace, age, pregnancy and disability. The Group is also actively providing jobs for the disadvantaged groups to help solve the unemployment problem.

For the year ended 31 December 2019, the Group had a total of 5,997 employees and we did not recruit any child labors nor were we subject to any complaints or any penalty for employment of child labors.

Indicators		**2019**
Number of employees by genders	Number of male employees	2,896
	Number of female employees	3.101
Number of employees by ages	Number of employees aged below 30	3.590
	Number of employees aged 30-40 (exclusive)	1.501
	Number of employees aged 40-50 (exclusive)	764
	Number of employees aged over 50 (inclusive)	142
Total number of employees by nature of employment	Number of employees employed by contract	5,997
	Number of employees employed by labor dispatch	0
Total number of employees by education	Number of employees holding college diploma or below (inclusive)	3,014
	Number of employees holding bachelor degree or below	2,454
	Number of employees holding master degree or above	529
Total number of employees by ranks	Number of senior management[1]	164
	among which: number of female senior management	81
	Number of middle management[2]	986
	Number of elementary employees	4,847

1. *Senior management includes general manager, deputy general managers, assistant general managers and directors.*
2. *Middle management includes center's (deputy) general managers and departmental (deputy) general managers.*

3.2 Protection of employees' rights and interests

Pursuant to the state and local regulations relating to social securities, the Group provides basic insurance, such as social insurance, housing provident fund to ensure that the provision of employees' remuneration is higher than the minimum wage of each region and provides various type of holidays, such as national holiday, annual leave, marriage leave, maternity leave.

Based on relevant requirements of laws and regulations, the Group has formulated and used an uniform employment contract and entered into formal employment contracts lawfully with all of our employees. We also formulated and distributed the Group's Staff Manuals in which clauses relating to the protection of employees' rights and interests are also set out, including promotion of cultural diversity, respect for all religious beliefs and severe opposition of any discrimination. We have also formulated a dismissal management system in accordance with the laws and regulations, and set out relevant provisions in employee contracts to protect the legitimate rights and interests of the employees.

The Group has established a fair and impartial appraisal and promotion system to avoid directly or indirectly forced labour. The Group has fully implemented a time clock policy to assist relevant persons in charge at all levels in managing their subordinates' working hours so as to ensure that all overtime works are performed strictly in accordance with national laws and regulations to timely adjust team's workload.

We also emphasize on effective communication between the staff and we have in place a bottom-up reporting and complaining system with objective to expand the communication channel between the corporate management and elementary employees. During the year, we held a new exchange session for all management trainees, during which the senior leader of the Group and all management trainees had a in-depth communication on the corporate culture of the Group and prospects, business conditions and talent perspectives, which provide a platform for newly-recruited employees to adapt to the corporate management culture and understand the corporate business development.

During the year, the Group did not commit any infringement on the rights and interests of the employees and was not subject to any complaints or penalties relating to the employment.

3.3 Employees' benefits

In addition to the basic five insurances and one fund for its employees, the Company also helps its employees to purchase supplementary medical insurances at preferential premiums. To protect the food safety and convenience, we uniformly order free meals and fruits for all the employees in the office, and perform detailed background checks on outsourced catering service providers so as to ensure that the providers' qualifications meet the Company requirements for food safety assurance. For part of the newly-recruited employees who have requirement, the Company provides them with rent-free staff accommodation within walking distance from the Company.

We also emphasis on establishing a work environment with joyful harmony to enhance employees' integration and recognition to our corporate culture. With regard to leaves and holidays, the Company also provides its employees with special fringe benefits for holidays. For examples, glutinous dumplings are given to the employees on the Lantern Festival and honey on the National Day. In addition, the Company also gives birthday gift to employees on his/her birthday and relevant subsidies will be granted for wedding and funeral. Employees may also purchase mobile handsets in internal presales at privileged prices. The Company also awards domestic and overseas trips or cash bonus to the employees with outstanding performance.

3.4 Health and Safety

The Group is committed to safeguarding the safe working environment at the offices, stores and warehouses and promoting healthy working and life styles. The Group strictly abides by the laws and regulations relating to occupational safety and health such as the Labor Law of the People's Republic of China, the Fire Prevention Law of the People's Republic of China and the Regulation on Work Related Injury Insurances, and has established a comprehensive management system for its employees' health and safety in order to specify our roles and responsibilities toward employees and responsible person in creating a safe and protective work environment.

Health Management

The Group provides annual medical examinations for all of our employees and invites relevant experts to hold lectures and training seminars on occupational health from time to time so that they may timely discover and manage their health problems. To help our employees to release pressure and improve communication, the Human Resource department will organize outdoor activities for employees, which advocates their passion for life and sunshine.

The Group also emphasizes on the potential effect of office materials to employees' health. We ensure that the material meets the relevant national regulations and standards through the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd. which sets out requirements on the fitting and decoration materials of each store of Beijing Digital. Meanwhile, we launched standardized procedures on inspection and acceptance of decoration and renovation works at the stores to ensure the compliance with the safety standards of the store works for prevention from harming the employees' and customers' health.

Safety and protection

With regard to occupational safety and protection, the Group has set working safety regulations to provide detailed guidelines for employees during operation. We organized routine trainings on safety knowledge, survival skills and fire exercises for our employees. Such trainings were designed specifically based on their positions and the characteristic of their duties with a view to improving their safety awareness and their ability to handle emergent or contingent situations. In the meantime, the safety department also issues fire safety notices and safety warnings to the whole staff based on the weather and season conditions to remind the employees' safety.

Furthermore, the Group purchases medical insurance and work-related injury insurance for its employees in accordance with the provisions of relevant laws and regulations and has established a comprehensive system related to work injury prevention. We cooperate with property management companies from time to time to conduct internal safety investigations, and proactively eliminates potential safety hazards existed in the working environment that are prone to cause work-related injuries in order to prevent the job-related accidents from occurring. We have established a sound system for contingency and reaction of job-related injuries. In the event of the occurrence of a job-related accident, we shall take a quick and effective action to ensure that immediate treatment is provided to the injured employee. During the year, the Group did not have any job-related fatal accidents or injuries.

3.5 Development and Training

Upgrading employees' knowledge reserve and skills is our everlasting driving force and resources for the long-term development. The Group established a management mechanism for systematic staff training. We constantly update and improve such training system and provide employees at all positions with tailor-made training material so as to achieve a win-win situation for the overall development of the Company and personal growth of its employees. Currently, the Group's main training programs include:

Training for new employees

The Company adopts the new employees training mechanism through a combination of "group learning and active individual learning". During the probation period, new employee and his/her immediate supervisor will form a "1+1" mutual aid group which will help that new employee adapt to the new working environment and his/her duties as soon as possible. Induction training for new employees covers an overview of the Group's development, business profiles, corporate culture, remuneration and benefits, and rules and regulations, as well as professional attitude. Such training is aimed at helping the new employees to get familiar with the working environment and work processes as soon as practicable. Meanwhile, we also provide each employee with tailor-made transitional training during the first month of the formal employment following the probation period. Such training is designed to help streamline the transition from probation to formal appointment and highlight his/her new role and new challenges as a full-time employee.

In addition, the subsidiaries of the Group and all of our stores organize induction trainings for their new employees each month through which our internal basic rules and practices and our corporate culture will be introduced to them for the purposes of helping them get familiar with our working environment and his/her basic duties and responsibilities.

Training for management trainees

The Group regards management trainees as the key back-up force supporting the Group's further development and thus places importance on the training of them at both the headquarters level and subsidiary level. The Group has designed and organized training for management trainees which mainly covers:

- Management trainees training camp: management trainees at the headquarters of the Company and outstanding management trainees recommended by the subsidiaries will participate in a 26-day secluded training camp held in Chengdu, the "Green Apple Training Camp". The training covers corporate history, corporate culture, organization structure, products and technologies, human resources polices, and the responsibilities and authorities of each departments, etc. Lectures on professional topics and various outward-bound trainings and action-based learnings will be conducted by the senior officers of the headquarters and subsidiaries and emphasis is placed on the communication and the improvement of their social and practical skills, all aiming at helping them transit from campus life to career life.

- Management trainee exchange session: the Group organizes annual exchange session for all management trainees of the past sessions in order to facilitate communication and exchange among each other. The gathering allows management trainees to learn one another's growth and changes through experience exchange, through which promotes their further development. During the year, all of the management trainees from the headquarters and the subsidiaries gathered in Beijing for a 2-day management trainee exchange session.

Training for the management

The Group organizes an annual "Red Apple Training Camp" for its middle management, outstanding store managers and members of the management ranking above managers at our headquarters. Internal and external veteran managers are invited to provide lectures in the secluded training session. The training camp provides an excellent opportunity for communication and interaction among management members at different levels of the Group, and improves the integrated capacities of our management in terms of operating methods, financial efficiency, and control over daily operations at the same time, which enables the Group to enjoy continual and steady growth.

The Group's headquarters and our subsidiaries hold weekly specialized training sessions for employees ranking as managers and above. The training sessions cover our key products, latest industry trend, and professional managerial expertise with a view to help our employees keep up with the latest development of our headquarters and the subsidiaries and enhance our internal communication.

On-the-job training for our employees

The Group also held various on-the-job training courses for all of our employees. For frontline store employees, the Group's Human Resources department formulates training schedule at least two classes a week and implements the system for employees to prepare the lessons on a rotary basis. Also, the combination of offline practicing and online lectures was adopted to improve the efficacy of the training sessions. Online lectures cover experience sharing by outstanding store managers, professional knowledge courses, frontline selling techniques, and general skills training.

During the year, the Group vigorously promoted the building of an online training system. At present, training video, course live streaming, and teaching material sharing functions have been released on third-party platforms, such as DingTalk, WeChat Work, QL Chat platform, and "CD Xiangxue (人人享學)" APP. The online training model minimises the time and geographical restrictions for employees to receive training. The video playback function helps students review; the live streaming and interaction function promotes the effective communication among and between students and teachers; the prompt exam after training and question upon page-turning model deepens the knowledge recognition of students. In 2019, the Group organized 32 courses on WeChat Work through "Dixin Lexiang (迪信樂享)" that involved all employees of Beijing Digital, 8 courses on QL Chat platform that involved all Beijing Digital employees, and 5 courses on "CD Xiangxue'' APP that involved more than 600 employees.

Training for frontline store managers

To improve the level of service and the management for Beijing Digital's retail stores, the Group organises training events for frontline store managers of our subsidiaries from time to time. The Group organised training camps for the trainee store managers. At the training camp, participants learn how to increase their knowledge, and improve outstanding frontline talent's work skills and management skills through behaviour training, quality development and enhancement of professionalism, which can help them smoothly transit from frontline positions to management positions.

In 2019, in order to improve the comprehensive qualities of our store management, the Group organised an exchange conference for store managers nationwide that involved the participation of outstanding frontline store managers from 30 subsidiaries. The event adopted diversified training methods such as expansion, practical operation and competition, and focused on the training of managerial skills, professional knowledge, and working capacity for store managers. The training was carried out in the form of team competitions to improve interaction among students and enhance student's motives. The comprehensive learning was thus achieved through the integration of field participation and live streaming.

Training for our in-house trainers

With regard to the Group's internal training, our in-house trainers are responsible for organizing the Company's internal training sessions and play an important role in providing training for our employees. We have a tailor-made professional training program in place for the Group's inhouse trainers to systematically enhance their training skills from production of teaching material, presentation skills to management of learning atmosphere.

Pursuing further education

In addition to organizing various internal training courses to improve the quality of our staff members, the Group also encourages them to pursue further education in tertiary institutes or other vocational training institutes provided that this does not affect their performance in discharging their duties. These forms of study include full-time or part-time study for a degree level qualification, induction training, examinations for professional titles and qualifications, studying abroad, overseas study tours for employees of management rank level and above. We encourage every staff member to achieve self-improvement and enlightenment through academic education and will provide them with appropriate subsidies.

Other forms of training activities

The Group is dedicated to creating a favorable learning atmosphere. In addition to the abovementioned training programs, the Group also encourages its employees to make full use of their spare time during daily work by organizing reading sessions and using WeChat official account. It also provides an online examination platform for employees to have self-assessment of the learning outcome.

- Reading sessions: a morning reading session is held at the headquarters daily from Monday to Friday each week, during which the participated staff members may communicate with each other and share their thoughts and views.

- Individual learning + group assessment: this form of learning focuses on business training. Relevant materials are centrally published via the Company's learning system and a staff member may perform an online assessment via the online examination platform after studying for self-assessment and fortify the learning outcome.

4. ANTI-CORRUPTION MANAGEMENT

Anti-corruption is a long-term task that can ensure an enterprise's stability, existence and healthy growth. The Group always takes honesty and integrity as one of its core values and spares no effort in avoiding committing any act that will violate any professional codes or business ethics. We comply with applicable national and local laws and regulations such as the Anti-Unfair Competition Law of the People's Republic of China, and the Interim Provisions on Banning Commercial Bribery. In addition, based on the Company's actual situation, we have formulated relevant administrative rules for preventive and punitive purposes, such as the Anti-bribery Regulations, Procedures and Measures for Dealing with Fraud and Beijing Digital Rules for Procurement Control.

Fighting against corruption

The Group has formulated the Rules for Honest Practices for Beijing Digital Telecom Co., Ltd. to consistently facilitate the lawful operation of the Company, enhance our staff's business ethics relating to honesty, integrity and self-discipline and protect the Company's interests and our staff's legal rights. The Rules cover codes on honest practices, prohibition on appropriation constituting breach of duty and commercial bribery, and prohibition on unauthorized disclosure of trade secrets and imposition of penalties on and provision of incentives to those employees who have committed prohibited acts or voluntarily reported prohibited acts.

The Group has adopted a strict internal control policy to prevent misconducts such as corruption, bribery, extortion, fraud and money laundering. The Group's internal audit department performs internal audit to monitor daily operations of our subsidiaries; the finance department of the Group's headquarters also performs regular check on the cash outflow of the subsidiaries, review and follow up suspicious transactions in a timely manner. A system was also implemented on the staff members of the procurement department, for them to be rotated among departments for various terms on a different frequency, which helps prevent the occurrence of corruption in the business operations.

To build partnerships of honesty and integrity, the Group implements a strict supplier cooperation procedure. Prior to establishing a business relation with a new supplier, the business department must perform a due diligence on its background to ensure that its quoted price is in line with the prevalent market price. Based on the nature of the procurement, relevant supporting documents must be confirmed and checked. Unless being properly authorized, no procurement staff is permitted to place any order through his/her personal account, nor is he/she permitted to request for any advance payments from a supplier. In addition, all procurement contracts entered into by the Group and its principal suppliers are approved by the legal affairs department of the Group's headquarters, such contracts contain explicit terms of applicable laws and regulations on anti-bribery and anti-money laundering.

The Group has established a sound system for internal audit and risk control, and has set up a specific internal audit team which is responsible for thoroughly reviewing the anti-corruption system on a regular basis. The internal audit team consists of eight members who are holders of bachelor's degree in finance, accounting or management. The internal audit team performs internal audits for all subsidiaries each year to check whether their financial revenues and expenditure and contract management are in compliance with the internal control policies of the Company. If it is determined that any irregularity exists, the internal audit team will carry out an ad hoc inspection and record all actions they have taken and their findings. They will make a recommendation concerning the improvement of the internal control system and submit their report to the senior management. Our senior management is responsible for evaluating whether the anti-corruption policy is effective and whether any weakness exists regarding the internal control system, and make timely decisions.

Promotion and training

In order to effectively promote the Rules for Honest Practices among the staff of the enterprise, and improve professional ethics of employees, the legal affairs department of the Group conducts promotion and report at the regular management meetings of the Group. The legal affairs department adjusts and updates the promotion contents on a timely manner in accordance with the strategic management concept of the Company. In addition, the Group provides training to the staff and the senior management on commercial codes and ethics and legal policies on anti-corruption, anti-fraud and anti-money laundering semi-annually, covering recent anti-corruption cases within the industry, interpretation of relevant anti-corruption laws and regulations, and the promotion of the Company's anti-corruption policies.

Reporting and handling of reporting

The Group values its employees' thoughts and opinion and collect information on risks through various established channels in order to gain awareness on potential risks of the Company's internal control on a timely manner and discover and handle illegal activities relating to corruption and fraudulent business activities. Currently, the anonymous reporting channels put in place by the Group include reporting hotline and "anonymous reporting platform" function of WeChat account, which allow the staff at Beijing Digital, its business partners and consumers to share their opinions and suggestions. The respective departments of the Group would collect relevant information, analyse the potential problems, examine solutions to resolve the problems on a timely manner, thereby facilitating the sound development of the Company and safeguarding the interests of stakeholders of the Company.

5. SUPPLY-CHAIN MANAGEMENT

The Group continues to improve its supply chain management and supplier evaluation mechanisms to maintain and promote a more environmentally-friendly supply chain of goods and services with stable quality. We have strict procurement approval processes, new supplier selection standards and other supplier management rules in place. All suppliers are required to be in compliance with relevant national and local laws and regulations, facilitate compliance operation and possess relevant documents evidencing their qualifications for the supplies.

In the event that a new supplier is introduced to us, we would evaluate its performance on environment and community friendliness as one of our supplier selection standards. A new supplier which meets our requirements will enter into a cooperation agreement with us covering the procurement process, product quality and dispute resolution. Once an agreement is signed, such new supplier has to submit relevant qualification documents via our office automation system (the OA system). Such documents will be effective after examination by the procurement department, finance department and systems department of the Group (in such sequence).

The Group's principal products are mobile phones and accessories, our handset suppliers are mostly top-ranking brand handset manufacturers, and we require our accessories suppliers to verify the use of environmental-friendly and safe materials. We closely keep track of the latest market trend and constantly update our existing supplier database based on the suppliers' production plans.

In addition, with regard to the service providers of decoration works, the Group not only has clear requirements on their compliance records and validity of their qualifications but also imposed restrictions on their choice of materials in the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd., requiring them to use green and environmentally friendly materials in their decoration works.

6. COMMUNITY INVESTMENT

The Group actively fulfils our social responsibility as a corporate citizen, shares interests and benefits with the communities we serve and supports the sustainable development of the communities. We have established a communication mechanism with the community and integrated our comprehensive community welfare projects with our business operations. We adjust our corporate social responsibility policies based on the community needs. We work closely with our staff, professional organizations, relevant community organizations and the government to respond to the needs of the communities and provide human resources and material support for the community welfare activities.

- Continue the "Caring for the Spring Festival homecomers activity"

  At the end of 2019, the Group offered great supports to a series of public welfare events under the title of 2020 "Cowin (凱翼號) – Let Love Accompanies You Home (讓愛出發，伴你回家)" for Sichuan farmers and workers during Chinese New Year, the events were jointly organized by Sichuan General Labour Union (四川省總工會), People's Government of Sichuan in Beijing, People's Government of Sichuan in Shanghai, and People's Government of Sichuan in Xiamen. The event aimed at providing convenient transportation services for farmers and workers, and helped over 21 million Sichuan farmers and workers to return home smoothly during Chinese New Year. Over the years, Beijing Digital has consistently been organizing charitable events during the Chinese New Year for homecomers, such as offering free hot drinks, food, mobile power banks and first aid box (including bandage, mercurochrome and medicines for treating colds) to homecomers who passed by our stores, to provide support and warmth in their homecoming journeys.

- Provision of services to the candidates of National Higher Education Entrance Examination

  Over the years, Beijing Digital persisted in offering a number of online and offline high-quality services during the higher education entrance examination period to care for and support whole-heartedly the candidates of the entrance examination and their families. During the examination period, shop assistants of the Group's stores were assigned to set up service counters at the examination campuses in the cities where such stores are located, and bottles of mineral water, mobile power banks, fans and other items for relieving summer heat and sunburn were given away to the candidates and their parents free of charge. The candidates and their parents might also collect small gifts from our nearest stores with our promotion leaflets or coupons distributed at the examination campuses. In addition, we also hung up banners around the examination campuses to encourage the candidates, stimulating their mind power and providing support to them.

- Participation in the poverty alleviation program

  Under the guidance of Beijing Haidian District Government, Beijing Digital organized a poverty alleviation program with Hotan District, Xinjiang to help local farmers open up sales channels for agricultural products such as raisins and walnuts, which opened up a channel for employees of the Group's headquarters and subsidiaries to purchase local specialties.

7. ENVIRONMENTAL RESPONSIBILITY

The Group places great emphasis on sound environmental management and actively pursues energy saving and reduction of emission so as to protect the environment. We integrate the concept of environmental protection into our daily operation and management, strictly comply with the regulations of national and local environmental regulatory bodies and relevant industry guidelines and constantly improve our performance on environmental protection.

7.1 Management of emissions

The Group puts efforts on minimising the generation of pollutants and the impact on surrounding environment from the Company's operations as much as possible. We regularly keep tracks of and strictly abide by the relevant national and local laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Appraising of Environmental Impacts, the Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise, and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes. During the year, there was no fine imposed on or litigation against the Company arising from environmental pollution.

Owing to the nature of our operation, the sources for emission of waste gas of the Group are mainly emission of exhaust gas from the Company's motor vehicles and the Company's wagons, as well as greenhouse gas emissions due to energy consumption. We continuously strengthened the management of the Company's motor vehicles and improved the efficiency of the use of those vehicles to reduce the generation of exhaust gas. The specific measures include verifying refuelling bills of the Company's motor vehicles and encouraging employees to make use of public transport services. We also promote the use of new energy motor vehicles of the Company within our Group. With regard to the greenhouse gas emissions in our daily operation, the Group reduces the use of energy through energy-saving management measures in office buildings and stores. During the year, the total greenhouse gas emissions generated from energy consumption at the offices of the Group's headquarters and our subsidiaries reduced by approximately 30%.

The source of the Group's solid waste is mainly the general wastes, used paper and used office consumables generated from our dairy operation. In order to reduce the amount of used paper in our offices, we post signs next to printers to remind employees to double check the printing format and printing scope to avoid printing error and reprint. We introduce the concept of paperless office and continuously promote the use of automated office software in the Group as a whole. We encourage employees to reuse error report or used paper to print non-official documents and documents for internal circulation or as drafting paper. Meanwhile, the Group is also committed to improving the efficiency of the use of office consumables. A quotas system is adopted for the requisition of office supplies, and we also encourage the recycling and reuse of office consumables. The management for the use of printing paper changed from a centralized model to a individual model managed internally by each department, and the department shall bear the costs for the excess usage to avoid paper waste. Currently, a number of our subsidiaries have cooperated with printer suppliers to have their used toner cartridges and ink cartridges recycled. The daily wastes and used paper generated from the Group's daily operation are collected by third-party recyclers for recycling. During the year, the total wastes generated from offices of the Group's headquarters and subsidiaries generally remained stable.

Currently, plastic pollution is a crucial environmental problem worldwide that requires urgent solution. The Group actively adopts measures to reduce the use of plastic, adopts waste classification in offices, and encourages employees' action of plastic reduction. For take-out meal boxes and packaging used by the employees, the Company promotes and encourages autonomous classification at fixed location to facilitate the separate collection of cleaning staff and subsequent separate recycling and disposal. In addition, we also proposed to reduce the use of bottled water at internal meetings of the Company and prepare reusable cups as possible.

In addition, with regard to the use of loudspeakers or any other audio equipment in any promotional events, the Group requires our stores to file application and details of the event with local urban management law enforcement bureaus before the events and strictly control the decibel level to ensure compliance with noise emissions so as to minimize the impact of the noise on the entities and the general public in the surrounding areas.

We continue to communicate with managers of our front-line stores to adopt green operations and encourage our stores to take environmental-friendly measures. Currently, the majority of Beijing Digital's stores re-use promotional materials and put greater efforts and strength in their online promotion to reduce the distribution of paper leaflets. Currently, more and more stores put greater efforts in their online promotion. Meanwhile, we are supporting the mobile power bank sharing campaign in order to improve the efficient use of mobile power banks and save social resources.

Performance of the management of emissions

Unless otherwise stated, the environmental data provided in this section only covers the Group's headquarters, offices of the subsidiaries and the warehouse as well as stores in Beijing and Shanghai.

(1) *Headquarters, offices of subsidiaries and warehouses*

Indicators	2019
Sulfur dioxide (tons)[1]	0.04
Nitrogen oxide (tons)[1]	1.46
Total greenhouse gas emissions (scope 1 and scope 2) (tons)[2]	1,511.26
Greenhouse gas emissions intensity (ton/square meter)	0.08
Greenhouse gas emissions intensity (ton/person)	0.50
Direct emissions (scope 1) (tons)	645.79
Petrol	554.70
Diesel	91.09
Indirect emissions (scope 2) (tons)	865.47
Externally-purchased electricity	865.47
Non-hazardous waste (tons)[3]	65.31
Average per capita non-hazardous waste (ton/person)	0.02
Hazardous waste (tons)[4]	0.23
Average per capita hazardous waste (ton/person)	0.00007
Used toner cartridges	0.18
Used fluorescent tubes	0.05

1. Sulfur dioxide and nitrogen oxide emissions were mainly generated from fuel combustion of the Company's motor vehicles. There was no direct use of other energy, such as natural gas, which fell within the scope of disclosure. The data for the emissions of sulfur dioxide and nitrogen oxide was calculated based on the Technical Guidelines for the Preparation of Atmospheric Pollutants Emission Inventory for Road Vehicles (Trial) (道路機動車大氣污染物排放清單編製技術指南(試行)) issued by the Ministry of Environmental Protection of People's Republic of China.

2. Greenhouse gas inventory included carbon dioxide, methane and nitrous oxide, which were mainly generated from externally-purchased electricity and fuel combustion. Greenhouse gas accounting is presented based on carbon dioxide equivalent and was calculated in accordance with the Baseline Emission Factor for Emission Reduction Project for China Regional Power Grid 2017 (2017年減排項目中國區域電網基準線排放因子) issued by the National Development and Reform Commission of China and the IPCC National Greenhouse Gas Inventory Guide 2006 (2006年IPCC國家溫室氣體清單指南) issued by the Intergovernmental Panel on Climate Change (IPCC).

3. Non-hazardous wastes were collected by waste collection services providers. Those wastes mainly included waste paper and waste office stationeries and food wastes from our offices.

4. Hazardous wastes were collected by third-party recyclers. Those wastes included used toner cartridges, used ink cartridges and used fluorescent tubes.

(2) *Stores in Beijing and Shanghai*

Indicators	**2019**
Total greenhouse gas emissions (scope 1 and scope 2) (tons)[1]	4,332.45
Greenhouse gas emissions intensity (ton/square meter)	0.14
Greenhouse gas emissions intensity (ton/person)	3.93
Direct emissions (scope 1) (tons)	–
Indirect emissions (scope 2) (tons)	4,332.45
Externally-purchased electricity	4,332.45

1. Greenhouse gas inventory included carbon dioxide, methane and nitrous oxide, which were mainly generated from externally-purchased electricity. Greenhouse gas accounting is presented based on carbon dioxide equivalent and was calculated in accordance with the Baseline Emission Factor for Emission Reduction Project for China Regional Power Grid 2017 (2017年減排項目中國區域電網基準線排放因子) issued by the National Development and Reform Commission of China and the IPCC National Greenhouse Gas Inventory Guide 2006 (2006年IPCC國家溫室氣體清單指南) issued by the Intergovernmental Panel on Climate Change (IPCC).

7.2 Use of resources

The Group constantly keeps watch for, identifies and minimizes the impact of our daily business activities on the environment and puts efforts on improving the efficiency of the use of resources. We promote management for asset acquisition, requisition and abandonment of the Company by establishing an asset management system to reduce unnecessary wastes.

We place emphasis on fostering staff's awareness on natural resources-saving. We post signs for energy saving and emission reduction in prominent places in our primary offices and beside large electrical equipment. We also emphasize and require our staff to actively follow and act on the Company's energy-saving measures in routine meetings, such as switching off idle lightings and reducing the standby time of electrical appliances, to improve our staff's awareness on energy-saving. Beijing Digital's Guidelines for Employees stated that employees shall pay attention to green office behaviours, such as turn off the computers upon getting off duty and at least turn off monitors during lunch breaks; also, switch off lightings and air conditioners in meeting rooms and reception rooms when the rooms are not in use; and the last staff leaving the company the office shall check whether all lightings and air conditioners are turned off. In 2019, energy-saving lightings have generally been used in the in the Group's headquarters and offices of the subsidiaries, and we promote the use of natural light for daily work when possible.

The Company encourages our staff to control water usage through adjusting the water flow to medium while washing hands or cups and turning off water taps immediately after use. Where any leaking pipe or loosen tap head is found, the staff shall report to our administrative department immediately, or the person-in-charge shall contact the property where the building locates to minimize the waste of water.

During the year, the total electricity consumption of the Group's headquarters and subsidiaries remained relatively stable as compared with the previous year. As the Group enhanced its internal management system for the Company's motor vehicles, encouraged our staff to take public transport, and improved the transportation management for cargo allocation, the fuel consumption of Company's motor vehicles was greatly reduced, leading to the reduction of overall energy consumption.

Performance of the management of consumption of energy and resources

Unless otherwise stated, the environmental data provided in this section only covers the Group's headquarters, offices of the subsidiaries and the warehouse (data from the stores are not included).

(1) *Headquarters, offices of subsidiaries and warehouses*

Indicators	2019
Total energy consumption (MWh)[1]	3,911.47
Energy intensity assumption (MWh/square meter)	0.22
Energy intensity assumption (MWh/person)	1.28
Direct energy consumption (MWh)	2,612.40
Petrol (MWh)	2,265.96
Diesel (MWh)	346.44
Indirect energy consumption (MWh)	1,299.07
Electricity (MWh)	1,299.07
Water consumption (tons)[2]	16,453.28
Average per capita water consumption (ton/person)	5.40
Use of paper for printing (tons)	11.09
Wrapping materials (tons)[3]	57.54
Use of wrapping materials per 10,000 mobile handsets sold (ton/10,000 mobile handsets)[4]	0.060

1. *The figure for energy consumption was calculated based on the electricity and fuel consumption and the conversion factors in the General Principles for Calculation of Total Production Energy Consumption (GB/T 2589-2008)(綜合能耗計算通則(GB/T 2589-2008)), the national standard of the People's Republic of China.*

2. *Water consumption includes the consumption of municipal tap water and drinking water. Among which, the water consumptions in our headquarters in Beijing, subsidiaries in Shanghai, Sichuan, Liaoning, Shanxi, Hubei, Shandong, Hebei and offices of Jiaxing City D-phone Communication Technology Co., Ltd. (嘉興市迪加通信技術有限公司), Nanjing Yijialong Communication Technology Co., Ltd., (南京億家隆通信技術有限公司) and Urumqi Dixin Chuangfa Communication Technology Co., Ltd. (烏魯木齊迪信創發通信技術有限公司) were excluded in the calculation as their tap water tariffs were included in their property management fees and thus the calculation did not cover their water consumptions.*

3. *Due to the nature of our business, the wrapping materials were mainly paper bags and non-woven bags given away to consumers for containing mobile handsets sold to them, excluding the wrapping materials provided by manufacturers wrapped in the product sold. The figure for the wrapping materials included wrapping materials such as paper bags and non-woven bags centrally procured by the subsidiaries. The change in total use of wrapping materials for the year was mainly due to the adjustment of calculation method of some subsidiaries.*

4. *Use of wrapping materials per ten thousand units of mobile handsets sold represented the average consumption for wrapping materials for selling 10,000 units of mobile handsets.*

(2) *Stores in Beijing and Shanghai*

Indicators	**2019**
Total energy consumption (MWh)[1]	6,429.22
Energy intensity assumption (MWh/square meter)	0.14
Energy intensity assumption (MWh/person)	5.83
Direct energy consumption (MWh)	–
Indirect energy consumption (MWh)	6,429.22
Electricity (MWh)	6,429.22
Water consumption (tons)[2]	22,836.97

1. *The major type of energy consumed in stores was externally-purchased electricity.*

2. *As the water tariffs of certain stores were assumed by the property, the consumption of tap water cannot be calculated separately; therefore, the figure of water consumption of stores only covered the stores which the Group assumed its water tariffs independently.*

7.3 Material impact on environment and natural resources

Owing to the nature of our core business, the impact brought by the Group on the environment and natural resources is limited. The consumption of resources mainly represents consumptions of electricity, water, printing paper and wrapping materials consumed in our offices and stores. In addition to saving energy, reducing the emissions and strengthening the management on the use of resources, the Group also actively promotes waste categorization and regulates the disposals to reduce the impacts arising from waste entering into the ecological environment.

During the year, we continued to provide service of trading in used mobile handsets for new ones in order to collect back the used mobile handsets. This activity not only helps promote environmental protection but also is well-received by the majority of consumers. We would earn commissions for the service of trading in used mobile handsets for new ones and create opportunity for the sales of new mobile handsets at the same time. Currently, the coverage of the mobile recycling business of the Group includes all provincial and municipal subsidiaries.

APPENDIX I – ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX

Area	Issue		Performance Indicator	Relevant Section in this Report
Environmental	A1	Emissions	General Disclosure: Information relating to exhaust and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste: (1) the policies; and (2) compliance with relevant laws and regulations that have a significant impact on the issuer.	7. ENVIRONMENTAL RESPONSIBILITY
			A1.1 The types of emissions and respective emissions data	7.1 Management of emissions
			A1.2 Greenhouse gas emissions in total (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	7.1 Management of emissions
			A1.3 Total hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	7.1 Management of emissions
			A1.4 Total non-hazardous waste produced (in tons) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	7.1 Management of emissions
			A1.5 Description of measures to mitigate emissions and results achieved	7.1 Management of emissions
			A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	7.1 Management of emissions
	A2	Use of Resources	General Disclosure: Policies on the efficient use of resources, including energy, water and other raw materials	7. ENVIRONMENTAL RESPONSIBILITY
			A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility)	7.2 Use of resources
			A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility)	7.2 Use of resources
			A2.3 Description of energy use efficiency initiatives and results achieved	7.2 Use of resources
			A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	7.2 Use of resources
			A2.5 Total packaging material used for finished products (in tons) and, if applicable, with reference to per unit produced	7.2 Use of resources

Area	Issue		Performance Indicator	Relevant Section in this Report
	A3	Environment and Natural Resources	General Disclosure: Policies on minimising the issuer's significant impact on the environment and natural resources.	7.3 Material impact on environment and natural resources
			A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	7.3 Material impact on environment and natural resources
Social	B1	Employment	General Disclosure: Information relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare: (1) the policies; and (2) compliance with relevant laws and regulations that have a significant impact on the issuer.	3.1 Introduction of talents 3.2 Protection of employees' rights and interests 3.3 Employees' benefits
			B1.1 Total workforce by gender, employment type, age group and geographical region	3.1 Introduction of talents
			B1.2 Employee turnover rate by gender, age group and geographical region	Not disclosed for the time being
	B2	Health and Safety	General Disclosure: Information relating to providing a safe working environment and protecting employees from occupational hazards: (1) the policies; and (2) compliance with relevant laws and regulations that have a significant impact on the issuer.	3.4 Health and safety
			B2.1 Number and rate of work-related fatalities	3.4 Health and safety
			B2.2 Lost days due to work injury	3.4 Health and safety
			B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored	3.4 Health and safety
	B3	Development and Training	General Disclosure: Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.5 Development and training
			B3.1 The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	3.5 Development and training
			B3.2 The average training hours completed per employee by gender and employee category	3.5 Development and training

Area	Issue		Performance Indicator		Relevant Section in this Report
	B4	Labour Standards	General Disclosure: Information relating to preventing child and forced labour:		3.2 Protection of employees' rights and interests
			(1)	the policies; and	
			(2)	compliance with relevant laws and regulations that have a significant impact on the issuer.	
			B4.1	Description of measures to review employment practices to avoid child and forced labour	3.2 Protection of employees' rights and interests
			B4.2	Description of steps taken to eliminate such practices when discovered	Not applicable, as such phenomena did not occur
	B5	Supply Chain Management	General Disclosure: Policies on managing environmental and social risks of the supply chain.		5. SUPPLY-CHAIN MANAGEMENT
			B5.1	Number of suppliers by geographical region	Not disclosed for the time being
			B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	5. SUPPLY-CHAIN MANAGEMENT
	B6	Product Responsibility	General Disclosure: Information relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress:		2. PRODUCT AND SERVICE RESPONSIBILITY
			(1)	the policies; and	
			(2)	compliance with relevant laws and regulations that have a significant impact on the issuer.	
			B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable to the business nature of the Group
			B6.2	Number of products and service-related complaints received and how they are dealt with	2.2 To serve with heart
			B6.3	Description of practices relating to observing and protecting intellectual property rights	2.4 Protection of intellectual property rights
			B6.4	Description of quality assurance process and recall procedures	In view of the business characteristics of the Group, we guarantee the quality of products we sell by strictly managing the qualification of product suppliers; for details, please see 2.1 Product quality and safety assurance
			B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	2.6 Protection of the consumers' information

Area	Issue	Performance Indicator	Relevant Section in this Report
	B7 Anti-corruption	General Disclosure: Information relating to bribery, extortion, fraud and money laundering: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer.	4. ANTI-CORRUPTION MANAGEMENT
		B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	4. ANTI-CORRUPTION MANAGEMENT
		B7.2 Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	4. ANTI-CORRUPTION MANAGEMENT
	B8 Community Investment	General Disclosure: Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6. COMMUNITY INVESTMENT
		B8.1 Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	6. COMMUNITY INVESTMENT
		B8.2 Resources contributed (e.g. money or time) to the focus area	Not disclosed for the time being

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Beijing Digital Telecom Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out from pages 124 to 224, 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("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.

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.

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
As at 31 December 2019, the balance of trade receivables amounted to RMB2,667,684,000 and the provision for impairment amounted to RMB126,103,000. The Group applies the simplified approach to determine the provision for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. This involves management's judgement, which includes checking the age of the balance, recent historical payment patterns, forecasts of future conditions and assessing any other available information concerning the creditworthiness of the counterparties. The Group uses such information to determine whether a provision for impairment is required either for a specific transaction or for the overall balance of a customer category. Related disclosures are included in note 26 to the consolidated financial statements.	We obtained and re-tested the ageing analysis prepared by management. We also obtained management's accounting policy and assumptions underlying the loss allowance for impairment of trade receivables. In order to assess these judgements, we considered the overdue period, the customers' historical payment patterns and whether any post year-end payments were received up to the date of completion of our audit procedures. We assessed whether the time value of money was considered in the expected credit loss impairment model and evaluated the Group's provisioning rates by corroborating to underlying facts along with other relevant information and performed testing on a sample basis on the receivable balances. In assessing the overall provision for impairment, we also assessed the adequacy of the Group's disclosures in the financial statements in accordance with IFRS 9.
Impairment assessment of goodwill	
The Group performs impairment review of goodwill annually on a value-in-use basis. This annual impairment test was significant to our audit because the balance of goodwill amounted to RMB94,687,000, which accounted for 0.9% of the total assets, and the provision for impairment amounted to RMB26,568,000 as at 31 December 2019. In addition, management's assessment process was complex and highly judgemental and was based on assumptions, including revenue growth, profit margins and discount rates, which could be affected by expected future market or economic conditions. Related disclosures are included in note 17 to the consolidated financial statements.	We evaluated management's future cash flow forecasts, including the forecasts with business operation and development plan and underlying calculations. We tested the key assumptions for the revenue growth rates and profit margin rates in the cash flow forecasts by comparing them to historical results; and the discount rates by independently estimating a range based on market data. Further, we also involved our internal valuation specialist to review the key parameters used in the fair value models adopted by the Group. We also assessed the adequacy of the Group's disclosures in the financial statements.

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Implementation of IFRS 16	
The Group has adopted IFRS 16 Leases using the modified retrospective method with the date of initial application of 1 January 2019. The Group recognised the right-of-use assets of RMB649,515,000 and the lease liabilities of RMB601,632,000 upon initial adoption of IFRS 16 at 1 January 2019. As at 31 December 2019, the balance of right-of-use assets amounted to RMB550,002,000 which accounted for 5.0% of the total assets and the balance of lease liabilities amounted to RMB529,704,000 which accounted for 7.8% of the total liabilities. The impact of application of IFRS 16 on the Group's consolidated financial statements was material and management's particular judgement and estimation were involved, which included the determination of lease terms and the estimation of incremental borrowing rate. Related disclosures are included in note 2.2 (a) Adoption of IFRS 16 and note 16 to the consolidated financial statements.	We obtained an understanding of the process used by the Group for the initial application of IFRS 16. We evaluated the Group's lease accounting policies that have been applied for the transition and application of IFRS 16. We corroborated the information used in the measurement of the rights-of-use assets and the lease liabilities based on the underlying lease contracts and re-calculated the impact amount. In assessing management's key judgements on lease terms, we considered the renewal period and economic incentive including historical performance of specific retail stores. We evaluated management's estimation on incremental borrowing rate by comparing it with market interest rates and the Group's practical borrowing cost. We also assessed the adequacy of the Group's disclosures in the financial statements in accordance with IFRS 16.

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. The Company's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

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.

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

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 IFRSs issued by the IASB 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.

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.

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

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

- 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.

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 Shun Lung Wai.

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

20 April 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CONTINUING OPERATIONS			
REVENUE	7	**15,350,953**	14,957,133
Cost of sales		**(13,582,076)**	(13,042,383)
Gross profit		**1,768,877**	1,914,750
Other income and gains	7	**67,576**	97,996
Selling and distribution expenses		**(858,016)**	(992,508)
Administrative expenses		**(324,563)**	(359,889)
Impairment losses on financial assets		**(51,855)**	(27,510)
Other expenses		**(34,896)**	(52,532)
Finance costs	9	**(232,712)**	(192,106)
Share of profits and losses of:			
Joint ventures		**(679)**	(4,253)
Associates		**(1,586)**	894
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	8	**332,146**	384,842
Income tax expense	12	**(71,694)**	(78,633)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**260,452**	306,209
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation		**–**	15,892
PROFIT FOR THE YEAR		**260,452**	322,101
Attributable to:			
Owners of the parent		**257,439**	329,536
Non-controlling interests		**3,013**	(7,435)
		260,452	322,101
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted (RMB)			
For profit for the year	14	**0.39**	0.49
For profit from continuing operations	14	**0.39**	0.48

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**260,452**	322,101
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(361)**	836
Share of other comprehensive income of a joint venture	**715**	151
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**354**	987
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive (loss)/income:		
Changes in fair value	**(4,568)**	1,601
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	**(4,568)**	1,601
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(4,214)**	2,588
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**256,238**	324,689
Attributable to:		
Owners of the parent	**253,227**	331,792
Non-controlling interests	**3,011**	(7,103)
	256,238	324,689

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**114,059**	130,744
Right-of-use assets	16	**550,002**	–
Goodwill	17	**68,119**	72,646
Other intangible assets	18	**8,459**	7,492
Investments in joint ventures	19	**74,349**	74,313
Investments in associates	20	**252,406**	37,114
Debt instrument at amortised cost	21	**500**	–
Equity investments designated at fair value through other comprehensive income	22	**35,623**	41,713
Deferred tax assets	23	**64,381**	40,892
Loan receivables	24	**–**	16,472
Total non-current assets		**1,167,898**	421,386
CURRENT ASSETS			
Inventories	25	**2,937,176**	2,541,787
Trade and bills receivables	26	**2,689,638**	2,172,337
Prepayments, other receivables and other assets	27	**1,717,857**	1,331,443
Financial assets at fair value through profit or loss	28	**201,205**	–
Loan receivables	24	**–**	40,640
Due from the controlling shareholder	30	**–**	35,000
Due from related parties	30	**76,163**	168,711
Pledged deposits	29	**1,485,075**	660,251
Cash and cash equivalents	29	**666,245**	708,548
Total current assets		**9,773,359**	7,658,717
CURRENT LIABILITIES			
Trade and bills payables	31	**1,097,525**	484,876
Other payables and accruals	32	**310,253**	341,922
Interest-bearing bank and other borrowings	33	**3,968,773**	3,066,638
Lease liabilities	16	**205,276**	–
Due to related parties	30	**432,309**	4,253
Tax payable		**426,188**	348,709
Total current liabilities		**6,440,324**	4,246,398
NET CURRENT ASSETS		**3,333,035**	3,412,319
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,500,933**	3,833,705
NON-CURRENT LIABILITIES			
Lease liabilities	16	**324,428**	–
NET ASSETS		**4,176,505**	3,833,705

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	*34*	**666,667**	666,667
Reserves	*36*	**3,347,591**	3,093,663
		4,014,258	3,760,330
Non-controlling interests		**162,247**	73,375
Total equity		**4,176,505**	3,833,705

Liu Donghai
Director

Liu Songshan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent								
	Share capital RMB'000 *(Note 34)*	Capital reserve RMB'000 *(Note 36)*	Statutory reserve funds RMB'000 *(Note 36)*	Retained profits RMB'000	Fair value reserve RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	666,667	524,953	243,661	1,996,853	–	(1,075)	3,431,059	80,283	3,511,342
Effect of adoption of IFRS 9	–	–	–	–	(950)	–	(950)	–	(950)
Effect of adoption of IFRS 15	–	–	–	(1,571)	–	–	(1,571)	–	(1,571)
At 1 January 2018 (restated)	666,667	524,953	243,661	1,995,282	(950)	(1,075)	3,428,538	80,283	3,508,821
Profit for the year	–	–	–	329,536	–	–	329,536	(7,435)	322,101
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	504	504	332	836
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	1,601	–	1,601	–	1,601
Share of other comprehensive income of a joint venture	–	–	–	–	–	151	151	–	151
Total comprehensive income for the year	–	–	–	329,536	1,601	655	331,792	(7,103)	324,689
Capital contribution by non-controlling shareholders	–	–	–	–	–	–	–	49,651	49,651
Acquisition of subsidiaries	–	–	–	–	–	–	–	(3,749)	(3,749)
Disposal of subsidiaries	–	–	–	–	–	–	–	(45,707)	(45,707)
Transfer from retained profits	–	–	32,954	(32,954)	–	–	–	–	–
At 31 December 2018	666,667	524,953	276,615	2,291,864	651	(420)	3,760,330	73,375	3,833,705

Year ended 31 December 2019

	Attributable to owners of the parent									
	Share capital RMB'000 (Note 34)	Capital reserve RMB'000 (Note 36)	Share-based payment reserve RMB'000 (Note 35)	Statutory reserve funds RMB'000 (Note 36)	Retained profits RMB'000	Fair value reserve RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	666,667	524,953	–	276,615	2,291,864	651	(420)	3,760,330	73,375	3,833,705
Profit for the year	–	–	–	–	257,439	–	–	257,439	3,013	260,452
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(359)	(359)	(2)	(361)
Change in fair value of equity investments at fair value through other comprehensive loss, net of tax	–	–	–	–	–	(4,568)	–	(4,568)	–	(4,568)
Share of other comprehensive income of a joint venture	–	–		–	–	–	715	715	–	715
Total comprehensive income for the year	–	–	–	–	257,439	(4,568)	356	253,227	3,011	256,238
Acquisition of non-controlling interest	–	(621)	–	–	–	–	–	(621)	(10,046)	(10,667)
Disposal of partial interests in subsidiaries without losing control	–	(23,973)	–	–	–	–	–	(23,973)	93,973	70,000
Share-based payments	–	–	25,295	–	–	–	–	25,295	–	25,295
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	2,114	2,114
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(180)	(180)
Transfer from retained profits	–	–	–	25,744	(25,744)	–	–	–	–	–
At 31 December 2019	666,667	500,359	25,295	302,359	2,523,559	(3,917)	(64)	4,014,258	162,247	4,176,505

* *These reserve accounts comprise the consolidated reserves of RMB3,347,591,000 (2018: RMB3,093,663,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**332,146**	384,842
From a discontinued operation		**–**	15,892
Adjustments for:			
Finance costs	9	**232,712**	193,210
Interest income from loan receivables and others		**(592)**	(15,798)
Share of profits and losses of joint ventures		**1,586**	4,253
Share of profits and losses of associates		**679**	(894)
Impairment of goodwill	8	**4,527**	22,041
Impairment of intangible assets	8	**2,356**	–
Provision for impairment of trade and bills receivables	8	**18,378**	2,825
Provision for impairment of amounts due from related parties	8	**427**	236
Provision for impairment of financial assets at fair value through other comprehensive income	8	**4,932**	–
Provision for impairment of other receivables	8	**11,375**	24,449
Provision for impairment of loan receivables	8	**16,743**	–
Provision for impairment of inventories	8	**22,398**	22,665
Fair value gain on financial assets at fair value through profit or loss	7	**(1,105)**	–
Depreciation	8	**50,190**	58,122
Depreciation of right-of-use assets	8	**224,102**	–
Amortisation of intangible assets	8	**1,605**	1,076
Gain on disposal of a subsidiary	7	**(2,580)**	(7,464)
Gain on acquisition of subsidiaries	7	**(1,929)**	(189)
Equity-settled share-based payment expenses	8	**25,295**	–
Loss on disposal of an investment of an associate	8	**2,785**	–
Loss on disposal of an investment of a joint venture	8	**–**	129
Loss on disposal of items of property, plant and equipment	8	**1,208**	1,817
Foreign exchange gain/(loss), net		**(1,100)**	636
		946,138	707,848
Increase in trade and bills receivables		**(539,235)**	(191,825)
Increase in prepayments, other receivables and other assets		**(440,630)**	(22,261)
Increase in pledged deposits		**(3,157)**	(3,243)
Increase in inventories		**(419,287)**	(274,746)
Decrease in properties under development		**–**	69,593
Decrease in completed properties held for sale		**–**	15,252
Decrease in trade and bills payables		**607,854**	71,509
Increase in other payables and accruals		**(43,646)**	(18,323)
Decrease/(increase) in amounts due from related parties		**92,121**	(113,383)
Increase in amounts due to related parties		**353,843**	47,725
Cash from operations		**554,001**	288,146
Income tax paid		**(16,933)**	(21,897)
Net cash flows from operating activities		**537,068**	266,249

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	37	**786**	(9,732)
Disposal of a subsidiary		**35,000**	(33,160)
Disposal of interests in an associate		**6,000**	–
Purchases of items of property, plant and equipment		**(39,828)**	(67,892)
Purchases of items of other intangible assets		**(1,928)**	(819)
Proceeds from disposal of items of property, plant and equipment		**4,882**	2,636
Purchase of a debt instrument		**(500)**	–
Purchase of financial assets at fair value through profit or loss		**(200,100)**	–
Interest received		**4,364**	12,934
Decrease in investments in financial products by bank		**–**	210,000
Acquisition of interests in joint ventures		**(217,031)**	(1,500)
Acquisition of interest in an associate		**–**	(10,000)
Purchases of equity investments at fair value through other comprehensive income		**–**	(30,000)
Prepayment arising from acquisitions		**–**	(3,000)
Repayment/(advances) of loans to third parties		**40,640**	(18,577)
Dividends received from an associate		**368**	–
Decrease in loan receivables		**–**	300,000
Net cash flows (used in)/from investing activities		**(367,347)**	350,890
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**6,128,899**	7,116,070
Loan from a related party		**74,186**	–
Capital contribution from non-controlling shareholders		**70,000**	49,651
(Increase)/decrease in pledged deposits		**(821,667)**	296,413
Repayment of bank loans and corporate bond		**(5,228,411)**	(7,794,629)
Dividends paid to non-controlling shareholders		**(180)**	–
Principal portion of lease payments		**(196,483)**	–
Acquisition of non-controlling interests		**(3,818)**	–
Interest paid		**(234,749)**	(191,739)
Net cash flows used in financing activities		**(212,223)**	(524,234)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(42,502)**	92,905
Cash and cash equivalents at beginning of year		**708,548**	614,879
Effect of foreign exchange rate changes, net		**199**	764
CASH AND CASH EQUIVALENTS AT END OF YEAR		**666,245**	708,548
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**666,245**	708,548
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION		**666,245**	708,548

1. CORPORATE AND GROUP INFORMATION

The Company is a joint stock company with limited liability established in the People's Republic of China ("PRC"). The registered office of the Company is located at No.101, 4/F, C Yi'an Business Building, 18 Building Yi'an Jiayuan, Beiwa West, Haidian District, Beijing, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the sale of mobile telecommunications devices and accessories, the provision of related services and the development and sale of properties.

In the opinion of the directors, the controlling shareholders of the Company are Mr. Liu Donghai, Mr. Liu Songshan, Ms. Liu Hua, Ms. Liu Wencui and Ms. Liu Yongmei, who are siblings.

Information about subsidiaries

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

Name of the principal subsidiaries	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Beijing D-phone Trading Co., Ltd.* (北京迪信商貿有限責任公司)	RMB100,000,000	100	–	(1)
Beijing D-phone Electronic Communication Technology Co., Ltd. * (北京迪信通電子通信技術有限公司)	RMB10,000,000	100	–	(1)
Beijing Shengduo Trading Co., Ltd. * (北京勝多商貿有限責任公司)	RMB10,000,000	100	–	(1)
Jiangsu Shengduo Technology Trading Co., Ltd. * (江蘇勝多科技有限責任公司)	RMB10,000,000	100	–	(1)
Jiangsu D-phone Communication Technology Co., Ltd. * (迪信通通訊科技江蘇有限公司)	RMB20,000,000	–	100	(1)
Shanghai Chuanda Communication Technology Co., Ltd. * (上海川達通信技術有限公司)	RMB10,000,000	75	–	(1)
Shanghai Dixin Electronic Communication Technology Co., Ltd. * (上海迪信電子通信技術有限公司)	RMB20,000,000	75	–	(1)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Shanghai Dixin South Communication Technology Co., Ltd. * (上海迪信南方通信技術有限公司)	RMB20,000,000	75	–	(1)
Hefei D-phone Communication Technology Co., Ltd. * (合肥迪信通通信技術有限公司)	RMB10,000,000	100	–	(1)
Shenyang Tongliansihai Electronic Communication Technology Co., Ltd. * (瀋陽通聯四海電子通信技術有限公司)	RMB10,000,000	100	–	(1)
Changsha D-phone Electronic Science and Technology Information Co., Ltd. * (長沙迪信通電子科技信息有限公司)	RMB30,000,000	100	–	(1)
Beijing Dixinhaotian Trading Co., Ltd. * (北京迪信昊天商貿有限公司)	RMB10,000,000	100	–	(1)
Guangxi D-phone Electronic Communication Technology Co., Ltd. * (廣西迪信通電子通信技術有限公司)	RMB15,000,000	100	–	(1)
Zhejiang D-phone Trading Co., Ltd. * (浙江迪信通商貿有限公司)	RMB10,000,000	100	–	(1)
Sichuan Yijialong Communication Technology Chain Co., Ltd. * (四川億佳隆通訊連鎖有限公司)	RMB5,000,000	100	–	(1)
Beijing D-phone Fengze Electronic Equipment Co., Ltd. * (北京迪信通豐澤電子設備有限公司)	RMB5,000,000	–	100	(1)
Jinan Dixin Electronic Communication Technology Co., Ltd. * (濟南迪信電子通信技術有限公司)	RMB10,500,000	100	–	(1)
Nanyang D-phone Electronic Communication Technology Co., Ltd. * (南陽迪信通電子通信技術有限公司)	RMB8,000,000	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Qingdao D-phone Communication Technology Co., Ltd. * (青島迪信通通信技術有限公司)	RMB5,000,000	–	100	(1)
Hunan Zhongxuntong Electronic Science and Technology Co., Ltd. * (湖南中訊通電子科技有限公司)	RMB5,000,000	100	–	(1)
Zhengzhou D-phone Electronic Communication Technology Co., Ltd. * (鄭州迪信通電子通信技術有限公司)	RMB13,000,000	100	–	(1)
Chongqing Digital Intelligent Technology Co., Ltd.* (重慶迪信通智能技術有限公司)	RMB400,000,000	75	–	(3)
Henan D-phone Electronic Communication Technology Co., Ltd. * (河南迪信通電子通信技術有限公司)	RMB20,000,000	100	–	(1)
Tianjin D-phone Electronic Communication Technology Co., Ltd. * (天津迪信通電子通信技術有限公司)	RMB30,000,000	100	–	(1)
Guangdong D-phone Trading Co., Ltd. * (廣東迪信通商貿有限公司)	RMB10,000,000	100	–	(1)
Ningbo Hi-tech District Chaofa Technology Co., Ltd. * (寧波高新區超發科技有限公司)	RMB10,000,000	100	–	(1)
Ningbo Hi-tech Zone Wencui Technology Co., Ltd. * (寧波高新區文翠科技有限公司)	RMB10,000,000	–	100	(1)
Hebei Dixin Electronic Communication Equipment Co., Ltd. * (河北迪信電子通信設備有限公司)	RMB3,000,000	100	–	(1)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Wenzhou D-phone Electronic Communication Technology Co., Ltd. * (溫州迪信通電子通信技術有限公司)	RMB2,000,000	100	–	(1)
Henan D-phone Trading Co., Ltd. * (河南迪信通商貿有限公司)	RMB10,000,000	60	–	(1)
Wuhan Yitongda Communication Equipment Co., Ltd. * (武漢易通達通訊器材有限公司)	RMB2,000,000	–	100	(1)
Yunnan D-phone Electronic Communication Technology Co., Ltd. * (雲南迪信通電子通信技術有限公司)	RMB20,000,000	–	100	(1)
Beijing Tailongji Trading Co., Ltd. * (北京市泰龍吉貿易有限公司)	RMB50,000,000	100	–	(2)
Shenzhen Hua'aotong Electronic Technology Co., Ltd. * (深圳市華奧通電子有限公司)	RMB20,000,000	–	100	(3)
Ningbo Hi-tech District Shunjixin Technology Co., Ltd. * (寧波高新區順吉信科技有限公司)	RMB10,000,000	100	–	(1)
Beijing Dixin Alliance Technology Co., Ltd. * (北京迪信雲聚科技有限公司)	RMB10,000,000	80	–	(1)
Digitone Mobiles Private Limited	INR287,740	–	65	(1)
Guangan Zhuopin Era Technology Co., Ltd. * (廣安卓品時代科技有限公司)	RMB25,000,000	51	–	(2)
Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd. * (北京網聚迪信優品互聯網科技有限公司)	RMB5,000,000	80	–	(2)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Beijing Digital (Spain), S.L	EUR4,800,000	100	–	(1)
Dixin Simaier Technology (Guangdong) Co., Ltd.* (迪信斯麥爾科技(廣東)有限公司)	RMB200,000,000	100	–	(1)
Beijing Penglu Network Technology Co., Ltd.* (北京鵬路網絡科技有限公司)	RMB2,000,000	51	–	(1)
Shenzhen Mizuan Network Technology Co., Ltd.* (深圳米鑽網絡科技有限公司)	RMB7,220,500	–	70	(1)

Notes:

(1) *Sale of mobile telecommunications devices and accessories and the provision of related services*

(2) *Online sales of mobile telecommunications devices and accessories*

(3) *Research and development and manufacture of telecommunications devices and accessories*

* *English translations of names for identification purposes only. The companies were registered as domestic companies with limited liability under the laws of the PRC.*

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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 9 and IAS 19, and Annual Improvements to IFRSs 2015-2017 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Adoption of IFRS 16

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

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

New definition of a lease

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Adoption of IFRS 16 *(Continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and 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).

Impact 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 and included in the lease liability. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying IFRS 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

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Adoption of IFRS 16 *(Continued)*

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Adoption of IFRS 16 *(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:

	RMB'000
Operating lease commitments as at 31 December 2018	**703,201**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	14,700
Commitments relating to leases of low-value assets	–
Add: Payments for optional extension periods not recognised as at 31 December 2018	72,973
	761,474
Weighted average incremental borrowing rate as at 1 January 2019	4.93%
Discounted operating lease commitments as at 1 January 2019	601,632
Lease liabilities as at 1 January 2019	**601,632**

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

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

3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in the financial statements:

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 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 *Effective for annual periods beginning on or after 1 January 2022*
4 *No mandatory effective date yet determined but available for adoption*

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

Amendments to IFRS 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.

3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to IFRS 9, IAS 39 and IFRS 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 IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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 IFRS 10 and IAS 28 was removed by the IASB in December 2015 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 IAS 1 and IAS 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.

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 has 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 the 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.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associates 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 asset 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.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its derivative financial instruments 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), 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, 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 any 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 other than goodwill 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 depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

(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 less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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 annual depreciation of property, plant and equipment is as follows:

Buildings	2.5% to 5%
Motor vehicles	10% to 20%
Office equipment	20% to 33⅓%
Leasehold improvements	Over the shorter of the lease terms and 20%

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.

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 as 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.

Software copyrights

Purchased software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to six years.

Distribution network

Distribution network is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee (Continued)

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:

Buildings	2 to 16 years

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

(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.

The Group elected to present the lease liabilities separately in the statement of financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases (applicable from 1 January 2019) *(Continued)*

Group as a lessee (Continued)

(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 laptop computers that are considered to be of low value.

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.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss and other comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 the statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss and other comprehensive income 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.

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, fair value through other comprehensive income, 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 IFRS 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.

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 the statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (debt investments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and other comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss and other comprehensive income.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss and other comprehensive income. Dividends are recognised as other income in the statement of profit or loss and other comprehensive income 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, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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 the statement of profit or loss and other comprehensive income.

This category includes derivative instruments and 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 the statement of profit or loss and other comprehensive income 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.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

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

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

Impairment of financial assets

The Group 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (Continued)

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

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

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

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

Simplified approach

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

For trade receivables and contract assets 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, payables, or as derivatives designated as hedging instruments in an effective hedge, 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, interest-bearing bank loans and amounts due to related parties.

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 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 method 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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.

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 for the current and prior periods 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant 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 the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

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.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of goods

Revenue from the sale of mobile telecommunications devices and accessories is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(b) Services income from mobile carriers

Revenue from the provision of services to mobile carriers is recognised over time, using an output method to measure progress towards complete satisfaction of the service according to the underlying contract terms. The output method recognises revenue based on direct measurements of the value to the mobile carriers of the services transferred to date relative to the remaining services promised under the contract.

Revenue from other sources

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

Other income

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

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

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).

Share-based payments

The Company grants shares with no vesting conditions to employees of the Group for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees 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 is measured by reference to the fair value at the date at which they are granted. The fair value of the shares granted is determined by management using discounted cash flow method, further details of which are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional currency. The functional currency of the Group's subsidiaries is RMB 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 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).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates 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 the statement of profit or loss and other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis according to the expected entitlement earned up to the reporting date for each relevant supplier contract. Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

5. 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 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:

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

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., one to three years) and there will be a significant negative effect on sales if a replacement is not readily available.

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.

(i) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

(ii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB68,119,000 (2018: RMB72,646,000). Further details are given in note 17 to the financial statements.

(iii) 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).

(iv) Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 26 to the financial statements.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

(v) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. 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 to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for sale of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(vi) Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

(vii) Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that tax profit will be available against which the deductible temporary differences 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. Further details are contained in note 23 to the financial statements.

6. OPERATING SEGMENT INFORMATION

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

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

Information about major customers

During the year, the Group had no customers from whom the revenue derived individually accounted to more than 10% of the Group's total revenue.

Geographical information

The Group mainly operates in Mainland China, Spain, Bangladesh and India, the geographical segment information as required by IFRS 8 Operating Segments is presented as follows:

(a) Revenue from external customers

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Mainland China	**15,023,563**	14,905,625
Spain	**322,137**	50,724
Bangladesh	**3,183**	452
India	**2,070**	332
	15,350,953	14,957,133

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

(b) Non-current assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Mainland China	**1,005,427**	314,563
Spain	**48,401**	4,487
Bangladesh	**7,584**	434
India	**5,982**	2,825
	1,067,394	322,309

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

7. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers		
Sales of mobile telecommunications devices and accessories	**14,877,308**	14,451,208
Including:		
Retail of mobile telecommunications devices and accessories	**6,744,884**	7,875,083
Sales of telecommunications devices and accessories to franchisees	**2,726,784**	3,039,672
Wholesale of mobile telecommunications devices and accessories	**5,405,640**	3,536,453
Service income from mobile carriers	**312,421**	378,337
Other service fee income	**161,224**	127,588
	15,350,953	14,957,133

Disaggregated revenue information

Segment

Mobile telecommunications devices

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Geographical markets		
Mainland China	**15,023,563**	14,905,625
Spain	**322,137**	50,724
Bangladesh	**3,183**	452
India	**2,070**	332
Total revenue from contracts with customers	**15,350,953**	14,957,133
Timing of revenue recognition		
Goods transferred at a point in time	**14,877,308**	14,451,208
Services transferred over time	**473,645**	505,925
Total revenue from contracts with customers	**15,350,953**	14,957,133

7. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Disaggregated revenue information *(Continued)*

Segment (Continued)

Mobile telecommunications devices (Continued)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Other income		
Interest income	**9,143**	42,254
Government grants *(note (a))*	**46,091**	49,772
Others	**6,447**	5,720
	61,681	97,746
Gains		
Fair value gain on financial assets at fair value through profit or loss	**1,105**	–
Gain on acquisition of subsidiaries	**1,929**	189
Gain on disposal of a subsidiary	**2,580**	–
Gain on disposal of items of property, plant and equipment	**281**	61
	5,895	250
	67,576	97,996

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

8. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Cost of inventories sold and services provided	**13,582,076**	13,042,383
Depreciation of property, plant and equipment *(note 15)*	**50,190**	58,111
Depreciation of right-of-use assets *(note 16)*	**224,102**	–
Amortisation of intangible assets *(note 18)*	**1,605**	1,076
Lease payments under operating leases	**–**	342,761
Lease payments not included in the measurement of lease liabilities	**55,555**	–
Interest on lease liabilities	**29,009**	–
Auditors' remuneration	**3,735**	4,645
Employee benefit expense (including directors' remuneration as set out in note 10):		
Wages and salaries	**407,117**	421,021
Equity-settled share-based payment expenses	**25,295**	–
Pension scheme contributions	**53,752**	62,905
	486,164	483,926
Impairment of goodwill *(note 17)*	**4,527**	22,041
Impairment of other intangible assets *(note 18)*	**2,356**	–
Impairment of financial assets:		
Impairment of trade receivables *(note 26)*	**18,378**	2,825
Impairment of loan receivables *(note 24)*	**16,743**	–
Impairment of amounts due from related parties	**427**	236
Impairment of financial assets at fair value through other comprehensive income	**4,932**	–
Impairment of financial assets included in prepayments, other receivables and other assets *(note 27)*	**11,375**	24,449
	51,855	27,510
Write-down of inventories to net realisable value *(note 25)*	**22,398**	22,665
Loss on disposal of a subsidiary	**–**	1,400
Loss on disposal of an investment of an associate	**2,785**	–
Loss on disposal of an investment of a joint venture	**–**	129
Loss on disposal of items of property, plant and equipment	**1,208**	1,817

9. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Interest on bank loans and other borrowings	**203,703**	192,106
Interest on lease liabilities	**29,009**	–
	232,712	192,106

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors', Supervisors' and chief executive's 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:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Remuneration:		
Salaries, allowances and benefits in kind	**1,794**	1,526
Pension scheme contributions	**205**	173
	1,999	1,699

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

		Year ended 31 December	
		2019	2018
		RMB'000	RMB'000
Mr. Lv Tingjie		**60**	60
Mr. Lv Pingbo	*(ii)*	**35**	–
Mr. Bian Yongzhuang	*(ii)*	**25**	60
Mr. Zhang Senquan	*(i)*	**261**	159
Mr. Vincent Man Choi, Li	*(i)*	**–**	95
		381	374

There were no other emoluments payable to the independent non-executive directors during the year.

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(a) Independent non-executive directors *(Continued)*

Notes:

(i) Mr. Vincent Man Choi, Li resigned on 7 June 2018 and was replaced by Mr. Zhang Senquan as an independent non-executive director.

(ii) Mr. Bian Yongzhuang resigned on 5 June 2019 and was replaced by Mr. Lv Pingbo as an independent non-executive director.

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019				
Executive directors:				
Mr. Liu Songshan	–	298	40	338
Mr. Liu Donghai*	–	276	62	338
Ms. Liu Wencui	–	371	62	433
Mr. Liu Yajun	–	199	40	239
	–	1,144	204	1,348
Non-executive directors:				
Mr. Qi Xiangdong	–	60	–	60
Ms. Xin Xin	–	60	–	60
	–	120	–	120
Supervisors:				
Mr. Hu Yuzhong	–	40	–	40
Mr. Li Wanlin	–	40	–	40
Ms. Wei Shuhui	–	69	1	70
	–	149	1	150
	–	1,413	205	1,618

10. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2018				
Executive directors:				
Mr. Liu Songshan	–	212	37	249
Mr. Liu Donghai*	–	284	49	333
Ms. Liu Wencui	–	323	49	372
Mr. Liu Yajun	–	81	37	118
	–	900	172	1,072
Non-executive directors:				
Ms. Zhang Yunfei *(i)*	–	25	–	25
Mr. Qi Xiangdong	–	60	–	60
Ms. Xin Xin *(i)*	–	30	–	30
	–	115	–	115
Supervisors:				
Mr. Hu Yuzhong	–	40	–	40
Mr. Li Wanlin	–	40	–	40
Ms. Wei Shuhui	–	57	1	58
	–	137	1	138
	–	1,152	173	1,325

* *Mr. Liu Donghai is the chief executive officer of the Company.*

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Note:

(i) *Ms. Zhang Yunfei resigned on 7 June 2018 and was replaced by Ms. Xin Xin as a non-executive director.*

11. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the year is as follows:

	Number of employees Year ended 31 December	
	2019	2018
Directors, supervisors and the chief executive	**–**	–
Non-director, non-supervisor and non-chief executive employees	**5**	5
	5	5

Details of directors' remuneration are set out in note 10 above.

Details of the remuneration of the above highest paid employees who are neither a director, a supervisor nor chief executive of the Group are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**999**	2,740
Equity-settled share-base payment expense	**25,295**	–
Pension scheme contributions	**398**	507
	26,692	3,247

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

	Number of employees Year ended 31 December	
	2019	2018
Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$20,000,000	**5**	–
	5	5

12. INCOME TAX EXPENSE

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which became effective on 1 January 2008, except for Sichuan Yijialong Communication Technology Chain Co., Ltd. and Dixin Simaier Technology (Guangdong) Co., Ltd., two subsidiaries of the Company, which were subject to tax at preferential rates of 15% and 0%, respectively, for the year ended 31 December 2019. The major components of income tax expense are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Current:		
Tax charge for the year	**94,411**	85,929
Deferred *(note 23)*	**(22,717)**	(7,296)
Total tax charge for the year from continuing operations	**71,694**	78,633
Total tax charge for the year from a discontinued operation	**–**	–
	71,694	78,633

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of the subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit before tax from continuing operations	**332,146**	384,842
Profit before tax from a discontinued operation	**–**	15,892
	332,146	400,734
Tax at the statutory tax rate	**83,037**	100,184
Lower tax rates for certain entities	**(20,828)**	(28,363)
Tax rate change effect	**(10,929)**	(1,049)
Adjustments in respect of current tax of previous periods	**798**	1,611
Losses attributable to associates and joint ventures	**566**	840
Expenses not deductible for tax	**18,320**	6,978
Tax losses utilised from previous periods	**(1,643)**	(3,211)
Tax losses not recognised	**2,373**	1,643
Tax charge at the Group's effective rate	**71,694**	78,633

12. INCOME TAX EXPENSE *(Continued)*

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Tax charge from continuing operations at the effective rate	**71,694**	78,633
Tax charge from a discontinued operation at the effective rate	**–**	–

The share of tax attributable to associates and joint ventures amounting to RMB1,245,000 (2018: RMB365,000) and RMB824,000 (2018: RMB10,000), respectively, is included in "Share of profits and losses of associates and joint ventures" in the consolidated statement of profit or loss and other comprehensive income.

13. DIVIDENDS

The directors did not propose a dividend for the year ended 31 December 2019.

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

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 666,667,000 (2018: 666,667,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculation of basic earnings per share is based on:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation		
From continuing operations	**257,439**	316,982
From a discontinued operation	**–**	12,554
	257,439	329,536
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**666,667,000**	666,667,000

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2019					
At 1 January 2019:					
Cost	79,627	468,185	66,690	38,422	652,924
Accumulated depreciation	(29,039)	(422,728)	(48,277)	(22,136)	(522,180)
Net carrying amount	50,588	45,457	18,413	16,286	130,744
At 1 January 2019, net of accumulated depreciation	50,588	45,457	18,413	16,286	130,744
Additions	–	29,035	7,746	3,047	39,828
Acquisition of a subsidiary	–	4	–	–	4
Disposals	–	–	(8,256)	(8,012)	(16,268)
Disposal of subsidiaries	–	(230)	(7)	–	(237)
Depreciation provided during the year	(3,801)	(35,956)	(6,508)	(3,925)	(50,190)
Depreciation transferred	–	–	6,413	3,765	10,178
At 31 December 2019, net of accumulated depreciation	46,787	38,310	17,801	11,161	114,059
At 31 December 2019:					
Cost	79,627	495,919	66,041	33,457	675,044
Accumulated depreciation	(32,840)	(457,609)	(48,960)	(22,296)	(560,985)
Net carrying amount	46,787	38,310	17,801	11,161	114,059

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2018					
At 1 January 2018:					
Cost	85,757	416,117	75,353	41,576	618,803
Accumulated depreciation	(26,534)	(381,376)	(55,886)	(22,857)	(486,653)
Net carrying amount	59,223	34,741	19,467	18,719	132,150
At 1 January 2018, net of accumulated depreciation	59,223	34,741	19,467	18,719	132,150
Additions	1,751	52,218	10,978	2,945	67,892
Acquisition of subsidiaries	–	–	34	–	34
Disposals	–	–	(15,852)	(5,545)	(21,397)
Disposal of subsidiaries	(5,780)	(150)	(793)	(34)	(6,757)
Depreciation provided during the year	(4,606)	(41,352)	(8,334)	(3,830)	(58,122)
Depreciation transferred	–	–	12,913	4,031	16,944
At 31 December 2018, net of accumulated depreciation	50,588	45,457	18,413	16,286	130,744
At 31 December 2018:					
Cost	79,627	468,185	66,690	38,422	652,924
Accumulated depreciation	(29,039)	(422,728)	(48,277)	(22,136)	(522,180)
Net carrying amount	50,588	45,457	18,413	16,286	130,744

As at 31 December 2019, the Group has not obtained title certificates for certain of its buildings with an aggregate net carrying amount of approximately RMB11,864,000 (2018: RMB12,569,000). The directors were of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2019.

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings (offices properties and retail stores) used in its operations. Leases of buildings generally have lease terms between 2 and 16 years. Other leases generally have lease terms of 12 months or less and/or is individually of low value. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) Right-of-use assets

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

	Buildings RMB'000
As at 1 January 2019	649,515
Additions	144,158
Depreciation charge	(224,102)
Decrease	(19,569)
As at 31 December 2019	550,002

(b) Lease liabilities

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

	Lease liabilities RMB'000
Carrying amount at 1 January 2019	601,632
New leases	144,158
Accretion of interest recognised during the year	29,009
Decrease	(19,569)
Payments	(225,526)
Carrying amount at 31 December 2019	529,704
Analysed into:	
Current portion	205,276
Non-current portion	324,428

The maturity analysis of lease liabilities is disclosed in note 47 to the financial statements.

16. LEASES *(Continued)*

The Group as a lessee *(Continued)*

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

	2019 RMB'000
Interest on lease liabilities	**29,009**
Depreciation charge of right-of-use assets	**224,102**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales)	**34,554**
Variable lease payments not included in the measurement of lease liabilities (included in selling and distribution expenses)	**21,001**
Total amount recognised in profit or loss	**308,666**

(d) *Variable lease payments*

The Group leased a number of the retail stores and units in a shopping mall which contain variable lease payment terms that are based on the Group's turnover generated from the retail stores and the units in the shopping mall. Management's objective is to align the lease expense with the revenue earned. The following provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

2019

	Fixed payments RMB'000	Variable payments RMB'000	Total RMB'000
Fixed rent	**228,339**	**–**	**228,339**
Variable rent with minimum payment	**17,995**	**462**	**18,457**
Variable rent only	**–**	**20,539**	**20,539**
	246,334	**21,001**	**267,335**

A 5% increase in sales produced by the retail stores and units would increase the total lease payments by 0.3% to 0.5%.

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 40(c) and 42, respectively, to the financial statements.

17. GOODWILL

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At 1 January:		
Cost	**94,687**	57,476
Accumulated impairment	**(22,041)**	–
Net carrying amount	**72,646**	57,476
Cost at 1 January, net of accumulated impairment	**72,646**	57,476
Acquisition of subsidiaries	**–**	37,385
Disposal of subsidiaries	**–**	(174)
Impairment during the year	**(4,527)**	(22,041)
Cost and net carrying amount at 31 December	**68,119**	72,646
At 31 December:		
Cost	**94,687**	94,687
Accumulated impairment	**(26,568)**	(22,041)
Net carrying amount	**68,119**	72,646

17. GOODWILL *(Continued)*

Impairment testing of goodwill

The carrying amounts of goodwill allocated to each of the cash-generating units which are subsidiaries of the Company are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Changsha 958598 Electronic Communication Equipment Co., Ltd.	**490**	490
Sichuan Yijialong Communication Technology Chain Co., Ltd.	**34,650**	34,650
Luoyang Dphone Electronic Communication Technology Co., Ltd.	**5,739**	5,739
Shangqiu Dphone Electronic Communication Technology Co., Ltd.	**1,729**	1,729
Yunnan Dphone Electronic Communication Technology Co., Ltd.	**7,792**	7,792
Wuhan Yitongda Communication Equipment Co., Ltd.	**1,235**	1,235
Xi'an Dphone Electronic Communication Technology Co., Ltd.	**3,790**	3,790
Beijing Jinyitongda Communication Equipment Maintenance Co., Ltd.	**351**	351
Xinyang Beixin Science Trading Co., Ltd.	**650**	650
Digitone Mobiles Private Limited	**–**	4,527
Guangan Zhuopin Era Technology Co., Ltd.	**10,585**	10,585
Beijing Wangju Dixin Youpin Internet Technology Trading Co., Ltd.	**1,108**	1,108
	68,119	72,646

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the directors which cover a period of five years. At 31 December 2019, the pre-tax discount rates applied to the cash flow projections were 22% to 28% (2018: 22% to 28%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period was 3% as at 31 December 2019 (2018: 3%). The directors believe that this growth rate is conservative and reliable for the purpose of impairment testing.

17. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Assumptions were used in the value in use calculation of the cash-generating units noted above for 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based on in the preparation of cash flow projections to undertake impairment testing of goodwill:

Revenue:	the bases used to determine the future earnings potential are historical sales and the expected growth rates of the markets in the PRC and India.
Gross margins:	the gross margins are based on the average gross margins achieved in the past three years and the expected trend in the future.
Expenses:	the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level.
Discount rates:	the discount rates used are before tax and reflect management's estimate of the risks specific to respective units. In determining appropriate discount rates for the units, regard has been given to the applicable borrowing rate of the Group during the year.

The values assigned to the key assumptions on market development, gross margins, expenses and discount rates are consistent with external information sources.

18. OTHER INTANGIBLE ASSETS

	Software copyrights RMB'000	Distribution network RMB'000	Total RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	785	6,707	7,492
Additions	1,928	–	1,928
Acquisition of subsidiaries *(note 38)*	–	3,000	3,000
Impairment during the year	–	(2,356)	(2,356)
Amortisation provided during the year	(243)	(1,362)	(1,605)
At 31 December 2019	2,470	5,989	8,459
At 31 December 2019:			
Cost	7,249	10,425	17,674
Accumulated amortisation	(4,779)	(2,080)	(6,859)
Accumulated impairment	–	(2,356)	(2,356)
Net carrying amount	2,470	5,989	8,459
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	328	–	328
Additions	819	–	819
Acquisition of subsidiaries	–	7,425	7,425
Disposal of subsidiaries	(4)	–	(4)
Amortisation provided during the year	(358)	(718)	(1,076)
At 31 December 2018	785	6,707	7,492
At 31 December 2018:			
Cost	5,321	7,425	12,746
Accumulated amortisation	(4,536)	(718)	(5,254)
Net carrying amount	785	6,707	7,492

19. INVESTMENTS IN JOINT VENTURES

	As at 31 December 2019 RMB'000	2018 RMB'000
Share of net assets	**70,630**	70,594
Goodwill	**3,719**	3,719
	74,349	74,313

Particulars of the Group's joint ventures are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Hollard-D. Phone (Beijing) Technology Development Co., Ltd.*	Registered capital of RMB1 each	PRC/Mainland China	50	50	50	Technology research and consulting service
Guangzhou Zhongqi Energy Technology Co., Ltd.*	Registered capital of RMB1 each	PRC/Mainland China	46	46	46	Sale of mobile telecommunications devices and accessories
Shenzhen Chuanshi Electronic Technology Ltd.*	Registered capital of RMB1 each	PRC/Mainland China	50	50	50	Equity investment and investment consultation
Yunnan Dphone Investment Co., Ltd.*	Registered capital of RMB1 each	PRC/Mainland China	51	51	26	Development of and training on software

* *English translations of names for identification purposes only*

The above investments are directly held by the Company except for Yunnan Dphone Investment Co., Ltd., which is held by a 51%-owned subsidiary of the Company.

19. INVESTMENTS IN JOINT VENTURES *(Continued)*

The following table illustrates the financial information of the Group's joint ventures:

	2019 RMB'000	2018 RMB'000
Share of the joint ventures' loss for the year	**(679)**	(4,253)
Share of the joint ventures' other comprehensive income	**715**	151
Share of the joint ventures' total comprehensive income/(loss)	**36**	(4,102)

20. INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Share of net assets	**251,882**	37,114
Goodwill on acquisition	**524**	–
	252,406	37,114

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Shenzhen Dixin Nuclear Communications Co., Ltd.*	Ordinary shares	PRC/Mainland China	20	Wholesale and retail of communication equipment
Shanghai Diju Information Technology Co., Ltd.*	Ordinary shares	PRC/Mainland China	45	Technology research and consulting service
Comservice Commercial Factoring Co., Ltd.*	Ordinary shares	PRC/Mainland China	46	Provision of trade finance and credit investigation and evaluation services
Shenzhen Aizuji Technology Co., Ltd.*	Ordinary shares	PRC/Mainland China	14	Provision of leasing and selling service of intelligent devices
Yangzhou D-phone Science and Technology Information Co., Ltd.	Ordinary shares	PRC/Mainland China	43	Wholesale and retail of communication equipment and after-sales service

20. INVESTMENTS IN ASSOCIATES *(Continued)*

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Jingdixin Technology Co., Ltd.*	Ordinary shares	PRC/Mainland China	49	Wholesale and retail of communications equipment
China Ocean Intelligent Equipment Manufacturing (Shenzhen) Company Limited *	Ordinary shares	PRC/Mainland China	50	Research and development, production and imports and exports of smart devices and automation equipment
DIMI Technology (Thailand) Co., Ltd.	Ordinary shares	Thailand	49	Sale of mobile telecommunications devices and accessories

* *English translations of names for identification purposes only*

The Group's shareholdings in the associates all comprise equity shares held by the Company, except for Shanghai Diju Information Technology Co., Ltd. and Comservice Commercial Factoring Co., Ltd., the shareholdings in which are held through subsidiaries of the Company.

The following table illustrates the financial information of the Group's associates:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Share of the associates' (loss)/profit for the year	**(1,586)**	894

21. DEBT INSTRUMENT AT AMORTISED COST

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Debt instrument at amortised cost		
Government bond	**500**	–

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value		
Beijing Chuanmall Huilian Technology Co., Ltd.*	**9**	11
Beijing Rocedar Technology Ltd.*	**12**	5,968
Beijing Feiying Technology Co., Ltd*	**3,302**	5,734
Shanghai Cappuccino Electronic Technology Co., Ltd.*	**32,300**	30,000
	35,623	41,713
Analysed as:		
Current	**–**	–
Non-current	**35,623**	41,713
	35,623	41,713

* *English translations of names for identification purposes only. The companies were registered as domestic companies with limited liability under the laws of the PRC.*

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

23. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Deductible temporary differences RMB'000	Unrealised profit RMB'000	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2018	**34,070**	**1,554**	**–**	**35,624**
Deferred tax credited to profit or loss during the year	**5,616**	**1,680**	**–**	**7,296**
Gross deferred tax assets at 31 December 2018 and 1 January 2019	**39,686**	**3,234**	**–**	**42,920**
Deferred tax credited to profit or loss during the year	**9,580**	**12,617**	**–**	**22,197**
Deferred tax charged to other comprehensive income during the year	**–**	**–**	**1,305**	**1,305**
At 31 December 2019	**49,266**	**15,851**	**1,305**	**66,422**

23. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2018	**(316)**	**–**	**(316)**
Deferred tax charged to other comprehensive income during the year	**533**	**1,856**	**2,389**
Exchange differences	**–**	**(45)**	**(45)**
Gross deferred tax liabilities at 31 December 2018 and 1 January 2019	**217**	**1,811**	**2,028**
Deferred tax credited to profit or loss during the year	**–**	**(520)**	**(520)**
Deferred tax charged to other comprehensive income during the year	**(217)**	**750**	**533**
At 31 December 2019	**–**	**2,041**	**2,041**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**64,381**	40,892
Net deferred tax liabilities recognised in the consolidated statement of financial position	**–**	–

Deferred tax assets in respect of tax losses and temporary differences amounting to RMB9,494,000 (2018: RMB6,572,000) have not been recognised, as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

24. LOAN RECEIVABLES

	As at 31 December 2019 RMB'000	2018 RMB'000
Loan receivables	**16,743**	57,112
Impairment	**(16,743)**	–
	–	57,112
Including:		
Current portion	**–**	40,640
Non-current portion	**–**	16,472

As at 31 December 2019, loan receivables comprises loans of USD2,400,000 provided to Spice Online Private Limited, a third party, which are unsecured and have no current fixed terms of repayment.

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

	As at 31 December 2019 RMB'000	2018 RMB'000
At beginning of year	**–**	–
Impairment losses *(note 8)*	**16,743**	–
At end of year	**16,743**	–

25. INVENTORIES

	As at 31 December 2019 RMB'000	2018 RMB'000
Merchandise for resale	**2,958,924**	2,563,682
Consumable supplies	**650**	770
	2,959,574	2,564,452
Provision against inventories	**(22,398)**	(22,665)
	2,937,176	2,541,787

26. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade receivables	**2,667,684**	2,278,015
Bills receivable	**148,057**	2,389
Impairment	**(126,103)**	(108,067)
	2,689,638	2,172,337

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

At 31 December 2019, the Group's trade receivables with a carrying amount of approximately RMB102,089,000 (2018: RMB38,573,000) were pledged to secure other loans, as set out in note 33 to the financial statements.

Endorsed bills receivable

The Group endorsed certain bills receivable (the "Endorsement") of RMB90,588,000 accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers at 31 December 2018. The Derecognised Bills had maturities ranging from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. As at 31 December 2019, the Group did not endorse any bills receivable to its suppliers.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase the Derecognised Bills was equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills were immaterial.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

26. TRADE AND BILLS RECEIVABLES *(Continued)*

Endorsed bills receivable *(Continued)*

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 90 days	**2,347,021**	2,016,782
91 to 180 days	**184,140**	66,324
181 to 365 days	**109,487**	50,185
Over 1 year	**48,990**	39,046
	2,689,638	2,172,337

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At beginning of year	**108,067**	105,541
Impairment losses *(note 8)*	**18,378**	2,825
Amount written off as uncollectible	**(342)**	(299)
At end of year	**126,103**	108,067

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.

26. TRADE AND BILLS 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 31 December 2019

		Past due				
	Current	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Expected credit loss rate	**3.98%**	**4.16%**	**6.67%**	**12.95%**	**49.40%**	**4.73%**
Gross carrying amount (RMB'000)	**2,141,531**	**407,571**	**49,298**	**37,464**	**31,820**	**2,667,684**
Expected credit losses (RMB'000)	**85,297**	**16,948**	**3,286**	**4,852**	**15,720**	**126,103**

As at 31 December 2018

		Past due				
	Current	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Expected credit loss rate	3.98%	4.01%	11.43%	15.82%	32.73%	4.74%
Gross carrying amount (RMB'000)	1,843,400	316,285	45,464	42,047	30,819	2,278,015
Expected credit losses (RMB'000)	73,455	12,679	5,196	6,650	10,087	108,067

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Prepayments	**1,459,864**	1,130,937
Deposits and other receivables	**295,198**	227,815
	1,755,062	1,358,752
Impairment allowance	**(37,205)**	(27,309)
	1,717,857	1,331,443

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
At beginning of year	**27,309**	9,209
Impairment losses *(note 8)*	**11,375**	24,449
Amount written off as uncollectible	**(1,479)**	(6,349)
At end of year	**37,205**	27,309

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Other unlisted investments, at fair value	**201,205**	–

The above unlisted investments were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

At 31 December 2019, the Group's financial assets at fair value through profit or loss with a carrying amount of approximately RMB201,105,000 were pledged to secure bank borrowings, as set out in note 33 to the financial statements.

29. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash and bank balances	**666,245**	708,548
Time deposits	**1,485,075**	660,251
	2,151,320	1,368,799
Less: Pledged time deposits:		
Pledged for bank borrowings	**1,077,835**	611,208
Pledged for bank acceptance notes	**400,840**	45,800
Other pledged deposits	**6,400**	3,243
Cash and cash equivalents, denominated in RMB	**666,245**	708,548

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. Time deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

30. BALANCES WITH CONTROLLING SHAREHOLDER AND RELATED PARTIES

The amounts due from/to the controlling shareholder and related parties of the Group and subsidiaries of the Company are trade in nature, interest-free and repayable on demand.

31. TRADE AND BILLS PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables	**323,625**	327,359
Bills payable	**773,900**	157,517
	1,097,525	484,876

An ageing analysis of the outstanding trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 90 days	**644,121**	308,797
91 to 180 days	**84,413**	160,858
181 to 365 days	**365,361**	11,467
Over 1 year	**3,630**	3,754
	1,097,525	484,876

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 45 days.

32. OTHER PAYABLES AND ACCRUALS

		As at 31 December	
		2019	2018
	Notes	**RMB'000**	RMB'000
Payroll and welfare payable		**29,486**	31,604
Contract liabilities	*(a)*	**117,666**	130,737
Accrued expenses		**6,426**	8,677
Other payables	*(b)*	**124,219**	137,154
Bond interest payables		**32,456**	33,750
		310,253	341,922

32. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes:

(a) *Details of contract liabilities as at 31 December 2019 and 1 January 2019 are as follows:*

	As at 31 December 2019 RMB'000	2018 RMB'000
Short-term advances received from customers		
Sale of goods	***117,666***	*130,737*
Total contract liabilities	***117,666***	*130,737*

(b) *Other payables are non-interest-bearing and have an average term of three months.*

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2019 Maturity	2019 RMB'000	2018 Maturity	2018 RMB'000
Current					
Bank loans:					
Unsecured, repayable within one year	*(a)*	**2020**	**710,985**	2019	950,500
Secured, repayable within one year	*(b)*	**2020**	**2,615,621**	2019	1,411,990
Corporate bond:					
Current portion	*(c)*	**2020**	**576,660**	2019	598,013
Other loans:					
Unsecured, repayable within one year	*(d)*	**2020**	**65,507**	2019	71,551
Secured, repayable within one year		**2020**	**–**	2019	34,584
			3,968,773		3,066,638

33. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

(a) The bank loans bear interest at rates ranging from 2.20% to 6.50% (2018: 3.40% to 6.90%) per annum.

(b) The Group's bank loans are secured by pledged deposits, which had an aggregate carrying value of RMB1,077,835,000 (2018: RMB611,208,000), and financial assets at fair value through profit or loss with a carrying amount of RMB201,105,000 (2018: Nil) at the end of the reporting period.

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

(d) The unsecured other loans bear interest at 12.24% (2018: 8.00% to 12.24%) per annum.

34. SHARE CAPITAL

Shares

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Issued and fully paid:		
667,000,000 (2018: 667,000,000) ordinary shares	**666,667**	666,667

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 31 December 2018 and 2019	**667,000,000**	**666,667**

35. SHARE-BASED PAYMENTS

The Group operates a share ownership plan (the "plan") for the purpose of providing the eligible participants the opportunity to acquire equity interests from controlling shareholder and other co-founders at a preferential price to award the eligible participants for the past performance and contribution. The eligible participants include senior management personnel of the Company's subsidiaries considered to be able to enhance the operations or the value of the Group.

The percentage of the equity interests and purchase prices are solely at the discretion of the controlling shareholder.

In 2019, 25% of the equity interest in Shanghai Dixin Electronic Communication Technology Co., Ltd., 25% of the equity interest in Shanghai Chuanda Communication Technology Co., Ltd. and 25% of the equity interest in Shanghai Dixin South Communication Technology Co., Ltd. were allotted to seven eligible participants at a total consideration of RMB70,000,000 with no vesting conditions. The fair value of the granted equity interest was determined by the management using a discounted cash flow method. The difference amounting to RMB25,295,000 between the consideration and the fair value was charged to profit or loss for the year ended 31 December 2019.

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Statutory reserve funds

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of directors, of their profit after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserve funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of the PRC domestic companies is required to transfer 10% of its profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of its registered capital. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

Distributable reserves

For dividend purposes, the amounts which the PRC companies can legally distribute by way of a dividend are determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

In accordance with the Company Law of the PRC, profit after tax of the PRC companies can be distributed as dividends after the appropriation to the statutory reserve funds as set out above.

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2019	2018
Percentage of equity interest held by non-controlling interests:		
Shanghai Dixin Electronic Communication Technology Co., Ltd. ("Shanghai Dixin")	**25%**	–

Shanghai Dixin:

	2019 RMB'000	2018 RMB'000
Profit for the year allocated to non-controlling interests	**1,673**	–
Accumulated balances of non-controlling interests at the reporting date:	**52,922**	–

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	2019 RMB'000	2018 RMB'000
Revenue	**1,336,725**	1,436,031
Cost and total expenses	**1,314,759**	1,418,016
Profit for the year	**21,966**	18,015
Total comprehensive income for the year	**21,966**	18,015
Current assets	**454,821**	289,211
Non-current assets	**14,093**	16,576
Current liabilities	**242,542**	116,026
Non-current liabilities	**–**	–
Net cash flows (used in)/from operating activities	**(85,366)**	4,061
Net cash flows used in investing activities	**(7,951)**	(7,310)
Net cash flows from/(used in) financing activities	**94,154**	(37,682)
Net increase/(decrease) in cash and cash equivalents	**837**	(40,931)

38. BUSINESS COMBINATIONS

Acquisition of Beijing Penglu Network Technology Co., Ltd.

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

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

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

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

38. BUSINESS COMBINATIONS *(Continued)*

Acquisition of Shenzhen Mizuan Network Technology Co., Ltd.

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

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

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

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

38. BUSINESS COMBINATIONS *(Continued)*

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisitions of subsidiaries is as follows:

	RMB'000
Cash consideration	(1,020)
Cash and bank balances acquired	1,806
Net inflow of cash and cash equivalents included in cash flows from investing activities	786

39. DISPOSAL OF A SUBSIDIARY

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

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2019 RMB'000
Cash consideration received	–
Cash and bank balances disposed of	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	–

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB144,158,000 and RMB144,158,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Bank and other loans RMB'000	**Lease liabilities RMB'000**	**Corporate bond RMB'000**
At 31 December 2018	**2,468,625**	**–**	**598,013**
Effect of adoption of IFRS 16	**–**	**601,632**	**–**
At 1 January 2019 (restated)	**2,468,625**	**601,632**	**598,013**
Changes from financing cash flows	**923,488**	**(225,526)**	**(23,000)**
New leases	**–**	**144,158**	**–**
Interest expense	**–**	**29,009**	**1,647**
Decrease	**–**	**(19,569)**	**–**
At 31 December 2019	**3,392,113**	**529,704**	**576,660**

2018

	Bank and other loans RMB'000	Corporate bond RMB'000
At 1 January 2018	3,147,184	596,542
Changes from financing cash flows	(678,559)	–
Interest expense	–	1,471
At 31 December 2018	2,468,625	598,013

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 **RMB'000**
Within operating activities	**41,809**
Within financing activities	**225,526**
	267,335

41. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 33 to the financial statements.

42. COMMITMENTS

Operating lease commitments as at 31 December 2018

The Group leased certain of its office properties and retail stores under operating lease arrangements. Leases for office properties and retail stores were for terms ranging from one to five years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within a year	244,309
In the second to fifth years, inclusive	318,040
After five years	140,852
	703,201

43. RELATED PARTY TRANSACTIONS

(a) The following table presents the total amounts of transactions that were entered into with related parties during the years ended 31 December 2019 and 2018, as well as the balances with related parties as at 31 December 2019 and 31 December 2018:

		Sales to related parties[(i)] RMB'000	Purchases from related parties[(i)] RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Controlling shareholder:					
Digital Science & Technology Group Limited	**2019**	**–**	**–**	**–**	**–**
	2018	–	–	35,000	–
Associates:					
Shenzhen Dixin Nuclear Communications Co., Ltd.	**2019**	**–**	**–**	**707**	**–**
	2018	–	–	507	–
Beijing Xinyi Technology Co., Ltd.[1]	**2019**	**–**	**–**	**–**	**–**
	2018	133	2,725	10,964	11
Shanghai Diju Information Technology Co., Ltd.	**2019**	**–**	**33,571**	**–**	**2,095**
	2018	47,826	–	–	–
Comservice Commercial Factoring Co., Ltd.	**2019**	**–**	**–**	**–**	**74,213**
	2018	–	–	–	–
Shenzhen Aizuji Technology Co., Ltd.	**2019**	**11,058**	**–**	**–**	**–**
	2018	–	–	–	–
Beijing Jingdixin Technology Co., Ltd.	**2019**	**–**	**619,619**	**–**	**349,082**
	2018	–	–	–	–
Yangzhou D-phone Science and Technology Information Co., Ltd.	**2019**	**771**	**–**	**–**	**–**
	2018	–	–	–	–

43. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

		Sales to related parties(i) RMB'000	Purchases from related parties(i) RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Joint ventures:					
Hollard-D.Phone (Beijing)	**2019**	**–**	**13,003**	**–**	**6,718**
Technology Development Co., Ltd.	2018	–	21,898	–	3,950
Guangzhou Zhongqi Energy	**2019**	**48,308**	**28,226**	**52,497**	**–**
Technology Co., Ltd.	2018	92,448	12,442	55,620	–
Yunnan Dphone Investment Co., Ltd.	**2019**	**186**	**–**	**–**	**–**
	2018	–	–	–	–
Fellow subsidiaries:					
Beijing Dphone Communication	**2019**	**–**	**27**	**11,227**	**113**
Services Co., Ltd.[2]	2018	1,586	–	10,653	292
Guang'an Dixin Cloud Communication	**2019**	**232**	**–**	**460**	**–**
Technology Co., Ltd.[2]	2018	254	–	276	–
Fushun Shenshang Commercial	**2019**	**–**	**–**	**–**	**–**
Real Estate Co., Ltd.[2]	2018	–	–	90,000	–
Companies significantly influenced by the controlling shareholders					
Beijing Tianxingyuanjing Technology	**2019**	**–**	**–**	**–**	**88**
Development Co., Ltd.[3]	2018	3,863	–	688	–
Luzhou Digital Science	**2019**	**11**	**–**	**–**	**–**
and Technology Co., Ltd.[4]	2018	–	–	–	–
A subsidiary of non-controlling shareholders					
Beijing Digital China Limited[5]	**2019**	**–**	**6**	**–**	**–**
	2018	–	15	3	–

43. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

		Sales to related parties(i) RMB'000	Purchases from related parties(i) RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
A subsidiary of a joint venture					
Yunfu Zhongqi Communication Technology Co., Ltd.[6]	**2019**	**293**	**–**	**465**	**–**
	2018	–	–	–	–
Key management personnel of the Group					
Mr. Zhou Qing	**2019**	**–**	**–**	**5,876**	**–**
	2018	–	–	–	–
Mr. Li Kai	**2019**	**–**	**–**	**1,251**	**–**
	2018	–	–	–	–
Ms. Zhou Yujing	**2019**	**–**	**–**	**771**	**–**
	2018	–	–	–	–
Mr. Yang Zhiyong	**2019**	**–**	**–**	**771**	**–**
	2018	–	–	–	–
Ms. Chen Xiujun	**2019**	**–**	**–**	**640**	**–**
	2018	–	–	–	–
Mr. Jiao Liping	**2019**	**–**	**–**	**640**	**–**
	2018	–	–	–	–
Mr. Li Yonggang	**2019**	**–**	**–**	**858**	**–**
	2018	–	–	–	–

43. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

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

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

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

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

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

[6] *The investment in the entity, Yunfu Zhongqi Communication Technology Co., Ltd. is directly held by the Guangzhou Zhongqi Energy Technology Co., Ltd., a joint venture of the Group.*

Note:

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

(b) Compensation of key management personnel of the Group:

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, allowances, bonuses and other expenses	**3,994**	4,724
Equity-settled share-based payments *(notes 35)*	**25,295**	–
Total compensation paid to key management personnel	**29,289**	4,724

Further details of directors' and the chief executive's emoluments are included in note 10 to the financial statements.

(c) Other transactions with related parties:

(i) The Group entered into trade receivable factoring arrangements with Comservice Commercial Factoring Co., Ltd. and transferred certain trade receivables. The secured other loans bear interest at rate ranging from 6.65% to 10.8% and are secured by trade receivables amounts to RMB102,089,000.

(ii) The Company acquired 15% of the equity interests in China Ocean Intelligent Equipment Manufacturing (Shenzhen) Company Limited from Digital Science & Technology Group Limited with a consideration of RMB7,500,000.

43. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Other transactions with related parties: *(Continued)*

(iii) The Company and several key managements of three subsidiaries of the Group located in Shanghai (the "Transferees") entered into the equity transfer agreements respectively pursuant to which, the Company disposed of and the Transferees agreed to purchase 25% of the equity interests in each of the three subsidiaries for a consideration of RMB70,000,000 in total. Further details are included in note 35 to the financial statements.

(iv) In September 2019, Digital Science & Technology Group Limited and Beijing Di Er Tong Consulting Company Limited, the controlling shareholders of the Company, pledged 58,700,080 domestic shares of the Company and 101,300,000 domestic shares of the Company, respectively, to Jiangsu Jingdong Information Technology Co., Ltd. ("Jiangsu Jingdong") as a guarantee for the delivery credit facility of approximately RMB340,000,000 provided by Jiangsu Jingdong to Beijing Jingdixin Technology Co., Ltd. ("Jingdixin"), an associate company of the Company.

In October 2019, Digital Science & Technology and Di Er Tong released all pledges over the abovementioned domestic shares of the Company, respectively.

In December 2019, Di Er Tong pledged 63,270,000 domestic shares of the Company to Jingdixin, as a guarantee for the delivery credit facility of approximately RMB380,000,000 provided by Jingdixin to the Company.

44. 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

	As at 31 December 2019				
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income			
	Mandatorily designated as such RMB'000	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	35,623	–	35,623
Trade and bills receivables	–	148,057	–	2,541,581	2,689,638
Debt instrument at amortised cost	–	–	–	500	500
Financial assets at fair value through profit or loss	201,205	–	–	–	201,205
Financial assets included in prepayments, other receivables and other assets	–	–	–	257,993	257,993
Due from the related parties	–	–	–	76,163	76,163
Pledged deposits	–	–	–	1,485,075	1,485,075
Cash and cash equivalents	–	–	–	666,245	666,245
	201,205	148,057	35,623	5,027,557	5,412,442

44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

Financial assets *(Continued)*

	As at 31 December 2018 Financial assets at fair value through other comprehensive income			
	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	41,713	–	41,713
Trade and bills receivables	2,389	–	2,169,948	2,172,337
Financial assets included in prepayments, other receivables and other assets	–	–	200,506	200,506
Due from the related parties	–	–	168,711	168,711
Due from the controlling shareholder	–	–	35,000	35,000
Loan receivables	–	–	57,112	57,112
Pledged deposits	–	–	660,251	660,251
Cash and cash equivalents	–	–	708,548	708,548
	2,389	41,713	4,000,076	4,044,178

Financial liabilities

	Financial liabilities at amortised cost as at 31 December	
	2019 **RMB'000**	2018 RMB'000
Trade and bills payables	**1,097,525**	484,876
Financial liabilities included in other payables and accruals	**64,531**	77,795
Due to related parties	**432,309**	4,253
Lease liabilities	**529,704**	–
Interest-bearing bank and other borrowings	**3,968,773**	3,066,638
	6,092,842	3,633,562

45. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

As part of its normal business, the Group entered into trade receivable factoring arrangements (the"Arrangements") and transferred certain trade receivables to financial institutions. Under the Arrangements, the Company may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 25 to 30 days. The Company is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Company did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The carrying amount of the assets that the Group continued to recognise as at 31 December 2019 was RMB102,089,000 (2018: RMB38,573,000) and that of the associated liabilities as at 31 December 2019 was RMB74,186,000 (2018: RMB34,584,000).

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, pledged deposits, financial assets at fair value through profit or loss, trade receivables, financial assets included in prepayments, other receivables and other assets, amounts due from related parties, a debt instrument at amortised cost, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the non-current portion of lease liabilities and interest-bearing loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 were assessed to be insignificant.

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

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average EV/Sales multiple of peers or average P/B multiple of peers	2019: 0.63 to 2.97 (2018: 0.58 to 2.55)	5% (2018: 5%) increase in multiple would result in increase in fair value by RMB1,863,000 (2018: RMB573,000)
		Discount for lack of marketability	2019: 17% to 25% (2018: 15% to 20%)	5% (2018: 5%) increase in discount would result in decrease in fair value by RMB555,000 (2018: RMB139,000)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	**35,623**	**35,623**
Financial assets at fair value through profit or loss	–	**201,205**	–	**201,205**
Bills receivable	–	**148,057**	–	**148,057**
	–	**349,262**	**35,623**	**384,885**

46. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

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

Assets measured at fair value *(Continued)*:

As at 31 December 2018

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade receivables and trade and bills payables as well as other receivables and payables, 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 Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2019	**100**	**(353)**
	(100)	**353**
2018	100	(279)
	(100)	279

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD, EUR and HKD exchange rates, with all other variables held constant, of the Group's profit after tax and the Group's equity.

2019

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit after tax and equity RMB'000**
If RMB weakens against USD	**5**	**1,237**
If RMB strengthens against USD	**(5)**	**(1,237)**
If RMB weakens against EUR	**5**	**2,284**
If RMB strengthens against EUR	**(5)**	**(2,284)**
If RMB weakens against HKD	**5**	**5**
If RMB strengthens against HKD	**(5)**	**(5)**

2018

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit after tax and equity RMB'000
If RMB weakens against USD	5	8,081
If RMB strengthens against USD	(5)	(8,081)
If RMB weakens against EUR	5	3,060
If RMB strengthens against EUR	(5)	(3,060)
If RMB weakens against HKD	5	845
If RMB strengthens against HKD	(5)	(845)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

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.

As at 31 December 2019

	12-month ECLs		**Lifetime ECLs**		
	Stage 1 RMB'000	**Stage 2** RMB'000	**Stage 3** RMB'000	**Simplified approach** RMB'000	RMB'000
Trade receivables*	–	–	–	2,541,581	2,541,581
Bills receivable	148,057	–	–	–	148,057
Financial assets included in prepayments, other receivables and other assets**					
– Normal	257,993	–	–	–	257,993
Due from the related parties	76,163	–	–	–	76,163
Pledged deposits					
– Not yet past due	1,485,075	–	–	–	1,485,075
Cash and cash equivalents					
– Not yet past due	666,245	–	–	–	666,245
	2,633,533	–	–	2,541,581	5,175,114

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging(Continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables*	–	–	–	2,169,948	2,169,948
Bills receivable	2,389	–	–	–	2,389
Financial assets included in prepayments, other receivables and other assets** – Normal	196,174	4,332	–	–	200,506
Due from the related parties	168,711	–	–	–	168,711
Due from controlling shareholder	35,000	–	–	–	35,000
Loan receivables	57,112	–	–	–	57,112
Pledged deposits – Not yet past due	660,251	–	–	–	660,251
Cash and cash equivalents – Not yet past due	708,548	–	–	–	708,548
	1,828,185	4,332	–	2,169,948	4,002,465

* *For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 26 to the financial statements.*

** *The credit quality of the financial assets included in prepayments, other receivables and other assets 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".*

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings and lease liabilities. In addition, banking facilities have been put in place for contingency purposes.

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:

31 December 2019	**On demand** RMB'000	**Less than 3 months** RMB'000	**3 to 12 months** RMB'000	**More than 12 months** RMB'000	**Total** RMB'000
Interest-bearing bank and other borrowings	**–**	**1,679,419**	**2,422,161**	**–**	**4,101,580**
Lease liabilities	**10,195**	**62,639**	**152,634**	**365,235**	**590,703**
Trade and bills payables	**–**	**644,121**	**453,404**	**–**	**1,097,525**
Financial liabilities included in other payables and accruals	**–**	**25,425**	**39,106**	**–**	**64,531**
Due to related parties	**–**	**394,286**	**38,023**	**–**	**432,309**
	10,195	**2,805,890**	**3,105,328**	**365,235**	**6,286,648**

31 December 2018	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	More than 12 months RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	1,456,640	1,703,552	–	3,160,192
Trade and bills payables	–	308,797	176,079	–	484,876
Financial liabilities included in other payables and accruals	–	42,285	35,322	188	77,795
Due to related parties	–	4,253	–	–	4,253
	–	1,811,975	1,914,953	188	3,727,116

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio 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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, loans from an associate included in amounts due to related parties and lease liabilities, less cash and cash equivalents. Capital represents total equity.

During the year, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at the end of the reporting periods are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**3,968,773**	3,066,638
Loans from an associate included in amounts due to related parties	**74,186**	–
Lease liabilities	**529,704**	–
Less: cash and cash equivalents	**(666,245)**	(708,548)
Net debt	**3,906,418**	2,358,090
Total equity	**4,176,505**	3,833,705
Net debt and total equity	**8,082,923**	6,191,795
Gearing ratio	**48%**	38%

48. EVENTS AFTER THE REPORTING PERIOD

(a) On 8 January 2020, the Company had issued 65,793,400 subscription shares in aggregate at the subscription price of HK$3.25 per subscription share to Nelson Innovation Limited (the "Subscriber"). The total number of 65,793,400 subscription shares issued represented 16.67% and 8.98% of the total number of issued H shares and the total number of issued shares of the Company as enlarged by the issue of the subscription shares, respectively. The gross proceeds from the subscription were HK$213,828,550.

(b) Since the outbreak of the Coronavirus Disease 2019 ("COVID-19") in January 2020, it continues to spread throughout China and countries around the world. The prevention and control measures of the COVID-19 have been implemented since then.

The COVID-19 situation has certain impact on the business operations of the Group in particular the operation of retail stores and sales in Hubei Province as well as customer flows in China to certain degree, and the degree of the impact depends on the implementation of the epidemic preventive measures and the duration of the epidemic.

The Group will monitor the developments of the COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group in the year 2020.

49. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted IFRS 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, IAS 17, and related interpretations.

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 **RMB'000**	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**33,237**	37,060
Right-of-use assets	**1,897**	–
Intangible assets	**308**	82
Investments in subsidiaries	**1,023,713**	1,027,221
Investments in joint ventures	**70,737**	70,734
Investments in associates	**226,872**	36,650
Equity investments designated at fair value through other comprehensive income	**35,623**	41,713
Deferred tax assets	**8,489**	9,784
Total non-current assets	**1,400,876**	1,223,244
CURRENT ASSETS		
Inventories	**298,093**	283,480
Trade and bills receivables	**1,855,610**	952,555
Prepayments, other receivables and other assets	**117,836**	98,323
Due from subsidiaries	**1,981,844**	1,535,745
Due from the controlling shareholder	**–**	35,000
Due from related parties	**60,705**	34,865
Pledged deposits	**481,832**	466,483
Cash and cash equivalents	**76,348**	61,182
Total current assets	**4,872,268**	3,467,633

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	**1,091,231**	1,298,124
Other payables and accruals	**135,289**	132,712
Interest-bearing bank and other borrowings	**2,955,700**	1,910,502
Lease liabilities	**1,673**	–
Due to subsidiaries	**323,630**	50,886
Due to related parties	**390,016**	1,111
Tax payable	**38,248**	16,412
Total current liabilities	**4,935,787**	3,409,747
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,337,357**	1,281,130
NON-CURRENT LIABILITIES		
Lease liabilities	**234**	–
Total non-current liabilities	**234**	–
NET ASSETS	**1,337,123**	1,281,130
EQUITY		
Share capital	**666,667**	666,667
Reserves *(note)*	**670,456**	614,463
Total equity	**1,337,123**	1,281,130

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Statutory reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018	520,974	38,723	(1,075)	–	48,734	607,356
Effect of adoption of IFRS 9	–	–	–	(950)	–	(950)
At 31 December 2017 and 1 January 2018 (restated)	520,974	38,723	(1,075)	(950)	48,734	606,406
Profit for the year	–	–	–	–	1,218	1,218
Other comprehensive income for the year:						
Change in fair value of debt investments at fair value through other comprehensive	–	–	–	5,087	–	5,087
Change in fair value of equity investments at fair value through other comprehensive	–	–	–	1,601	–	1,601
Share of other comprehensive income of a joint venture	–	–	151	–	–	151
Total comprehensive income for the year	–	–	151	6,688	1,218	8,057
Transfer from retained profits	–	122	–	–	(122)	–
At 31 December 2018 and 1 January 2019	520,974	38,845	(924)	5,738	49,830	614,463
Profit for the year	–	–	–	–	64,933	64,933
Other comprehensive income for the year:						
Change in fair value of debt investments at fair value through other comprehensive	–	–	–	(5,087)	–	(5,087)
Change in fair value of equity investments at fair value through other comprehensive	–	–	–	(4,568)	–	(4,568)
Share of other comprehensive income of a joint venture	–	–	715	–	–	715
Total comprehensive income for the year	–	–	715	(9,655)	64,933	55,993
Transfer from retained profits	–	6,493	–	–	(6,493)	–
At 31 December 2019	520,974	45,338	(209)	(3,917)	108,270	670,456

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2020.