ANNUAL REPORT 2018 年度報告

Vital Mobile Holdings Limited
維太移動控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock code 股份代號：6133

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Rong Xiuli *(Chairperson)*
Rong Shengli *(Chief Executive Officer)*
Tang Shun Lam
Yin Xuquan
Wong Ho Chun (appointed on 1 February 2019)

Independent Non-executive Directors

Hon Kwok Ping, Lawrence
Lam Yiu Kin
Tsang Yat Kiang (Resigned on 31 January 2019)

COMPANY SECRETARY

Chui Man Lung, Everett

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Hon Kwok Ping, Lawrence
Tsang Yat Kiang (Resigned on 31 January 2019)

REMUNERATION COMMITTEE

Hon Kwok Ping, Lawrence *(Chairman)*
Rong Xiuli
Lam Yiu Kin
Tsang Yat Kiang (Resigned on 31 January 2019)

NOMINATION COMMITTEE

Rong Xiuli *(Chairman)*
Hon Kwok Ping, Lawrence
Lam Yiu Kin
Tsang Yat Kiang (Resigned on 31 January 2019)

RISK MANAGEMENT COMMITTEE

Hon Kwok Ping, Lawrence *(Chairman)*
Rong Xiuli
Rong Shengli

AUTHORISED REPRESENTATIVES

Rong Xiuli
Chui Man Lung, Everett

AUDITOR

BDO Limited
Certified Public Accountants
25/F., Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Shanghai Commercial Bank
China Everbright Bank

LEGAL ADVISERS

As to Hong Kong Law
Sidley Austin

As to PRC Law
HeNan BoYin Law Firm

As to Cayman Islands Law
Conyers Dill & Pearman

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

4th Floor, No.55 Jiachuang Second Road
OTPO-Merchatronics Industrial Park
Zhongguancun Science Park
Tongzhou District, Beijing
China

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite B, 16/F.
W Square, 314-324 Hennessy Road
Wanchai, Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

6133

COMPANY'S WEBSITE

www.vital-mobile.com

The Group is primarily engaged in providing services and supply of mobile phone and related business which encompassed research and development, design, engineering, material sourcing, supply chain management, logistic, provision of products and services, including mobile phones, smartphones and the services activities to the target markets. Vital Mobile's main business is to provide service to its diverse number of wholesalers and resellers base on its extensive experience and relationship in the telecommunication market from a large network of service provider partners. Since the Company was founded, the Company has been engaging in the provision of services and products such as function phones, smartphones and phone accessories through different business strategies. The Company has been providing large number of self-design and strategic cooperated sourced hardware and software to provide ODM and Value-added products and services. One of the Group's program, the Brand+ program, is an outstanding success. Over the years, the Company has developed a large number of stakeholders from the supply side and customers in both emerging markets and some key countries in Europe and the US, who have become the Group's valuable resources to support the Group's current and future business. The Group's key strategy is to provide specific products and solutions to its customers, both technical and marketing, enabling them to sell into their local markets. The Group currently sells through its Hong Kong partners to overseas wholesalers and retail networks.

BUSINESS REVIEW

For the year ended 31 December 2018, the global smartphone market declined for the first time as consumers held onto their devices longer, especially higher-end phones. Many did not see a need to upgrade as the available phones were too expensive without offering any groundbreaking innovation that would move them to upgrade their older device. Smartphone shipments dropped to 1.41 billion units in 2018 from 1.47 billion units in 2017. The 4.1% of global market decline in 2018 followed a stagnated growth (-0.5%) in 2017 indicated the weak business environment for the smartphone market (Sources: Counterpoint, IDC). Most of this decline in shipping volume are affecting the top two international brands and the hundreds of small local brands, with the exception of four Chinese brands being the net beneficiaries. The increasing competition from both Chinese and global smartphone players will make it even tougher for local brands which are already suffering. The Company expects that the smartphone market will further consolidate in 2019 as top brands will continue to eat up the market share of smaller and local players. The Group has started its defensive move in slowly changing into more of support services in late 2017 and the Group has stabilized its business in 2018 while it embarks on the Brand+ program in providing its key customer groups with products and services they needed to maintain their profitability in the countries and local markets that they served.

The Group improved its business volume in the first half of 2018 with the momentum of the Brand+ program and coincided with the World Cup 2018 in Russia. The Group tried to maintain the customer base through innovation and efficiency. From the start of 2018, the management has changed the higher margin policy to a high volume, positive gross margin in quoting business opportunities, the Company managed to continue the growth with the momentum it built in the previous quarter. The management believes this new business strategy will get the Company back on track in getting the volume and will be working on improving margins with better and more types of services in the transactions.

The Company has been able to use its team in Hong Kong to acquire sales and, by working with the support teams in Shenzhen and Beijing, to provide quality supply services to its global customer. Utilising the warehouse facility set up in late 2017, the Company is able to turn it into a software and product upgrade and customer support operation. Customer support has been the Group's emphasis and the Group has started to set up its own warehouse instead of using public godowns, partly to save costs, partly to have better turnaround time for smartphone shipments. The Hong Kong warehouse was at times fully loaded. The Company has been performing part of the software upgrades and inspection in its own warehouse and a fully equipped ROM line has been set up in Hong Kong.

To facilitate the vision in the longer run, the Company will set up facilities in the local market to provide quicker response to customers and market needs, the Company has also set up supply chain providers to support its customers for export markets, these include software upgrade, sourcing, logistic, tax support functions, the Company will be setting up these capabilities ourselves in Shenzhen and other strategic locations in the export markets such as Europe and US. These functions will provide the Company with additive margins and give the Company better control over customer service. Again, the emphasis is looking for areas that the Company can provide service.

The Company has been working with the top 5 Chinese smartphone brands and believes that the Company is in a good position as the Company has one of the best distribution networks, excellent service infrastructure and best product portfolio to offer to its best partners. In the beginning of 2018, the Group believed the US market was trending up and its was ready to enhance the function of its US subsidiary, however, the marketing plan was subsequently put on hold when the China-US trade war escalated.

In the second quarter, the Group established a wholly-owned subsidiary in Slovenia and planned to set up warehouse and distribution facilities in Italy. The registration and approval process in Slovenia was slow and the Group was only fully approved to run the business around November 2018.

The second half of 2018 has a change of pace in the market, there were a number of major second tier brands bankrupted and the Russian and a number of South American market declined. Only a few markets such as India and some Asean countries were keeping up with the volume. In the second half of 2018, there was a 7% shipment decline year-on-year (Source: Centrepoint). Due to the market condition, the Company has to put on hold its European distribution centre plan and to assess the best timing to relaunch the distribution centre plan. Whilst the Company ensured to service its key customers in the better markets, the Company has been looking at other ways to improve its business.

In addition, the Company had signed two major smartphone brands aiming to market in Europe, Asian and other emerging markets. The Company will monitor the progress in these markets and prepare to invest more resources in the markets that will grow in the coming years.

Competition

In 2019, it is expected that the competition in the upper mid-range and high-end segments will intensify, and vendors must focus on bringing the latest technology to consumers to justify higher price points. Based on the major downturn in the China market down by 15% (Source: Canalys), more and more of China brands are opting to focus their effort in export. In contrast to China, the Indian market saw extraordinary growth, that 145.2 million smartphone units shipped in 2018, representing a 10% year-over-year growth over the 132 million units that shipped in 2017 (Source: Canalys) and many of the Asian and Middle East countries had been doing quite well. Meanwhile, the Company's growth in some markets in the second half of 2018, such as Thailand and Russia, had slowed down. There are more and more competition as the business model matures, competitors will eat into the Company's market shares. The Company has to improve its market position in providing better services and working with more strategic partners.

Another type of competition is the brand itself wanting to extend their service and sales reach by setting up their own network. The Company is preparing itself by working with more second tier brands and in some area participating in these franchise network in the near future.

The Group has successfully increased the sales of smartphones through the network of resellers and wholesales. The Group's total sales increased from RMB196.1 million for the year ended 31 December 2017 to RMB911.4 million for the year ended 31 December 2018. Gross margin has improved to RMB16 million for the year ended 31 December 2018 from negative RMB24.3 million for the year ended 31 December 2017.

The Group has recorded a net profit of approximately RMB14.5 million for the year ended 31 December 2018 as compared to a net loss of RMB109.7 million for the year ended 31 December 2017.

The improvement in the Group's results for the year ended 31 December 2018 was attributable to: (i) the improvement in sales for Chinese Branded smartphone for the year ended 31 December 2018 with positive gross margin amounted to approximately RMB16 million; and (ii) a combined effect contributed by (a) an one-off reversal of bad debts provision in the amount of approximately RMB5.6 million for the year ended 31 December 2018; (b) an increase in interest income from pledged bank deposit and bank deposits from approximately RMB12.1 million for the year ended 31 December 2017 to approximately RMB16.4 million for the year ended 31 December 2018 primarily due to higher interest rate being offered; (c) a turnaround to an exchange gain amounted to approximately RMB4.3 million for the year ended 31 December 2018 as compared to an exchange loss of approximately RMB21.2 million for the year ended 31 December 2017; and (d) the impairment loss recognized in respect of intangible asset of approximately RMB40.3 million, amortization of intangible assets of approximately RMB4.6 million and write-down of inventories of approximately RMB21.7 million were made for the year ended 31 December 2017.

Outlook

The smartphone market will decline overall in 2019 to 1.39 billion units (Source: IDC), but sales will begin to improve during the second half of the year as 5G devices slowly begin to make inroads with customers — a process that will take years, not months. 5G phone shipment is expected to be around 7 million units in 2019 and the Group is not expected to ship many of this new technology class. The Company believes that the 4G phones will stay dominant within the market at least for the next two years. It is expected that 4G smartphones will have an estimated 95.4% in 2019, and 71.4% of an even larger 1.54 billion units phone market four years from now (Source: IDC).

The smartphone is being regarded as indispensable, as it is used as more than a phone but a communication and message device, online payment, transaction terminal, as well as portable computer. Whilst the smartphone market has entered into an era that it becomes a necessity and not a commodity, there are a lot of new innovation that will come, such as the 5G technology is just round the corner, the interactive and self-driving automotive vehicles, smart home/appliances, which will become new business targets and programs.

Even though the market has become mature to the point that the fierce competition has seen many global brands disappear, and the better and bigger players dominate the market. The Company has seen most of the brands are now moving to supply other electronic devices and services using the smartphones as the interactive terminals. The Company believes that with its extensive relationship and flexible approach by adopting the service approach, it will enhance its competitive advantages. With 5G, the Company anticipates there will be improved growth in the smartphone market. The Company will engage with its existing and past customers in developing its new business endeavor.

The Company believes there are features and specifications that will allow it to differentiate from competitions. First of all, with the advent of 5G technology, foldable phone is one of the fad though this will extend to flexible display and largely replacing a lot of the portables PC and instrumentations, with these the OLED display will be dominant. Within the next two years, all smartphone manufacturers will create their own unique internet of things (IoT)-internet-developers ecosystem or eco-alliances to embrace the new 5G era. Most of the smartphones will have or claim to have artificial intelligence (AI) functionality — and the functions will be used by enterprises to predict and promote business development on the commercial side. As facial recognition becoming the primary (simple) security verification method, companies will also launch new business models surrounding this functionality together with the photo-imaging technologies; under-screen fingerprint technology will also be a trend for the cheaper phones. A main camera that has 3D and wide-angle/long-focus features will become a standard feature in the flagship models. Some high-end smartphones will be equipped with hardware as well as augmented-reality applications that support 3D modeling. The average unit price of the overall smartphone market will reach USD416 — an increase of 28% compared with 2018 — while the duration of users' phone replacement cycle will be lengthened (Source: IDC).

The Company is working with above trend and believes smartphone manufacturers will seek to form their own and new brand matrix in the future to accommodate the appetite of users in a new era. The speed of upgrading mainstream and mid-priced products will accelerate, while new retail platforms will be the focus of their investments in sales terminals. The Company believes it can work well with them as the Company has its infrastructure to support this change.

On one hand, the Group continuously enhances its technical capabilities, increased its CAPEX spending and to upgrade its support capabilities in software upgrade, product packaging and supply chain and logistic services. The Company has also embarked on designing wireless communication devices and electronic gadgets.

On the other hand, the Company also has a team looking for projects that it can invest which will provide other business opportunities, particularly in the Greater Bay Area (Guangdong-Hong Kong-Macau). The PRC government is currently undergoing certain structural reform for the supply side of the manufacturing industry, among which:

(i) the domestic low-end manufacturing industry has been accelerating its shift to countries with lower labor costs. For example, some low-end mobile phone production has begun to shift to India; and

(ii) the China's domestic manufacturing industry has accelerated its overall upgrade. It is expected that certain major technologies will change the manufacturing landscape in the coming decades, including robotics, artificial intelligence, 3D printing and powerful sensing devices that will lead to highly intelligent and flexible manufacturing plants.

Under this wave of industrial transfer, the overall export of the manufacturing equipment system will be highly sought after by customers. The Company, coupled with over 10 years of mobile phone manufacturing experience, will continuously look for the most cost-effective manufacturing equipment for overseas customers, provide a certain kind of manufacturing equipment, especially the integrated solution of 3C products, including the creation of 3C production equipment trading platform, and provide multi-level, multi-category options to the targeted customers, and provide personalized local services such as process management, equipment after-sales service, initial product quality control, personnel training and more. The Company believes that the above business strategy will bring in positive effect in the Company's revenue for the year 2019.

Driven by the same Greater Bay Area development trend, the Group is looking for asset management opportunities as potential new business drivers because the development in the Greater Bay Area is believed that it could match with the Group's experience in exploring the upgrading for the whole manufacturing industry in the area. The Group's exposure in China's manufacturing market and Hong Kong's international financial market may be leveraged jointly to explore new opportunities. The Group is open and eager to seize the opportunities ahead in the Greater Bay Area.

FINANCIAL REVIEW

Revenue

With the improvement of revenue in late 2017, the Company has since seen its revenue increased by approximately RMB715.3 million or 3.6 times from approximately RMB196.1 million for the year ended 31 December 2017 to approximately RMB911.4 million for the year ended 31 March 2018. The following table sets forth the breakdown of the Group's revenue by product type:

	For the year ended 31 December			
	2018		**2017**	
	RMB'000	%	***RMB'000***	%
Mobile telecommunication devices	**911,448**	100.0	**195,742**	99.8
Mobile device components	**–**	–	**400**	0.2
	911,448	100.0	**196,142**	100.0

Note: Mobile device components are purchased by the Group's suppliers for providing after-sale maintenance services to their end users.

The Group's revenue for the year ended 31 December 2018 increased significantly. The reasons attributed to this increase of sales are as follows:

1. The rise of new Chinese Brands – as the market structure has been dominated by the top 10 smartphone brands which together hold a 76% world market share (Source: Counterpoint), the Company has been working on a new ODM and Supply Chain business model that in combination, that can deliver products to new customers group, which competes effectively in some of emerging market.

2. Utilization of our network – the Company could make use of its network and focus on the Brands+ strategy with some of the Chinese leading brands in the emerging market with profits.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years indicated:

Geographical information

A substantial amount of revenue from external customers, based on their locations, is derived from the Group's country of domicile, Hong Kong. The following table sets forth a breakdown of the Group's revenue during the year based on locations of the customers:

	2018		2017	
	RMB'000	**%**	*RMB'000*	%
Hong Kong	**910,999**	**99.9**	187,199	95.4
Taiwan	**449**	**0.1**	6,581	3.4
Europe	**–**		1,298	0.7
Other parts of Asia	**–**		737	0.4
South Asia	**–**		284	0.1
Africa	**–**		43	–
	911,448	**100**	196,142	100

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell mobile telecommunication devices to various countries including but not limited to the United Arab Emirates, Russia, Thailand and Malaysia.
2. Europe includes the Czech Republic, France, Cyprus and Portugal.
3. Other parts of Asia includes Singapore and Pakistan.
4. South Asia includes India.
5. Africa includes South Africa and Algeria.

The Group's revenue generated from sales in Hong Kong increased from approximately RMB187.2 million for the year ended 31 December 2017 to approximately RMB911 million for the year ended 31 December 2018, representing an increase of 387%.

The Group's revenue generated from sales in Taiwan decreased from approximately RMB6.6 million for the year ended 31 December 2017 to approximately RMB0.4 million, representing a decrease of 93.2%.

Gross profit and gross profit margin

	Year ended 31 December 2018		Year ended 31 December 2017	
	RMB'000	***%***	*RMB'000*	*%*
Mobile telecommunication devices	**16,049**	**1.8**	(22,126)	(11.3)
Mobile device components	**–**	**–**	(2,150)	(537.5)
	16,049	**1.8**	(24,276)	(12.4)

The Company targets to improve and generate more business with the top five Chinese brands who may prefer the Company's business approach and with the supply chain service model that hopefully will improve the Group's gross profit margins in the future. The gross margin in 2018 has improved from approximately negative RMB24.3 million or -12.4% in 2017 to approximately RMB16 million or 1.8% in 2018. These were attributed by more sales volume of Chinese Brand smartphone, no inventory provision and IP amortization in 2018. (Inventory provision of approximately RMB21.7 million and IP amortization of approximately RMB4.6 million were included in cost of sales in 2017)

Research and development costs

Research and development costs mainly include R&D staff costs and product test costs. Research and development costs amounted to approximately RMB0.2 million for the year ended 31 December 2018, decreased by approximately RMB0.1 million or 15% from RMB0.3 million for the year ended 31 December 2017. The decrease was mainly due to the number of R&D staff decreased and less product test costs from less ODM mobile models.

Selling and distribution expenses

Selling and distribution expenses mainly include sales and distribution staff costs, office expenses, freight charges and marketing expenses. Selling and distribution expenses amounted to approximately RMB10.8 million for the year ended 31 December 2018, increased by approximately RMB5.1 million or 88.4% from RMB5.8 million for the year ended 31 December 2017. The increase was primarily due to the increase in freight charges, marketing expenses and more staff cost for supporting logistics for the increased sales volume in 2018.

Administrative expenses

Administrative expenses mainly include staff costs for administrative employee, audit fees, legal fees, impairment loss recognized in respect of intangible assets and general office expenses. Administrative expenses amounted to approximately RMB18 million for the year ended 31 December 2018, decreased by approximately RMB44.2 million or 71.1% from RMB62.2 million for the year ended 31 December 2017. The decrease was primarily due to the impairment of intangible assets amounted to RMB40.3 million and RMB 1.8 million professional fee for merger of a target company incurred in 2017 and less audit fee.

Other income

Other income mainly consisted of the interest income on pledged bank deposit, bank deposits and the bank balances which amounted to RMB16.4 million and service income amounted to RMB0.2 million for the year ended 31 December 2018. The increase was mainly due to higher interest rate for the bank deposits in 2018.

Taxation

No income tax was provided for the year ended 31 December 2018 due to Benywave Wireless incurred loss for 2018 and the Group's subsidiary in Hong Kong carried tax loss of approximately RMB1.5 million from 2017 to offset the profit for the year ended 31 December 2018.

For the year 2018, Benywave Wireless was entitled to apply a preferential tax rate of 15%, while the Group's subsidiary incorporated in Hong Kong is subject to a profit tax at a rate of 16.5%.

Liquidity and source of funding

As at 31 December 2018, the Group's total cash and bank balances decreased by approximately RMB19.2 million from approximately RMB42.5 million to approximately RMB23.3 million.

As at 31 December 2018, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 6.3 compared with 4.9 as at 31 December 2017.

Foreign exchange exposure

The Group undertakes certain operating transactions in foreign currencies and the bank balances of the proceeds from the global offering denominated in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

Material acquisitions and disposals

The Group has no material acquisitions and disposals for the year ended 31 December 2018.

Trade and other receivables

Trade and other receivables mainly include the trade receivables, other receivable and prepayments to suppliers. As at 31 December 2018, the carrying amount of trade and other receivables were approximately RMB67.9 million, representing a decrease of approximately RMB6.6 million.

Intangible Assets

The carrying amount of the intangible assets is zero for both 2017 and 2018.

Inventories

Inventories mainly are the mobile telecommunication devices. As at 31 December 2018, the Group's total inventories was RMB 26.6 million decreased by RMB14.5 million from RMB 41.1 million (net of allowance RMB 31 million). In determining the write-down of inventories, the management considered the subsequent selling price and aging of inventories.

Contingent liabilities and commitments

At the end of the year 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which amounted to RMB4.6 million. The operating lease payments commitments represent rental payable by the Group for offices, warehouses and equipment rental. The lease was negotiated for lease terms of one to three years. Monthly rental was fixed for certain lease.

Continuing connected transactions

Pursuant to an equipment lease agreement made between Benywave Technology and Benywave Wireless, Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. Amounting to RMB66,561 rental expenses were incurred by Benywave Wireless for the year ended 31 December 2018.

Pursuant to a lease agreement made between Beijing Tianyu Communication Equipment Co., Ltd. ("Tianyu") and Benywave Wireless, Tianyu has let the premises situated at Zone B, 4th Floor, No. 55, Jiachuang Second Road, Zhongguancun Science Park, OPTO-Merchatronics Industrial Park, Tongzhou District, Beijing, China to Benywave Wireless for carrying on its business. Amounting to RMB741,766 rental expenses were incurred by Benywave Wireless for the year ended 31 December 2018.

Related party transaction

Except for the continuing connected transactions disclosed above, for the year ended 31 December 2018, the Group had no related party transaction incurred.

Dividends

No dividends were declared or paid during the year ended 31 December 2018.

The board of directors did not recommend the payment of dividend for the year ended 31 December 2018.

1. **Ms. Rong Xiuli**

Executive Director and Chairperson

Ms. Rong Xiuli ("Ms. Rong"), aged 55, is the chairperson and executive Director of the Company, a member of the remuneration committee and risk management committee and chairperson of the nomination committee of the Company. Ms. Rong joined the Group in July 2004. Ms. Rong is the founder of the Group and is currently the chairperson of the Group. She gained experience and network in the mobile handset distribution business in the mid-1990s. She worked for 北京市百利豐通訊器材有限責任公司(Beijing City Bailifeng Communication Apparatus Co., Ltd.*) which engaged in the sale and agency service of mobile phones and became the chairperson of this company until 2005. Ms. Rong also co-founded 北京天宇朗通通信設備股份有限公司(Beijing Tianyu Communication Equipment Co. Ltd.*) ("Tianyu") with Mr. Ni Gang (spouse of Ms. Rong) in 2002. She was responsible for sales and marketing, research and development, strategic planning and general management of Tianyu from 2002 to 2008. Ms. Rong was also a director of 北京百納威爾科技有限公司 (Beijing Benywave Technology Co., Ltd.*) ("Benywave Technology") since its establishment in 2004 and the chairperson of Benywave Technology from 2008 to 2014. Ms. Rong has ample experience in sales and marketing, distribution, research and development, risk management, personnel and general management. Ms. Rong has approximately 24 years of experience in mobile handset industry. Ms. Rong has extensive knowledge on telecommunications operations and control and deep understanding of the dynamic of telecommunications market in China. Ms. Rong graduated from Hunan University (湖南大學) with a degree in mechanical engineering specialized in internal combustion engine in 1983. Ms. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) (previously known as China-Europe Management Institute (中歐國際管理中心)) in 1993. Ms. Rong is an elder sister of Mr. Rong Shengli, chief executive officer and executive Director of the Company.

2. **Mr. Rong Shengli**

Executive Director and Chief Executive Officer

Mr. Rong Shengli ("Mr. Rong"), aged 48, is the chief executive officer, executive Director and a member of the risk management committee of the Company and is responsible for the management and strategic development of the Group. Mr. Rong joined the Group in October 2018. Mr. Rong joined 北京百納威爾科技有限公司(Beijing Benywave Technology Co., Ltd.*) ("Benywave Technology") in 2008 and was the vice chairman of Benywave Technology from October 2008 to July 2014, where he was responsible for the sales and the strategic planning for its business of development, designing, production management and selling of mobile telecommunication devices on ODM basis and its related components and accessories, targeting global markets excluding the People's Republic of China ("PRC"). Prior to joining Benywave Technology, Mr. Rong served as marketing manager, regional director and general manager of operational business department of Tianyu and its subsidiaries from 2000 to 2008. Mr. Rong did not have any role in Tianyu since 2008. Mr. Rong has approximately 19 years of experience in telecommunications industry and management. Mr. Rong obtained a bachelor's degree from Harbin Engineering University (哈爾濱工程大學) (previously known as Harbin Shipbuilding Engineering Institute (哈爾濱船舶工程學院)) specialized in radio communications in 1992. Mr. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) in 1997. Mr. Rong is a brother of Ms. Rong Xiuli, chairperson and executive Director of the Company.

3. **Mr. Tang Shun Lam**

Executive Director

Mr. Tang Shun Lam ("Mr. Tang"), aged 63, is an executive Director of the Company. Mr. Tang joined the Group in March 2015. Mr. Tang worked for RDA Microelectronics, Inc., a company listed on NASDAQ Stock Market, from 2010 to January 2015 first as a senior vice president of operations and subsequently as a director and executive chairman. Mr. Tang has been appointed as an independent non-executive director of Greenheart Group Limited (the shares of which are listed on the Main Board, stock code: 94) with effect from 2 July 2015. He received a bachelor of science degree in electrical and electronics engineering from Nottingham University in England in 1979 and a master of business administration from Bradford University in England in 1981.

4. Mr. Yin Xuquan

Executive Director and President

Mr. Yin Xuquan ("Mr. Yin") aged 54, is an executive Director and president of the Company. Mr. Yin joined the Group in February 2018. Mr. Yin has over 16 years of experience in the telecommunication equipment industry in the People's Republic of China and held various managerial positions in 中國郵電器材集團公司 (China National Postal and Telecommunications Appliances Corporation*) during the period from February 2002 to January 2018, where he had accumulated extensive experience in corporate management. Mr. Yin graduated from Heilongjiang University (黑龍江大學) with a bachelor's degree in finance and tax in July 2006, and received an executive master degree of business administration (EMBA) from South China University of Technology (華南理工大學) in July 2011.

5. Mr. Wong Ho Chun

Executive Director

Mr. Wong Ho Chun ("Mr. Wong"), aged 32, is an executive Director of the Company. Mr. Wong Joined the Group in February 2019. Mr. Wong has over 6 years of experience in the asset management, fund management and financial services industries in Hong Kong. Mr. Wong was a managing partner of China Fund Group Limited, a boutique fund house in Hong Kong, during the period from 2016 to 2018; a fund manager of Pacific Sun Advisors Limited during the period from 2014 to 2016; and assumed various managerial positions in a few big banks in Hong Kong responsible for providing investment and financial services solutions to clients during the period from 2011 to 2014. Mr. Wong obtained a master degree in Arts with a major in politics from the Durham University in 2011; and a bachelor degree of Business Administration from the City University of Hong Kong in 2006. Mr. Wong is also a Chartered Financial Analyst ("CFA") charterholder.

6. Mr. Hon Kwok Ping, Lawrence

Independent Non-executive Director

Mr. Hon Kwok Ping, Lawrence ("Mr. Hon"), aged 70, is an independent non-executive Director, a member of the audit committee, and nomination committee and chairman of the remuneration committee and the risk management committee of the Company. Mr. Hon joined the Group in September 2014. Mr. Hon has over 34 years' experience in the accounting and finance as well as business operations. Since mid-1980's, he has been serving local and international companies in senior positions such as CEO, CFO, president & vice president as well as chief accountant and company secretary and other positions. Mr. Hon retired as the joint company secretaries of Courage Investment Group Limited (formerly known as Courage Marine Group Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited, stock code: 1145) with effect from 28 February 2019. He is a CPA with fellow membership of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants, UK.

7. **Mr. Lam Yiu Kin**

Independent Non-executive Director

Mr. Lam Yiu Kin ("Mr. Lam"), aged 64, is an independent non-executive Director, chairman of the audit committee and a member of the remuneration committee and nomination committee of the Company. Mr. Lam joined the Group in September 2014. Mr. Lam was the audit partner of PricewaterhouseCoopers (HK) from 1993 to 2013.

Mr. Lam has been the independent non-executive director of (i) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the shares of which are listed on the Main Board, stock code: 1349) since 2013; (ii) Spring Real Estate Investment Trust (the units of which are listed on the Main Board, stock code: 1426) since 2015; (iii) Global Digital Creations Holdings Limited (the shares of which are listed on the GEM, stock code: 8271) since 2015; (iv) Shougang Concord Century Holdings Limited (the shares of which are listed on the Main Board, stock code: 103) since 2015; (v) COSCO SHIPPING Ports Limited (the shares of which are listed on the Main Board, stock code: 1199) since 2015; (vi) Nine Dragons Paper (Holdings) Limited (the shares of which are listed on the Main Board, stock code: 2689) since 2016; (vii) WWPKG Holdings Company Limited (the shares of which are listed on the GEM, stock code: 8069) since 2016; (viii) CITIC Telecom International Holdings Limited (the shares of which are listed on the Main Board, stock code: 1883) since 2017; and (ix) Bestway Global Holding Inc. (the shares of which are listed on the Main Board, stock code: 3358) since 2017.

Mr. Lam resigned as an independent non-executive director of Mason Group Holdings Limited (the shares of which are listed on the Main Board, stock code: 273) with effect from 24 May 2017. Mr. Lam was the independent non-executive director of Royal Century Resources Holdings Limited (the shares of which are listed on the GEM, stock code: 8125) from 2014 to 2015.

Mr. Lam has over 44 years of experience in accounting, auditing and business consulting. Mr. Lam is a fellow member of HKICPA, the Association of Chartered Certified Accountants, the Chartered Accountants of Australia and New Zealand and the Institute of Chartered Accountants in England & Wales. Mr. Lam was an adjunct professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from 2014 to 2016, and a member of the finance management committee of the Hong Kong Management Association until July 2016. Mr. Lam obtained a higher diploma in accountancy from The Hong Kong Polytechnic University in 1975 and was conferred an Honorary Fellow by The Hong Kong Polytechnic University in 2002.

8. **Mr. Lam Man Kit**

Chief Financial Officer

Mr. Lam Man Kit ("Mr. Lam"), aged 62, has over 40 years of experience in financial management, accounting and corporate finance. Mr. Lam joined the Group in June 2016. Since 1980's Mr. Lam has been serving local and international companies in senior positions such as chief financial officer, consultant, financial controller, regional controller, cost accounting manager and other positions. Prior to joining the Company, Mr. Lam was the chief financial officer of the group of Draper Athena from July 2015 to May 2016, where he was responsible for financial functions for the fund and management companies located in People's Republic of China, the United States of America, Korea and Hong Kong. Before that, he was the chief financial officer of Coolsand Technologies Limited from 2009 to 2015; a consultant of Yeton Venture Limited from 2008 to 2009; the executive director and chief financial officer of Wanji Group Limited from 2001 to 2007; the financial controller of Whirlpool Home Appliance Co. Ltd. from 1995 to 2001; the regional controller of Amphenol East Asia Limited from 1986 to 1995; and he also worked for Fairchild Semiconductor (HK) Ltd. from 1978 to 1986 first as accountant and subsequently as cost accounting manager. Mr. Lam obtained a diploma in accounting and business management from Hong Kong Baptist University in 1978.

9. **Mr. Chan Shun Faat**

Vice president

Mr. Chan Shun Faat ("Mr. Chan"), aged 30, is a vice president of the Group. Mr. Chan joined the Group in February 2019. Mr. Chan has over 6 years of experience in the asset management, fund management and financial services industries in Hong Kong. Mr. Chan was a managing director of China Fund (Group) Limited during the period from 2016 to 2018; a fund manager of Pacific Sun Advisors Limited during the period from 2014 to 2016; an investment banker of China Construction Bank (ASIA) from 2012 to 2014; and worked at two other major banks in Hong Kong responsible for providing investment and financial services solutions to clients from 2011 to 2012. Mr. Chan obtained a bachelor degree in Information Engineering from the Chinese University of Hong Kong in 2010.

10. **Mr. Wang Lei**

Vice president

Mr. Wang Lei ("Mr. Wang"), aged 37, is a vice president of the Group. Mr. Wang has over 15 years of experience in the financial management and sales management in China. Mr. Wang was a vice president of 普泰通信發展有限公司 (Putai Communication Development Limited*) during the period from January to October 2017; a vice president of 中國郵電器材深圳公司 (China Post and Telecommunication Equipment (Shenzhen) Company*) during the period from 2005 to 2017; and a financial controller of 中國郵電器材哈爾濱公司 (China Post and Telecommunication Equipment (Harbin) Company*) during the period from 2003 to 2005. Mr. Wang obtained a master degree in business administration from University of Wales in 2013 and a bachelor degree in finance and taxation from the 黑龍江大學 (Heilongjiang University*) of China in 2003.

* *for identification only*

The director of the Company (the "Directors") present their report and the audited consolidated financial statements of the Company and its subsidiaries (together the ("Group")) for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

The Company incorporated in Cayman Islands. The principal place of business of the Company is located in Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the Management Discussion and Analysis on pages 4 to 13 of this Annual Report.

The financial risk management objectives and policies of the Group are shown in note 31 to the consolidated financial statements.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. The Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution and discharge of waste and water into the environment. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year under review, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that employees, customers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its business partners.

The Company provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their positions. The Group understands that it is important to maintain good relationship with customers and provide the products in a way that satisfy needs and requirements of the customers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand for the products so that the Group can respond proactively. The Group has also established procedures in place for handling customers' complaints to ensure customers' complaints are dealt with in a prompt and timely manner. The Group is also dedicated to develop good relationship with suppliers and contractors as long-term business partners to ensure stability of the Group's business.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 58 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 138 of this annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company during the year ended 31 December 2018 are set out in note 26 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 9 June 2015 as an incentive to the Group's employees and business associates (the "Scheme"). Subject to the provisions for early termination of the Scheme, the Scheme shall be valid for a period of ten years from that date. The following is a summary of the principal terms of the Scheme: -

a) **Purpose of the Scheme**

The purpose of the Scheme is to provide incentives or rewards to the participants for their contribution to the Group.

b) Participants of the Scheme

Pursuant to the Scheme, the board of the Company may at its absolute discretion grant options to any eligible employee, non-executive Director, supplier of goods or services, customer, person or entity that provides research, development or other technological support, shareholder or holder of any securities issued by the Group or any invested entity.

c) Total number of shares available for issue under the Scheme

The total number of shares available for issue under the Scheme is 85,000,000 Shares, representing 10% of the total number of share of the Company in issue as at the date of this annual report.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue from time to time.

d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including those exercised, outstanding and cancelled options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the Scheme.

e) Time of exercise of options

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each option grantee, which period may commence on the day on which the option offer is made but shall end in any event not later than 10 years from the offer date subject to the provisions for early termination thereof. Unless the Directors otherwise determined and stated in the option offer to a participant of the Scheme, no minimum period for which the option granted under the Scheme must be held before it can be exercised.

f) Subscription price per share

The subscription price per share in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the making of the option offer but in any case the subscription price shall not be lower than the highest of:

i. the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the option offer date, which must be a trading day;

ii. the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the offer date; and

iii. the nominal value of a share of the Company.

g) Payment on acceptance of option

A non-refundable sum of HK$1.00 by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the option.

h) Remaining life of the Scheme

Subject to the provisions for early termination of the Scheme, the Scheme will remain in force for a period of 10 years commencing on 9 June 2015.

As at the date of this report, no option had been granted by the Company.

RESTRICTED SHARE UNIT SCHEME

The Company adopted Restricted Share Unit Scheme (the "RSU Scheme") on 9 June 2015. Details of the RSU Scheme are set out in the section headed "Statutory and General Information – D. RSU Scheme" in Appendix IV to the prospectus of the Company dated 16 June 2015.

The Company has appointed The Core Trust Company Limited as an independent trustee service provider to assist the administration and vesting of the RSUs. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

GRANT OF RESTRICTED SHARE UNITS

Pursuant to the announcement on 2 November 2016, the Company has granted 32,300,000 RSUs to the grantees (the "Grantees"), subject to the acceptance of the Grantees. Details of the RSUs granted to the Grantees are as follows:

Date of grant	Vesting date	Number of RSUs granted	Number of underlying Shares involved
2 November 2016	2 November 2016	10,766,655	10,766,655
2 November 2016	2 November 2017	10,766,655	10,766,655
2 November 2016	2 November 2018	10,766,690	10,766,690
Total		32,300,000	32,300,000

An award of RSUs under the RSU Scheme gives the respective Grantees a conditional right when the granted RSUs vests to obtain either ordinary shares of HK$0.10 each in the Company (the "Shares") or an equivalent value in cash with reference to the value of the Shares on or about the date of vesting, as determined by the Board in its sole discretion.

CONNECTED GRANTEES

An aggregate of 32,300,000 RSUs were granted to the Grantees, of which 8,050,000 RSUs in aggregate were granted to five Directors (the "Connected Grantees") who are the connected persons of the Company pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), and 24,250,000 RSUs were granted to the remaining Grantees who are not Directors, chief executive, or substantial shareholder of the Company or its subsidiaries, nor an associate (as defined in the Listing Rules) of any of them. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the remaining Grantees are third parties independent of the Company and its connected persons. Details of the RSUs granted to the Connected Grantees are as follows:

Name of Connected Grantees	Position	Number of RSUs granted
Mr. Rong Shengli	Chief executive officer and executive Director	3,720,000
Mr. Tang Shun Lam	Executive Director	3,400,000
Mr. Lam Yiu Kin	Independent non-executive Director	310,000
Mr. Hon Kwok Ping Lawrence	Independent non-executive Director	310,000
Mr. Tsang Yat Kiang	Independent non-executive Director (resigned on 31 January 2019)	310,000

In accordance with the RSU Scheme, the grants of the RSUs to the above Directors have been approved by all the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of such RSUs).

Each of the Connected Grantees has declared his interest in the grants of the RSUs to himself and abstained from voting on the relevant board resolutions in relation thereto.

Under the RSU Scheme, the maximum number of Shares underlying RSUs permitted to be granted shall not exceed 32,300,000 Shares (excluding Shares underlying RSUs that have lapsed or been cancelled in accordance with the RSU Scheme) (the "RSU Limit"). Consequently, RSUs have been granted up to the full RSU Limit.

REASONS FOR AND BENEFITS OF THE GRANT OF RESTRICTED SHARE UNITS

The purposes of RSU Scheme are (i) to recognize the contributions of the RSU grantees to the Group or its business; (ii) to give incentives to the RSU grantees in order to retain them for the continual operation and development of the Group; and (iii) to attract suitable personnel for the development of the Group. An aggregate of 32,300,000 RSUs were granted to the Grantees since the Grantees have made valuable contributions to the Group which should be recognized and (where applicable) should be provided with incentives for their continuing contribution to the Group.

In respect of the grant of RSUs to the Grantees (including Connected Grantees), the independent non-executive Directors, having considered the aforesaid reasons, are of the view that the grant of RSUs to the Grantees (including Connected Grantees) are transactions entered into on normal commercial terms, which are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution calculated in accordance with the provisions of the Companies Law of the Cayman Islands amounted to approximately RMB740.4 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, the Group's top five largest customers accounted for 75.5% (2017: 45.4%) of our revenues and the single largest customer accounted for 19.6% (2017: 13.8%) of our revenues. The Group's top five suppliers accounted for 70% (2017: 72.1%) of our cost of revenue and the single largest supplier accounted for 19.2% (2017: 20.7%) of our cost of revenue.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers and suppliers during the year.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

Further details are set out in note 30 to the consolidated financial statements. Some of these transactions also constituted "Continuing Connected Transactions" under the Listing Rules, as identified below.

CONTINUING CONNECTED TRANSACTIONS

Save as disclosed herein, during the year ended 31 December 2018, the Group entered into a number of transactions with entities which will be regarded as connected parties of the Company under Chapter 14A of the Listing Rules as below:

i. the lease agreement with 北京天宇朗通通信設備股份有限公司(Beijing Tianyu Communication Equipment Co., Ltd.*) ("Tianyu") as lessor and 北京百納威爾無線通信設備有限公司(Beijing Benywave Wireless Communication Co., Ltd.*) ("Benywave Wireless") as lessee dated 22 July 2017 with an annual rental fee of approximately RMB742,000; and

ii. the equipment lease agreement with 北京百納威爾科技有限公司(Beijing Benywave Technology Co., Ltd.*) ("Benywave Technology") as lessor and Benywave Wireless as lessee dated 22 July 2017 with an annual rental fee of approximately RMB67,000.

* *for identification purposes only*

The Board, including the independent non-executive Directors, has reviewed and confirmed that the fees were:

i. in the ordinary course of business of the Group;

ii. either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and

iii. in accordance with the terms of the lease agreements that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

NON-COMPETITION UNDERTAKING

Each of Ms. Rong Xiuli, Mr. Ni Gang, Winmate Limited, 北京百納威爾科技有限公司(Beijing Benywave Technology Co., Ltd.*) ("Benywave Technology") and 北京天宇朗通通信設備股份有限公司(Beijing Tianyu Communication Equipment Co. Ltd.*)("Tianyu") (collectively the "Covenantors"), has entered into a deed of non-competition and undertaking dated 9 June 2015 (the "Deed of Non-Competition") in favor of the Company (for itself and on behalf of its subsidiaries from time to time), pursuant to which each of the Covenantors irrevocably and unconditionally undertakes to and covenants with the Company that each of them will not and procure that none of their respective associates and subsidiary (for a Covenantor which is a company) other than any member of the Group shall:

i. whether as principal or agent and whether undertaken directly or indirectly in his/its/their own account or in conjunction with or on behalf of or through any person, firm, body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, carry on, participate in, acquire, or hold (whether as a shareholder, partner, agent or otherwise) any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which competes or may compete with the business of developing, designing, production management and selling of mobile telecommunication devices on original design manufacturer ("ODM") basis and its related components and accessories, targeting global markets excluding People's Republic of China (the "PRC") (the "Overseas Business") in any part of the world including but not limited to undertaking the manufacture of mobile telecommunication devices on ODM basis;

ii. sell or distribute or cause or allow the sale or distribution of the own-branded mobile telecommunication devices of Benywave Technology and Tianyu and their subsidiaries or any of them (collectively the "Excluded Group") to any territory outside the PRC and, in connection therewith, the Covenantors shall procure that in all distribution agreements between any member of Excluded Group and its distributors a clause restricting the sale or distribution of such own-branded mobile telecommunication devices outside PRC shall be incorporated; and

* *for identification purpose only*

iii. alone or jointly with or on behalf of any person,

   a. induce or attempt to induce any director, employee or consultant of the Group to terminate his/her/its employment or consultancy (as appropriate) with the Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy with the Group (as appropriate);

   b. canvass or solicit or attempt to canvass or solicit any order for business which competes or may compete with the Overseas Business; and

   c. persuade any person who has dealt with the Group or who is in the process of negotiating with the Group in relation to the Overseas Business to cease to deal with the Group, or reduce the amount of business which that person would normally do with the Group or seek to improve their terms of trade with any member of the Group.

Details of the Deed of Non-Competition are set out in the section headed "Relationship with Controlling Shareholders" of the Prospectus of the Company dated 16 June 2015.

The Company confirms that each of the Convenantors have complied with the Deed of Non-Competition for the year ended 31 December 2018. In order to ensure the Covenantors have complied with the Deed of Non-Competition, the following actions have been taken:

i. the Company has required each of the Covenantors to give written confirmation to the Company on an annual basis as to whether he/she/it has complied with the Deed of Non-Competition for the year ended 31 December 2018;

ii. each of the Covenantors has provided to the Company such written confirmation (a) in respect of his/her/its compliance with the Deed of Non-Competition for the year ended 31 December 2018; and (b) stating that he/she/it has not been offered or becomes aware of any investment or commercial opportunity directly or indirectly relating to the Overseas Business in any part of the world including but not limited to supply of mobile telecommunications devices on ODM basis in the PRC; and

iii. the independent non-executive directors of the Company have reviewed the written confirmation made by the Covenantors of compliance by each of the Covenantors with the undertakings in the Deed of Non-Competition and have also reviewed the status of the compliance by each of the Covenantors with the undertakings in the Deed of Non-Competition and have confirmed that, as far as they can ascertain, there is no breach by any of the Covenantors of the undertakings in the Deed of Non-Competition given by them.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors

Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive officer)*
Mr. Yin Xuquan *(President)*
Mr. Tang Shun Lam
Mr. Wong Ho Chun (appointed on 1 February 2019)

Independent Non-executive Directors

Mr. Hon Kwok Ping, Lawrence
Mr. Lam Yiu Kin
Mr. Tsang Yat Kiang (resigned on 31 January 2019)

Pursuant to Article 83(3) of the Company's Articles of Association, any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Mr. Wong Ho Chun shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Pursuant to Article 84(1) of the Company's Articles of Association, one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at an annual general meeting at least once every three years. Mr. Tang Shun Lam and Mr. Lam Yiu Kin shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 14 to 18 of this annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers all of the Independent Non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

No Director has entered into any service agreements with any members of the Group excluding contracts expiring or determinable by the employee within one year without payment of compensation other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director, other officer and auditor for the time being of the Company shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditors or other officer of the Company about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate Directors' and Officers' liability insurance coverage for the Directors and officers of the Group.

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 existed during the year under review.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

At 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions

Ordinary shares of HK$0.1 each of the Company (the "Shares")

(i) Interest in the Company

Name of Director	Nature of interest	Number of and class of securities [1]	Approximate percentage of issued share capital of the Company[3]
Rong Xiuli ("Ms. Rong") [2]	Interest in a controlled corporation Personal interest	568,480,000 (L)	66.88%
Rong Shengli	Personal interest	3,720,000 (L)	0.44%
Tang Shun Lam	Personal interest	3,400,000 (L)	0.40%
Hon Kwok Ping Lawrence	Personal interest	310,000 (L)	0.04%
Lam Yiu Kin	Personal interest	310,000 (L)	0.04%
Tsang Yat Kiang [4]	Personal interest	310,000 (L)	0.04%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni Gang ("Mr. Ni") hold 90% and 10% of the entire issued share capital of Winmate Limited ("Winmate") respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong is deemed to be interested in the Shares held by Winmate.

(3) As at 31 December 2018, the issued share capital is 850,000,000 Shares.

(4) Resigned on 31 January 2019.

(ii) Interest in associated corporation of the Company

Name of Director	Name of associated corporation	Percentage of interest in associated corporation
Ms. Rong (Note)	Winmate Limited	90%

Note: As at 31 December 2018, Winmate held more than 50% of the Shares. Therefore, the Company was a subsidiary of Winmate, and Winmate was the holding company and an associated corporation of the Company.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2018, as far as known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions

Ordinary shares of HK$0.1 each of the Company

Name of Shareholder	Nature of interest	Number of and class of securities (1)	Approximate percentage of issued share capital of the Company (5)
Winmate	Beneficial owner	480,624,000 (L)	56.54%
Ms. Rong (2)	Interest in a controlled corporation	568,480,000 (L)	66.88%
Mr. Ni (2)	Interest in a controlled corporation Spouse of Ms. Rong	568,480,000 (L)	66.88%
Yardley Finance Limited (3)	Person having a security interest in shares	533,480,000 (L)	62.76%
Mr. Chan Kin Sun (4)	Interest in a controlled corporation	533,480,000 (L)	62.76%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni hold 90% and 10% of the entire issued share capital of Winmate respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong and Mr. Ni are deemed to be interested in the Shares held by Winmate.

(3) Yardley Finance Limited("Yardley") is the beneficial owner of 533,480,000 Shares of which 480,624,000 shares were charged by Winmate.

(4) Yardley is owned by Mr. Chan Kin Sun. Therefore, Mr. Chan Kin Sun is deemed to be interested in the Shares held by Yardley.

(5) As at 31 December 2018, the issued share capital is 850,000,000 Shares.

Save as disclosed above, as at 31 December 2018, the Company has not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

USE OF PROCEEDS

The shares of the Company were successfully listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 June 2015. The net proceeds received from the initial public offering ("IPO"), after deducting underwriting fees and other expenses in relation to the IPO, were approximately HKD484 million (equivalent to approximately RMB424 million). Such net proceeds were deposited at the Group's bank accounts. As at 31 December 2018, the net proceeds were used as follows:

		Proceeds		
Use:	**% of the total amount of the net proceeds**	**Approximate amounts of the net proceeds** in HK$ million (RMB equivalent)	**Approximate amounts utilized** in HK$ million (RMB equivalent)	**Approximate remaining amounts** in HK$ million (RMB equivalent)
Purchasing raw materials to expand our raw sourcing capacity	45.5	220(193)	220(193)	0(0)
Setting up overseas representative offices and/or establishing partnership with top local branded mobile handset suppliers or telecommunication operators in our key markets	27	131(115)	3(3)	128(112)
Expanding our research and development capabilities	12.5	61(53)	61(53)	(0)
Setting up a new quality testing laboratory, employing additional quality testing personnel and purchasing additional quality testing equipment	5	24(21)	0	24(21)
General working capital	10	48(42)	48(42)	0(0)
Total	100	484(424)	332(291)	152(133)

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2018.

COMPETING INTERESTS

As at 31 December 2018, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

EMOLUMENT POLICY

The emolument package of the Directors and senior management of the Group is reviewed and recommended by the Remuneration Committee on the basis of their merit, qualifications and competence.

The Company has adopted a share option scheme and restricted share unit scheme to the eligible persons as incentives or rewards for their contribution to the Group.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the group as at 31 December 2018 are set out in note 22 to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 December 2018 are set out in note 10 and note 11 to the consolidated financial statements.

RETIREMENT SCHEME

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employee in the PRC, and operates a Mandatory Provident Fund scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 29 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Details of the corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 37 to 52 of this annual report.

EVENT AFTER REPORTING PERIOD

There were no material events occurred after the reporting period.

CHARITABLE DONATIONS

The Group does not make charitable donations in the year 2018. (2017: Nil)

CHANGES IN INFORMATION OF DIRECTORS

The change of Director's information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Mr. Tsang Yat Kiang resigned as independent non-executive Director, a member of the audit committee, the chairman of the remuneration committee and the chairman of the nomination committee of the Company with effect from 31 January 2019 due to his personal health reason;

2. Mr. Wong Ho Chun has been appointed as an executive Director of the Company with effect from 1 February 2019; and

3. Mr. Hon Kwok Ping, Lawrence retired as joint secretary of Courage Investment Group Limited (HKEx, Stock code: 1145) with effect from 28 February 2019.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The current audit committee, after the resignation of Mr. Tsang Yat Kiang on 31 January 2019, comprises of Mr. Lam Yiu Kin (chairman) and Mr. Hon Kwok Ping, Lawrence, all of whom are independent non-executive Directors.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The audit committee has reviewed the Group's annual results for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group.

AUDITORS

The financial statements for the year ended 31 December 2018 have been audited by BDO Limited. Deloitte Touche Tohmatsu resigned as auditors of the Company with effect from 26 October 2018. BDO Limited was appointed as auditor of the Company with effect from 26 October 2018 to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

On behalf of the board

Rong Xiuli
Chairperson

Hong Kong, 26 March 2019

CORPORATE GOVERNANCE PRACTICES

The board (the "Board") of directors (the "Directors") of the Company is committed to maintaining a solid, transparent and sensible framework of corporate governance for the Company and its subsidiaries and will continue to review its effectiveness.

The Company has adopted the Code Provisions ("Code Provisions") as stated in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as the Corporate Governance Code ("Code") of the Company. The Board is committed to complying with the Code Provisions as stated in the CG Code to the extent that the Directors of the Company consider it is applicable and practical to the Company.

During the year under review, the Company has complied with the Code Provisions in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the period from the Listing Date to 31 December 2018.

BOARD OF DIRECTORS

During the reporting period and up to the date of this report, the Board comprises five Executive Directors and two Independent Non-executive Directors. The Directors were:

Executive Directors
Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive officer)*
Mr. Tang Shun Lam
Mr. Yin Xuquan *(President)*
Mr. Wong Ho Chun *(appointed on 1 February 2019)*

Independent Non-executive Directors
Mr. Hon Kwok Ping, Lawrence
Mr. Lam Yiu Kin
Mr. Tsang Yat Kiang *(resigned on 31 January 2019)*

The Board possesses a balanced mix of skills and expertise which supports the continuing development of the Company. The Executive Directors have accumulated sufficient and valuable experience to hold their positions in order to ensure that their fiduciary duties have been carried out in an efficient and effective manner. The Board is responsible for setting the Group's strategic direction and overseeing the business performance of the Group while business operations are delegated to qualified management under the supervision of the Executive Directors. The Board also monitors the financial performance and the internal controls of the Group's business operations. The senior management is responsible for the day-to-day operations of the Group.

Biographical details of the Directors are set out in the section of "Biographical Details of Directors and Senior Management" on pages 14 to 18 of this annual report. To the best knowledge of the Company, there is no other financial, business, family or other material/relevant relationship among the Directors.

Chairman and Chief Executive Officer

According to the Code Provisions A.2.1 of the CG Code, the roles of the Chairperson, Ms. Rong Xiuli and the Chief Executive Officer (the "CEO"), Mr. Rong Shengli are segregated in order to reinforce their independence and accountability.

There are clear demarcations of responsibility and authority between the Chairperson and the CEO which ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. Ms. Rong Xiuli is mainly responsible for providing guidance and supervision regarding the business and operations of the Company while Mr. Rong Shengli is responsible for the overall management of the Company's business operations.

Board Diversity

The Company has recognised the importance of board diversity to corporate governance and the board effectiveness in terms of examination and evaluation of corporate issues from different perspectives. As such, the Company updated its board diversity policy (the "Diversity Policy") and adopted the Nomination Policy which set out the objectives and principles regarding board diversity and nomination in December 2018.

Pursuant to the Diversity Policy, the effective implementation of the Diversity Policy requires that shareholders are able to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support.

The Board will also take into account the below aspects: -

➢ Articulate the benefits of diversity, including gender diversity, and the importance of being able to attract, retain and motivate employees from the widest possible pool of available talent;

➢ To diversify at all levels, including gender, age, cultural and educational background, or professional experience;

➢ Assess annually on the diversity profile including gender balance of the directors and senior management and its progress in achieving its diversity objectives;

➢ Ensure that recruitment and selection practices at all levels (from the board downwards) are appropriately structured so that a diverse range of candidates are considered; and

➢ Has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions.

Having reviewed the Diversity Policy and the Board's composition, the Nomination Committee considered that the requirements set out in the Diversity Policy had been met.

Nomination Policy

The Group adopted a nomination policy (the "Nomination Policy") in December 2018. A summary of this policy is disclosed as below.

1. *Objective*

   The nomination committee of the Company ("Nomination Committee") shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as directors of the Company at general meetings or appoint as Directors to fill casual vacancies or as an addition to the existing Board.

2. *Selection Criteria*

   The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

   - Reputation for integrity
   - Accomplishment and experience
   - Compliance with legal and regulatory requirements
   - Commitment in respect of available time and relevant interest
   - Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service

3. *Nomination Procedures*

   The Secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by Board members.

   For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders") to allow Shareholders to share the Company's profits and for the Company to retain adequate reserves for future growth.

General power to declare dividends

Subject to the Cayman Companies Law, the Company may from time to time in general meeting declare dividends in any currency to be paid to the members of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

Board's power to pay interim dividends

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the profits of the Company, and, in particular (but without prejudice to the generality of the foregoing), if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend.

The Board may also pay half-yearly or at other intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the profits available for distribution justify the payment.

Board's power to declare and pay special dividends

The Board may in addition from time to time declare and pay special dividends on shares of any class of such amounts and on such dates as they think fit.

Dividends to be paid out of profits or reserves

No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company.

The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

Scrip dividends

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In case of the Board elects to pay the dividend in shares, the Company shall abide by the provisions of the articles of association of the Company on scrip dividends.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time, and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

Independent Non-executive Directors

Independent Non-executive Directors are responsible to scrutinise the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the Board authority is within the powers conferred to the Board under the Company's Articles of Association, applicable laws, rules and regulations.

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Following the resignation of Mr. Tsang Yat Kiang ("Mr. Tsang") on 31 January 2019, the number of independent non-executive directors of the Company falls below the minimum number of three as required under Rule 3.10(1) of the Listing Rules and falls below one-third of the Board, as required under Rule 3.10A of the Listing Rules. Furthermore, the audit committee members decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules.

In this regard, the Company will use its best endeavor to identify a suitable candidate to fill the vacancy as soon as practicable, with the relevant appointments to be made within three months from the effective date of Mr. Tsang's resignation as required under the Listing Rules. Further announcement(s) will be made by the Company in relation to such appointment(s) as and when appropriate.

Confirmation of Independence

The Board considers that all of the Independent Non-executive Directors are independent. All of the Independent Non-executive Directors have signed their respective confirmation letters to the Company confirming their independence as set out in Rule 3.13 of the Listing Rules.

ROLES AND FUNCTIONS OF THE BOARD AND THE MANAGEMENT

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, dividend policy and risk management strategies. The management are delegated the authorities and responsibilities by the Board for the day-to-day management and operation of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Pursuant to Articles 84(1) and 84(2) of the Company's Articles of Association, one-third of the Directors for the time being shall retire by rotation at each annual general meeting of the Company at least once every three years. All retiring Director shall be eligible for re-election.

Article 83(3) of the Company's Articles of Association provides that (1) any director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting; and (2) any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Code Provisions A.4.2 of CG Code also states that every director, including those appointed for a specific term, shall be subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company. Each of the Directors of the Company has been appointed for a specific term of 3 years and is subject to retirement by rotation once every three years. Their appointments would be reviewed when they were due for re-election.

BOARD MEETINGS

The Board holds at least four regular meetings a year which are normally scheduled at the beginning of the year. Directors may approve various matters by way of passing written resolutions. The Board may also meet on other occasions when a board-level decision on a particular matter is required. In addition, at least 14 days' notice of a regular Board meeting shall be given and the Company aims at sending the agenda and the accompanying board papers to Directors at a reasonable time before the intended date of Board meeting.

During the year ended 31 December 2018, the attendance records of the Directors to the board meetings are set out below:

Name of Directors	No. of meeting attended/ No. of meetings held
Executive Directors	
Ms. Rong Xiuli	6/7
Mr. Rong Shengli	7/7
Mr. Tang Shun Lam	7/7
Mr. Yin Xuquan	7/7
Mr. Wong Ho Chun (appointed on 1 February 2019)	N/A
Independent Non-Executive Directors	
Mr. Hon Kwok Ping, Lawrence	7/7
Mr. Lam Yiu Kin	7/7
Mr. Tsang Yat Kiang (resigned on 31 January 2019)	7/7

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Pursuant to Appendix 14 paragraph N(a) of the Listing Rules, the primary contact person at the Company is Mr. Lam Man Kit, the Chief Financial Officer of the Company. All Directors may access to the advice and services of the Company Secretary. The Company Secretary regularly updates the Board on governance and regulatory matters.

The Board is fully involved in selection, appointment and dismissal of the Company Secretary. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

During the year ended 31 December 2018, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

ACCESS TO INFORMATION

All Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and are able to make further enquiries when necessary. Sufficient explanation and information have been provided to the Board to enable the Board to make an informed assessment of financial and other information put before it for approval. They also have unrestricted access to the advices and services of the Company Secretary, who is responsible for providing the Directors with board papers and related materials. The Board has also agreed that the Directors may seek independent professional advice in performing their directors' duties at the Company's expenses.

DIRECTORS INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant. The directors are committed to complying with the CG Code A.6.5 on directors' training. All directors have participated in continuous professional development by attending seminars and/or studying materials relevant to director's duties and responsibility and provided a record of training they received for the financial year ended 31 December 2018 to the Company.

CORPORATE GOVERNANCE FUNCTION

The Audit Committee is responsible for performing the corporate governance duties as set out below:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to directors and employees of the Company; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the execution of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

BOARD COMMITTEES

The Board has established four committees with specific responsibilities as described below. The terms of reference of the remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee"), audit committee (the "Audit Committee") and risk management committee (the "Risk Management Committee") of the Company are posted on the websites of the Company and the Stock Exchange.

REMUNERATION COMMITTEE

As at 31 December 2018, the Remuneration Committee comprises Independent Non-executive Directors, Mr. Tsang Yat Kiang as the chairman, Mr. Hon Kwok Ping, Lawrence and Mr. Lam Yiu Kin and an Executive Director, Ms. Rong Xiuli. The majority of the members of the Remuneration Committee are Independent Non-executive Directors.

It is responsible for reviewing and recommending all elements of the remuneration covering the Directors and senior management of the Company. No individual Director is involved in decisions relating to his/her own remuneration. The Remuneration Committee has adopted the model under Code Provisions B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Directors and senior management. Meeting of the Remuneration Committee is held at least once a year.

During the year ended 31 December 2018, there was one meeting held by the Remuneration Committee to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration package of the executive Directors and senior management and other related matter.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2018 are disclosed in note 10 and note 30 to the consolidated financial statements.

Attendance of the Remuneration Committee during the relevant period is set out below:

Members	No. of meetings attended/ No. of meetings held
Mr. Tsang Yat Kiang *(chairman*)*	1/1
Mr. Hon Kwok Ping, Lawrence	1/1
Mr. Lam Yiu Kin	1/1
Ms. Rong Xiuli	1/1

* With effect from 31 January 2019, Mr. Hon Kwok Ping, Lawrence has been appointed as the chairman of the Remuneration Committee replacing Mr. Tsang Yat Kiang following Mr. Tsang's resignation.

NOMINATION COMMITTEE

As at 31 December 2018, the Nomination Committee comprises Independent Non-executive Directors, Mr. Tsang Yat Kiang as the chairman, Mr. Hon Kwok Ping, Lawrence and Mr. Lam Yiu Kin and an Executive Director, Ms. Rong Xiuli. The majority of the members of the Nomination Committee are Independent Non-executive Directors.

It is responsible for reviewing the Board composition and identifying and nominating candidates for appointment to the Board such that it has the required blend of skills, knowledge and experience. Pursuant to the terms of reference, the Nomination Committee shall hold meetings when necessary and may also deal with matters by way of circulation of written resolutions.

During the year ended 31 December 2018, one Nomination Committee meeting was held to (i) review the structure, size and diversity of the Board; (ii) assessment and confirmation of the independence of the INEDs; (iii) consider the re-appointment of retiring directors at the annual general meeting of the Company; and (iv) review and endorse the board diversity policy of the Company for Board's approval.

Attendance of the Nomination Committee during the relevant period is set out below:

Members	No. of meetings attended/ No. of meetings held
Mr. Tsang Yat Kiang *(chairman*)*	1/1
Mr. Hon Kwok Ping, Lawrence	1/1
Mr. Lam Yiu Kin	1/1
Ms. Rong Xiuli	1/1

* With effect from 31 January 2019, Ms. Rong Xiuli has been appointed as the chairperson of the Nomination Committee replacing Mr. Tsang Yat Kiang following Mr. Tsang's resignation.

AUDIT COMMITTEE

As at 31 December 2018, the Audit Committee comprises three Independent Non-executive Directors, Mr. Lam Yiu Kin as the chairman, Mr. Tsang Yat Kiang and Mr. Hon Kwok Ping, Lawrence as members. The Audit Committee is responsible for reviewing the Group's financial statements, overseeing the Group's financial reporting and internal control procedures, and making recommendations to the Board. None of the members of the Audit Committee is a member of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code. Meetings of the Audit Committee are held at least twice a year.

The Audit Committee has access to and maintains an independent communication with the external auditors and the management to ensure effective information exchange on all relevant financial accounting matters. During the year ended 31 December 2018, there were five meetings held by the Audit Committee to (i) review and discuss the key audit matters, annual report for the year ended 31 December 2017 and re-appointment of auditor; (ii) budget update and selection of a new auditor; (iii) review and discuss the unaudited financial statements for the six months ended 30 June 2018; (iv) discuss the new business; and (v) review and discuss the unaudited results for the eleven months ended 30 November 2018, and other business, and presentation of audit plan by the new auditor.

The chairman of the Audit Committee, Mr. Lam Yiu Kin, possesses appropriate professional qualification in accounting and meets the requirements of Rule 3.21 of the Listing Rules.

Attendance of the Audit Committee during the relevant period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Mr. Lam Yiu Kin *(chairman)*	5/5
Mr. Tsang Yat Kiang	5/5
Mr. Hon Kwok Ping, Lawrence	5/5

Following the resignation of Mr. Tsang on 31 January 2019, the audit committee members decreased from three to two, falling below the minimum number required under Rule 3.21 of the Listing Rules.

In this regard, the Company will use its best endeavor to identify a suitable candidate to fill the vacancy as soon as practicable, with the relevant appointments to be made within three months from the effective date of Mr. Tsang's resignation as required under the Listing Rules. Further announcement(s) will be made by the Company in relation to such appointment(s) as and when appropriate.

RISK MANAGEMENT COMMITTEE

As at 31 December 2018, the Risk Management Committee comprises Independent Non-executive Director, Mr. Hon Kwok Ping, Lawrence as the chairman, two Executive Directors, Ms. Rong Xiuli and Mr. Rong Shengli as members.

It is responsible for considering the Group's risk management strategies and giving guidelines and ensuring the soundness and effectiveness of the Group's internal control system to safeguard the investment of the shareholders and the assets of the Company. Meeting of the Risk Management Committee shall be held at least once a year.

During the year ended 31 December 2018, there were two meetings held by the Risk Management Committee to (i) review and discuss the internal control, risk management framework, risk assessment for the year of 2017; and (ii) review and discuss the Risk Assessment Report for the financial year 2018.

Attendance of the Risk Management Committee during the relevant period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Mr. Hon Kwok Ping, Lawrence *(chairman)*	2/2
Ms. Rong Xiuli	2/2
Mr. Rong Shengli	2/2

AUDITORS' REMUNERATION

During the year, Deloitte Touche Tohmatsu had resigned as auditor of the Company with effect from 26 October 2018 and BDO Limited has been appointed as auditor of the Company on 26 October 2018 to fill up the casual vacancy. BDO Limited (which for the purpose includes any entity under common control, ownership or management with the auditor or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the audit services to the Group.

Remunerations paid for the above audit services was approximately RMB1,905,000.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the six months ended 30 June 2018 and for the year ended 31 December 2018, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The Directors acknowledge their responsibility to prepare the financial statements as set out on page 60. The statement of the external auditors about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 53 to 57 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

In order to comply with the applicable code provisions of the CG Code as set out in Appendix 14 to the Hong Kong Listing Rules, the Board has the responsibilities for evaluating and determining the nature and level of risk tolerance of the Company, establishing and maintaining sound and effective risk management and internal control systems, and overseeing and reviewing the design, implementation and monitoring of such risk management and internal control systems on an ongoing basis, so as to safeguard shareholders' interest and protect the Company's assets against unauthorized use or disposal. The Board is also responsible for ensuring maintenance of proper accounting records to provide reliable financial information and compliance with relevant laws and regulations.

The risk management and internal control systems established by the Group are aimed to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable and not absolute assurance against material misstatements or losses caused by judgment in decision making process, human error, fraud or other irregularities.

As stated in 2017 annual report, through engaging Crowe Horwath (HK) Corporate Consultancy Limited and collaborating with risk management and internal control personnel, the Group has established an internal audit charter to define the scope and duties and responsibilities of the internal audit function and its reporting protocol. The Group has also conducted an annual risk assessment for the financial year 2017 to identify respective strategic risks, operational risks, financial risks and compliance risks of its major business segments. Based on the outcome of the risk assessment and following a risk-oriented methodology audit approach, the Company has devised a three-year audit plan that prioritized the significance of the risks identified into annual audit project to assist the Board, the Audit Committee and the Risk Management Committee in assessing the efficacy of the Group's risk management and internal control systems. During the year, the Group has conducted an annual risk assessment for this financial year. The Company has also formulated policies on handling and dissemination of inside information, which set out procedures in handling inside information in a secure and proper manner as well as those aimed to avoid mishandling of inside information of the Group.

The Board has discussed and reviewed its risk management and internal control systems with the review covered also the compliance with code provisions as set out in Appendix 14 to the Hong Kong Listing Rules and the validity of material controls (including financial, operational and compliance controls) at entity and operational levels. Based on the outcome of the review performed by the Company's Audit Committee, Risk Management Committee, administrative management, Internal Compliance Coordinators and the independent professional consultant, the Directors considered and were of the opinion that the Group has maintained adequate and effective risk management and internal control systems for the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must specify the objects of the meeting, signed by the requisitionists and deposit it with the Company Secretary of the Company at the Company's principal place of business in Hong Kong at Suite B, 16/F., W Square, 314-324 Hennessy Road, Wanchai, Hong Kong.

If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Right to propose a person for election as a Director at general meeting

Pursuant to Article 85 of the Company's Articles of Association, if a shareholder wish to propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, he/she should give a written notice of nomination to the Company. Details for the relevant requirements and procedures can be found on the Corporate Governance section of the Company's website.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send in their enquiries and concerns to the Board in writing via the following channel:

The Board of Directors/Company Secretary
Vital Mobile Holdings Limited
Suite B, 16/F., W Square,
314-324 Hennessy Road,
Wanchai, Hong Kong

Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company established a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. The Board is committed in providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to the circulars, notices and financial reports sent to shareholders, additional information of the Group is also available to shareholders on the website of the Company.

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The chairman of the Board and Directors are available to answer questions on the Group's business at the meeting. All resolutions at the general meeting are decided by a poll which is conducted by the Company's branch share registrar and transfer office in Hong Kong.

The Group values feedback from shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to address shareholders' queries.

CONSTITUTIONAL DOCUMENTS

The Company does not have any changes in the constitutional documents during the year under review.

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TO THE SHAREHOLDERS OF VITAL MOBILE HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Vital Mobile Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 137, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standard 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 judgment, 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.

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition	
We identified the revenue recognition of mobile telecommunication devices as a key audit matter due to a significant increase of revenue from new customers recorded by the Group during the year. Revenue from sales of goods is recognised when control of the goods has transferred, being when the goods are delivered and accepted by the customers. The customers have full discretion over the goods, and there is no unfulfilled obligation that could affect the customers' acceptance of the goods. The accounting policy for revenue recognition is disclosed in Note 3 to the consolidated financial statements. The Group has recognised revenue from mobile telecommunication devices of approximately RMB911,448,000 for the year ended 31 December 2018, and the details are disclosed in Note 5 to the consolidated financial statements.	Our procedures in relation to revenue recognition included: • Tracing a significant proportion of the recorded sales transactions to sales orders, invoices, delivery notes or goods receipt notes and bank-in slips with an emphasis on the sales transactions recorded in the year; • Performing background searches, site visits and interviews with major customers having significant sales transactions with the Group; and • Obtaining direct external confirmations on a significant proportion of total revenue from the Group's new customers.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance 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 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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.

BDO Limited
Certified Public Accountants
Li Yin Fan
Practising Certificate Number P03113
Hong Kong,
26 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**911,448**	196,142
Cost of sales		**(895,399)**	(220,418)
Gross profit/(loss)		**16,049**	(24,276)
Other gains and losses	6	**11,817**	(29,216)
Other income	7	**16,603**	14,082
Research and development costs		**(225)**	(264)
Selling and distribution expenses		**(10,846)**	(5,758)
Administrative expenses		**(17,983)**	(62,194)
Interest expenses		**(866)**	(103)
Profit/(loss) before tax	8	**14,549**	(107,729)
Income tax expense	9	**–**	(1,977)
Profit/(loss) and total comprehensive Income for the year attributable to equity holders of the Company	12	**14,549**	(109,706)
Basic earnings/(loss) per share (RMB per share)		**0.02**	(0.13)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Equipment		**133**	197
		133	197
Current assets			
Inventories	16	**26,583**	41,128
Trade and other receivables	17	**67,871**	74,499
Pledged bank deposits	18	**85,026**	88,230
Bank deposits	19	**678,223**	670,000
Cash and bank balances	20	**23,331**	42,492
		881,034	916,349
Current liabilities			
Trade and bills payables	21	**84,733**	92,175
Bank loans	22	**3,432**	19,024
Accruals and other payables	23	**32,390**	23,614
Tax liabilities		**3,570**	3,531
Deposits received from customers		**–**	48,650
Contract liabilities	25	**16,639**	–
		140,764	186,994
Net current assets		**740,270**	729,355
Total assets less current liabilities		**740,403**	729,552
Net assets		**740,403**	729,552

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
Capital and reserves			
Share capital	26	**67,041**	67,041
Share premium and reserves		**673,362**	662,511
Equity attributable to equity holders of the Company		**740,403**	729,552

The consolidated financial statements on pages 53 to 137 were approved and authorised for issue by the board of directors on 26 March 2019 and are signed on its behalf by:

Rong Xiuli
Director

Rong Shengli
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital RMB'000 (Note 26)	Share premium RMB'000	Share-based payment reserve RMB'000	Special Reserve RMB'000 (i)	Other reserve RMB'000 (iii)	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	67,041	311,580	3,921	275,060	11,398	182,070	851,070
Loss and total comprehensive expense for the year	–	–	–	–	–	(109,706)	(109,706)
Recognition of equity-settled share-based payment (Note 27)	–	–	2,642	–	–	–	2,642
Shareholder's contribution attributable to share-based payment (Note 27)	–	–	(4,211)	–	4,211	–	–
Dividends recognised as distribution (Note 13)	–	–	–	–	–	(14,802)	(14,802)
Shareholder's contribution (ii)	–	–	–	–	348	–	348
Balance at 31 December 2017	67,041	311,580	2,352	275,060	15,957	57,562	729,552
Impact on initial application of IFRS 9 (Note 2)	–	–	–	–	–	(4,464)	(4,464)
Balance at 1 January 2018 (restated)	67,041	311,580	2,352	275,060	15,957	53,098	725,088
Profit and total comprehensive income for the year	–	–	–	–	–	14,549	14,549
Recognition of equity-settled share-based payment (Note 27)	–	–	766	–	–	–	766
Shareholder's contribution attributable to share-based payment (Note 27)	–	–	(3,118)	–	3,118	–	–
Balance at 31 December 2018	67,041	311,580	–	275,060	19,075	67,647	740,403

Notes:

i. Special reserve represents the profit in respect of the operation of the business unit now comprising the Group which was retained by the then legal owner, Beijing Benywave Technology Co., Ltd. ("Benywave Technology"), and the net funding generated by the business unit now comprising the Group retained by Benywave Technology prior to a group reorganisation.

ii. One of the Company's shareholders, Wisdom Managements Worldwide Limited ("Wisdom Managements") which is a wholly-owned subsidiary of The Core Trust Company Limited, a trust company with Ms. Rong Xiuli ("Ms. Rong") as the settlor, has waived the entitled 2017 final dividends respectively distributed during the years ended 31 December, 2017. The amount waived of RMB348,000 was regarded as contribution from shareholders.

iii. Other reserve represents the shareholder's contribution attributable to share-based payment (Note 27).

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	RMB'000	RMB'000
Operating activities		
Profit/(loss) before tax	**14,549**	(107,729)
Adjustments for:		
Interest expenses	**866**	103
Depreciation of equipment	**73**	47
Amortisation of intangible assets	**–**	4,566
Interest income	**(16,375)**	(12,141)
Foreign exchange (gain)/losses, net	**(4,321)**	21,168
Impairment loss recognized on intangible assets	**–**	40,329
(Reversal of)/write down of inventories	**(1,478)**	21,728
(Reversal of)/impairment loss recognised on trade receivables, net	**(5,277)**	7,826
Expected credit loss on other receivables, pledged deposits and bank deposits	**13**	–
Recognition of equity-settled share-based payment	**766**	2,642
Reversal of provision for warranty	**–**	(2,464)
Operating cash flows before movements in working capital	**(11,184)**	(23,925)
Decrease/(increase) in inventories	**16,023**	(35,493)
Decrease in trade and other receivables	**11,847**	173,582
Decrease in trade and bills payables	**(7,442)**	(347,033)
Increase in accrual and other payables	**8,859**	2,910
(Decrease)/increase in contract liabilities/deposits received from customers	**(32,011)**	32,517
Cash used in operating activities	**(13,908)**	(197,442)
Income tax paid	**–**	(9,853)
Net cash used in operating activities	**13,908**	(207,295)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Investing activities			
Withdrawal of pledged bank deposits		**7,119**	473,765
Withdrawal of bank deposits		**3,537**	430,857
Repayment of the advance to a major supplier		**–**	107,000
Repayment of the advance to a major customer		**–**	14,181
Interests income received		**16,375**	11,266
Placement of bank deposits		**(11,700)**	(670,000)
Placement of pledged bank deposits		**(3,930)**	(90,988)
Purchase of property, plant and equipment		**(9)**	(135)
Net cash from investing activities		**11,392**	275,946
Financing activities			
Dividends paid		**–**	(14,454)
Decrease in amounts due to the controlling shareholders		**–**	(30,521)
Repayment of bank loans		**(118,323)**	–
New bank loans raised		**101,515**	19,302
Interest paid		**(846)**	–
Net cash used in financing activities	32	**(17,654)**	(25,673)
Net (decrease)/increase in cash and cash equivalents		**(20,170)**	42,978
Effect of foreign exchange rate changes		**1,009**	(16,743)
Cash and cash equivalents at 1 January		**42,492**	16,257
Cash and cash equivalents at 31 December, represented by cash and bank balances		**23,331**	42,492

1. GENERAL INFORMATION

Vital Mobile Holdings Limited (the "Company") was established in the Cayman Islands as an exempted company with limited liability on 12 August 2014. The immediate and ultimate holding company of the Company is Winmate Limited ("Winmate") which is incorporated in the British Virgin Island (the "BVI") and is 90% and 10% owned by Ms. Rong and Mr. Ni Gang ("Mr. Ni"), the husband of Ms. Rong, respectively.

On 26 June 2015, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited. The registered office of the Company is Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal places of business are located in Beijing and Hong Kong, the People's Republic of China (the "PRC"). The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in mobile telecommunication devices export operations in the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The International Accounting Standard Board ("IASB") has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
Amendments to IAS 40	Transfers of Investment Property
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

The impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been summarised below. The Directors of the Company consider, other new or amended IFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

A. IFRS 9 Financial Instruments ("IFRS 9")

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

The following table summarised the impact, net of tax, of transition to IFRS 9 on the opening balances of reserves, and retained earnings as at 1 January 2018 as follows (increase/(decrease)):

	RMB'000
Retained earnings	
Retained earnings as at 31 December 2017	57,562
Recognition of additional expected credit losses ("ECLs") on trade and other receivables (note 2A(ii) below)	(380)
Recognition of additional expected credit losses ("ECLs") on pledged bank deposits, bank deposits and cash and cash equivalents	(4,084)
Restated retained earnings as at 1 January 2018	53,098

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

A. IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(i) Classification and measurement of financial instruments (continued)

IFRS 9 basically retains the existing requirements in IAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

A. IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(i) Classification and measurement of financial instruments (continued)

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at 1 January 2018 under IAS 39 RMB'000	Carrying amount as at 1 January 2018 under IFRS 9 RMB'000
Trade and other receivables	Loans and receivables	Amortised cost	74,499	74,119
Pledged bank deposits	Loans and receivables	Amortised cost	88,230	87,780
Bank deposits	Loans and receivables	Amortised cost	670,000	666,583
Cash and bank balances	Loans and receivables	Amortised cost	42,492	42,275

The measurement categories for all financial liabilities remain the same for the Group, the carrying amounts for all liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or re-designate any financial asset or financial liability at FVTPL at 1 January 2018.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

A. IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". IFRS 9 requires the Group to recognise ECL for trade receivables, other receivables, financial assets at amortised costs, pledged deposits, bank deposits and cash and cash equivalents earlier than IAS 39.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

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. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets measured at amortised cost included other receivables, pledged bank deposits, bank deposits and cash and cash equivalents, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

A. IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(ii) Impairment of financial assets (continued)

Measurement of ECLs (continued)

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, these trade receivables have been grouped based on shared credit risk characteristics and the days past due. The increase in loss allowance for trade and other receivables upon the transition to IFRS 9 as of 1 January 2018 was RMB380,000.

Other financial assets at amortised cost of the Group included pledged bank deposits, bank deposits and cash and cash equivalents. Applying ECLs model, recognition of ECL of RMB$4,084,000 as at 1 January 2018.

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

B. IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for the year ended 31 December 2017 has not been restated.

IFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised goods or services in the contract. IFRS 15 identifies 3 situations in which control of the promised goods or services is regarded as being transferred over time:

(a) when the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) when the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) when the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

B. IFRS 15 Revenue from Contracts with Customers ("IFRS 15") (Continued)

IFRS 15 requires the application of a 5-step approach to revenue recognition: (continued)

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15, the entity recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. Based on the assessment of the Group, the adoption of IFRS 15 from 1 January 2018 has results in changes in accounting policies of the Group, however, it does not have significant impact on the timing and amounts of revenue recognition of the Group. However, reclassification of deposits received from customers to contract liabilities and additional disclosures have been presented for the current accounting year in note 5 of the consolidated financial statements as a result of adoption of IFRS 15.

The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 15:

	At 31 December 2017 RMB'000	Impact on initial application of IFRS 15 RMB'000	**At 1 January 2018 RMB'000**
Deposits received from customers	48,650	(48,650)	**–**
Contract liabilities	–	48,650	**48,650**
Current liabilities	48,650	–	**48,650**

The following tables summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018. There was no material impact on the Groups' consolidated statement of cash flow for the year ended 31 December 2018:

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

B. IFRS 15 Revenue from Contracts with Customers ("IFRS 15") (Continued)

IFRS 15 requires the application of a 5-step approach to revenue recognition: (continued)

Impact on the consolidated statement of financial position (increase/(decrease)) as at 31 December 2018:

Liabilities	RMB'000
Deposit received from customers	(16,639)
Contract liabilities (note 2B(i))	16,639
Current liabilities	–

For further details on the Group's accounting policy for revenue recognition, see accounting policy for revenue recognition in note 3.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Note	Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
(i)	Sales of mobile devices	Customers obtain control of the mobile devices when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the mobile devices. There is generally only one performance obligation. Invoices are usually payable before the goods delivery.	**Impact** IFRS 15 did not result in significant impact on the Group's accounting policies. However, upon the adoption of IFRS 15, the Group has to made reclassification from deposits received from customers to contract liabilities, since under IFRS 15, if there is any advance consideration received from customers, an entity should recognise a contract liability.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

C. Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this, its first year.

D. IFRIC–Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no significant impact on these financial statements as the Group has the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities arising from the payment or receipt of advance consideration is consistent with the guidance provided in the interpretation.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

D. IFRIC–Int 22 – Foreign Currency Transactions and Advance Consideration (Continued)

New and revised IFRSs in issue but not yet effective

At the date of this report, the IASB has issued the following new and revised IFRSs, but are not yet effective and have not been early adopted by the Group.

IFRS 16	Leases[1]
(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of Business[3]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint Arrangements[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs[1]
IFRS 17	Insurance Contracts[4]
IAS 1 and IAS 8 (Amendments)	Definition of Material[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

4 Effective for annual periods beginning on or after 1 January 2021

5 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncements. The Directors are currently assessing the impact of the new or amended IFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these IFRSs will not result in material financial impact on the consolidated financial statements. Information on new or amended IFRSs that are expected to have an impact on the Group's accounting policies is provided below.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs in issue but not yet effective

IFRS 16 Leases

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB4,572,000 as disclosed in Note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company anticipate that adoption of IFRS 16 does not result in any significant impact on the Group's financial position and results of operations. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable IFRSs issued by the IASB. In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and basis of consolidation (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

Subsidiaries

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

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;

Substantive potential voting rights held by the Company and other parties who hold voting rights;

Other contractual arrangements; and

Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are ready convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Revenue recognition (accounting policies applied from 1 January 2018)

The Group principally derives revenue from sales of goods.

Revenue is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods, excluding the amounts collected on behalf of third parties. Revenue excludes value-added taxes or other sales taxes and is after deduction of any trade discounts.

Revenue from sales of mobile phones and accessories is recognised at the point in time when control of the goods has transferred, being when the products are delivered and accepted by the customers according to the terms of contracts. There is generally only one performance obligation and the consideration include no variable amount. Customers generally are required to pay the full amount before delivery, however, a 60-day credit period may be granted to some customers.

There is no warranty and right of return clause in the contracts with customers.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Revenue recognition (accounting policies applied until 31 December 2017)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue recognition (accounting policies applied until 31 December 2017) (continued)

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Foreign currencies

Transactions entered into by the Company in currencies other than the currency of the primary economic environment in which it operate (the "functional currency") are recorded at the rates ruling when the transactions occur. The functional currency and presentation currency of the Group is Renminbi. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

On translation from functional currency to presentation currency, assets and liabilities are translated based on the exchange rate at the reporting date. Items of income and expense, capital transactions and cash flow are translated using the exchange rate prevailing at the transaction date or at an appropriate average rate.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

When no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to directors and employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. For restricted share units that vest immediately at the date of grant, the fair value of the restricted share units granted is expensed immediately to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling prices for inventories less all estimated costs of completion and costs necessary to make the sale.

Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

A contract liability is recorded when the payment is made or the receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer control of the goods to a customer for which the Group has received consideration or an amount of consideration is due from the customer.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for warranties

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

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

Provisions for the expected cost of warranty obligations for ODM business which was ceases operation in 2016 under the relevant sales of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Equipment

Equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of items of equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the term of agreement. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets

At the end of the year, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Leasing

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible 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 profits will be available to allow all or part of the asset to be recovered.

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

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

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

Classification

The Group classifies its financial assets in one measurement category which are measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

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

– the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

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

All other financial assets are subsequently measured at fair value (either through other comprehensive income, or through profit or loss).

Derecognition

The Group derecognises a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

(i) Financial assets (continued)

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred; and

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

(ii) Impairment loss on financial assets

The Group recognises loss allowance for ECL on Trade and other receivables, pledged and bank deposits and cash and cash equivalents measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The Group has elected to measure loss allowances for trade receivables using IFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

(ii) Impairment loss on financial assets (continued)

Impairment on financial assets included in other receivables is measured as either 12-month ECLs or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, impairment is measured as lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– the financial asset is more than 90 days past due;

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group)

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

(ii) Impairment loss on financial assets (continued)

Evidence that a financial asset is credit-impaired includes the following observable date:

– significant financial difficulty of the borrower or issuer;

– breach of contract such as a default or past due event;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statements of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. All of the Group's financial liabilities are financial liabilities at amortised costs which are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost, including trade and other payables and bank and other borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the year. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Financial Instruments (accounting policies applied until 31 December 2017)

The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the group's previous accounting policy.

The following paragraph are the accounting policies applied until 31 December 2017:

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial Instruments (accounting policies applied until 31 December 2017) (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, cash and bank balances, bank deposits and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial Instruments (accounting policies applied until 31 December 2017) (continued)

Impairment of loans and receivables (continued)

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

Financial liabilities and equity instruments

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

Financial liabilities

The financial liabilities (including trade and bills payables, other payables, bank loans and amount due to the controlling shareholder) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

  (ii) has significant influence over the Group; or

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

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

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

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

  (iii) Both entities are joint ventures of the same third party.

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

  (v) The entity is a post-employment benefit plan for the benefit of the employees of 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 key management personnel of the entity (or of a parent of the entity).

  (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 Group's parent.

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Final dividends proposed by the director are classified as a separate allocation of retained profits within the equity section of the statement of financial position until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgements in applying accounting policies

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. The Company considers that its functional currency is Renminbi. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services and also the currency in which funds from financing activities and the currency in which receipts from operating activities are usually retained.

When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(a) Critical judgements in applying accounting policies (Continued)

Determination of the accounting treatment for revenue

The Group is principally engaged in mobile telecommunication devices export operations in the PRC. In determine whether the revenue shall be recorded on a net basis or gross basis, the Group has made reference to indicators and requirements stated in IFRS 15 paragraphs B34 to B38 and consider the economic substance of the transactions. Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances, and the Group considers it controls the goods before they are transferred to the customer. Therefore the Group is a principal and recognises revenue at gross basis under IFRS15 after assessing the following features that are arising from its operations:

– The Group is primarily responsible for fulfilling the promises to provide the products to customers;
– The Group has inventory risk before the products have been transferred to customers; and
– The Group has discretion in establishing the prices for the products.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other keys 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.

Impairment of financial assets measured at amortised cost

Management estimates the amount of loss allowance for ECL on financial assets that are measured at amortised cost based on the credit risk of the respective financial asset. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial asset. The assessment of the credit risk of the respective financial asset involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty (Continued)

Allowance for inventories

The management performs regular review on the net realisable value of inventories and makes allowance for inventories based on the review. The identification of slow moving, obsolete inventories and inventories with negative margin requires the use of judgment and estimates on the conditions and saleability of the inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. In determining the net realisable value, the management considers the subsequent selling prices and aging information of inventories. As at 31 December 2018, there was no write down of inventory (2017: a write down of RMB31,009,000 was made based on the assessment of net realisable value). Where the expectation is different from the original estimate, such difference will impact carrying value of inventories in the year in which such estimate has been changed.

At 31 December 2017, the carrying amount of inventories was approximately RMB41,128,000 which was net of write down of inventories as disclosed in Note 16.

Income tax

As at 31 December 2018, no deferred tax asset was recognised on the tax losses and deductible temporary differences of RMB121,281,000 in aggregate (2017: RMB132,466,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future taxable profits generated are more than expected, or changes in facts and circumstances which result in revision of future taxable profits estimation, a material future recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a future recognition takes place. Further details are contained in Note 15.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts.

Segment information

The Group operates and manages its business in the PRC and Hong Kong which is considered as a separate operating segment by the management of the Company, engaging in developing, designing, production management and selling mobile telecommunication devices and sales of mobile telecommunication related components and accessories, and selling mobile telecommunication devices with software/application insertion, targeting global markets excluding the PRC. For segment reporting, the individual operating segments have been aggregated into a single reportable segment. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the gross profit of the Group as a whole when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial statements are available for assessment of performance of different products, no segment information other than certain entity-wide disclosures are presented.

Revenue from major products

The following table sets forth a breakdown of the Group's revenue by major products during the relevant periods:

	2018	2017
	RMB'000	RMB'000
Recognised at a point in time		
Mobile telecommunication devices	**911,448**	195,742
Mobile device components	**–**	400
	911,448	196,142

The Group has initially applied IFRS 15 using the cumulative effect method. Revenue is recognised at a point in time when the customer obtains control of the goods or service. Under this method, the comparative information is not restated and was prepared in accordance with IAS 18.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

Geographical information

A substantial amount of revenue from external customers, based on their locations, is derived from the Group's country of domicile, the Hong Kong. The following table sets forth a breakdown of the Group's revenue during the year based on locations of the customers:

	2018	2017
	RMB'000	RMB'000
Hong Kong	**910,999**	187,199
Taiwan	**449**	6,581
Europe	**–**	1,298
Other parts of Asia	**–**	737
South Asia	**–**	284
Africa	**–**	43
	911,448	196,142

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell mobile telecommunication devices to various countries including but not limited to The United Arab Emirates, Russia, Thailand and Malaysia.

2. Europe includes the Czech Republic, France, Cyprus and Portugal.

3. Other parts of Asia includes Singapore and Pakistan.

4. South Asia includes India.

5. Africa includes South Africa and Algeria.

The Group's operations and non-current assets are located in the PRC, including Hong Kong, the country of domicile.

5. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment information (Continued)

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Customer A	**N/A[1,3]**	27,074[1]
Customer B	**–**	25,084[1]
Customer C	**178,826[1,2]**	–
Customer D	**150,244[1,2]**	–
Customer E	**143,552[1,2]**	–

1. Revenue from sales of mobile telecommunication devices.
2. New Customer for the year ended 31 December 2018.
3. the corresponding revenue did not contribute over 10% of the total revenue of the Group.

As a result of the Group's efforts in expanding its markets for mobile telecommunication devices including those with software/application insertion, the Group recorded a significant increase in revenue from new customers in 2018. Other than Customer A, all customers contributed not more than 10% of the total sales of the Group in 2017.

6. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Foreign exchange gain/(losses), net	**4,321**	(21,168)
Reversal of impairment loss/(impairment loss) recognised on trade receivables, net	**5,277**	(7,826)
Gain from disposal of impaired inventories	**2,101**	–
Others	**118**	(222)
	11,817	(29,216)

7. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Interest income on pledged bank deposits	**44**	3,874
Interest income on bank deposits	**14,899**	8,235
Interest income on bank balances	**1,432**	32
Services income	**228**	1,941
	16,603	14,082

8. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax has been arrived at after charging/(crediting):

	2018 RMB'000	2017 RMB'000
Auditor's remuneration	**2,706**	4,660
Depreciation of equipment	**73**	47
Exchange (gain)/losses, net	**(4,321)**	21,168
Impairment loss recognised in respect of intangible asset	**–**	40,329
Amortisation of intangible asset (included in cost of sales)	**–**	4,566
Directors' emoluments (Note 10)	**4,878**	5,523
Other staff costs		
– salaries and other allowance	**7,653**	5,119
– retirement benefit schemes contribution	**866**	662
– recognition of equity-settled share-based payment	**225**	776
Total staff costs	**13,622**	12,080
Cost of inventories recognised as an expense	**895,399**	220,418
(Reversal)/write down of inventories (included in cost of sales)	**(1,478)**	21,728
Reversal of provision for warranty(included in cost of sales)	**–**	(2,464)
(Reversal of impairment loss)/impairment loss recognised on trade receivables	**(5,277)**	7,826
Expected credit loss on other receivables, pledged bank deposits and bank deposits	**13**	–
Operating lease rentals	**2,798**	1,806

9. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
PRC Enterprise income tax ("EIT")		
– Current tax in the PRC	–	–
– Current tax in HK	–	–
– Over provision in prior years – EIT	–	(5)
Deferred tax (Note 15)	–	1,982
	–	1,977

The Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5%. No provision for Hong Kong Profits Tax has been made in the financial statements for the year ended 31 December 2018 as this subsidiary has tax losses to offset the assessable profits for the year. This subsidiary incurred a loss for the year ended 2017 therefore, no provision for Hong Kong profit tax for the year ended 2017.

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the income tax rate of Beijing Benywave Wireless Communication Co., Ltd ("Benywave Wireless"), a subsidiary of the Company, is 25%. Since Benywave Wireless was recognised as "New and High Technology Enterprises" in 2015 and therefore it is entitled to apply a preferential tax rate of 15% for the years ended 31 December 2018 and 2017.

Taxation arising in other jurisdiction is calculated at the rate prevailing in the relevant jurisdiction.

9. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to the profit/(loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	RMB'000	RMB'000
Profit/(loss) before tax	**14,549**	(107,729)
Tax calculated at applicable domestic tax rates (2018: 16.5%, 2017: 15%)	**2,401**	(16,159)
Tax effect of expenses not deductible for tax purposes	**172**	3,443
Tax effect of income not taxable for tax purpose	**(2,757)**	–
Effect of tax incentive granted	**(113)**	(69)
Effect of different tax rates of the entities operating in other jurisdictions	**–**	(247)
Tax effect of tax losses and deductible temporary differences not recognised	**297**	15,014
Over provision in prior years	**–**	(5)
Income tax expense	**–**	1,977

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2017: six) directors and executive were as follows:

2018	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Ms. Rong	–	720	–	83	–	803
Mr. Rong Shengli (i)	–	720	–	126	283	1,129
Mr. Yin Xuquan	–	660	–	82	–	742
Mr. Tang Shun Lam	–	1,016	–	15	258	1,289
Independent non- executive directors						
Mr. Hon Kwok Ping Lawrence	305	–	–	–	–	305
Mr. Lam Yiu Kin	305	–	–	–	–	305
Mr. Tsang Yat Kiang	305	–	–	–	–	305
Total	915	3,116	–	306	541	4,878

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

2017	Directors' fee	Salaries and allowances	Performance related bonuses	Retirement benefit scheme contribution	Equity-settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
Ms. Rong	–	720	–	115	–	835
Mr. Rong Shengli (i)	–	720	–	115	975	1,810
Mr. Tang Shun Lam	–	1,038	–	16	891	1,945
Independent non- executive directors						
Mr. Hon Kwok Ping Lawrence	311	–	–	–	–	311
Mr. Lam Yiu Kin	311	–	–	–	–	311
Mr. Tsang Yat Kiang	311	–	–	–	–	311
Total	933	2,478	–	246	1,866	5,523

Notes:

(i) Mr. Rong Shengli is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' fee shown above were mainly for their services as directors of the Company.

During the year, certain directors were granted the restricted share units (the "RSU" s), in respect of their services to the Group under the restricted share units scheme (the "RSU Scheme") of the Company. Details of the RSU Scheme are set out in Note 27.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included four directors (2017: three), details of whose remunerations are set out in Note 10 above. Details of the remuneration for the year of the remaining one (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries and allowance	**594**	1,082
Retirement benefits schemes contribution	**67**	49
Equity-settled share-based payments	**–**	199
	661	1,330

The number of the highest paid employee(s) who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2018	2017
	RMB'000	RMB'000
Nil to HKD1,000,000	**1**	2
HKD1,000,001 to HKD1,500,000	**–**	–
HKD1,500,001 to HKD2,000,000	**–**	–
HKD3,000,001 to HK$3,500,000	**–**	–
	1	2

During the years ended 31 December 2018 and 2017, no directors of the Company waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to equity holders of the Company is based on the following data:

	2018 RMB'000	2017 RMB'000
Profit/(loss) for the purposes of basic earnings/(loss) per share, representing profit/(loss) for the year attributable to equity holders of the Company	**14,549**	(109,706)

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**850,000**	850,000

There are no dilutive potential shares for both years.

13. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends recognised as distribution during the year	**–**	14,802

During the year ended 31 December 2018, no final dividend for the year ended 31 December 2017 was declared and paid (2017: a final dividend of HK2 cents per share in respect of the year ended 31 December 2016).

The board of directors did not recommend the payment of dividend for the year ended 31 December 2018 (2017: Nil).

14. INTANGIBLE ASSETS

	Software technology RMB'000
Cost	
As at 31 December 2017 and 31 December 2018	45,655
Amortisation and impairment	
As at 1 January 2017	760
Charge for the year	4,566
Impairment loss recognised in the year	40,329
As at 31 December 2017	45,655
Charge for the year	–
As at 31 December 2018	45,655
Carrying amounts	
As at 31 December 2017	–
As at 31 December 2018	–

The software technology is related to software/application insertion and amortised over its useful life of 10 years.

Due to the significant uncertainties in the market environment caused by the free downloads of official upgrade software from the first-tier smartphone brands and the measures taken by some of the first-tier brands starting to introduce encryption codes to prevent changes to the software codes, the use of the software technology in these target smartphone brands was negatively affected. In addition, the gross margin of sales of products related to software/application insertion was unsatisfactory. The directors assess that the software technology requires a full impairment during the year ended 31 December 2017.

15. DEFERRED TAX ASSETS

The movements of the Group's deferred tax assets during the year.

	Accrued expense and cost RMB'000	Total RMB'000
At 1 January 2017	1,982	1,982
Charge to profit or loss	(1,982)	(1,982)
At 31 December 2017	–	–
Charge to profit or loss	–	–
At 31 December 2018	–	–

Deferred tax assets have not been recognised in respect of the following items:

	2018 RMB'000	2017 RMB'000
Tax losses	**39,115**	25,937
Deductible temporary differences	**82,166**	106,529
	121,281	132,466

No deferred tax asset has been recognised in relation to the unutilised tax losses and deductible temporary differences due to the unpredictability of future profit streams of the relevant entities and it is not probable that taxable profit or taxable temporary differences will be available against which the tax losses and the deductible temporary differences can be utilised.

15. DEFERRED TAX ASSETS (CONTINUED)

The unrecognised tax losses will be expired as follows:

	2018 RMB'000	2017 RMB'000
2021	**3,044**	3,044
2022	**18,856**	18,856
2023	**14,561**	–
2031	**1,275**	1,275
2032	**1,379**	–
	39,115	23,175

At the end of the reporting period, the Company has unused tax losses of RMB17,342,000 (31 December 2017: RMB2,762,000) arose in Hong Kong available for offset against future profits that may be carried forward indefinitely.

16. INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	**26,583**	41,128

The management has performed a net realisable value assessment as at 31 December 2018 with reference to the subsequent selling prices and aging information of inventories. There was no write down of inventories for the year ended 31 December 2018. (2017: Write down of inventories of approximately RMB21,728,000 is recognised in the profit or loss). As at 31 December 2017, included in the RMB41,128,000 are inventories of RMB20,030,000 which were stated at net realisable value.

17. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**20,158**	20,351
Less: allowance for doubtful debts	**15,074**	20,351
	5,084	–
Other receivables		
– Advance to a customer (i)	**–**	14,261
– Interest receivables	**11,913**	8,699
– Other PRC tax receivables	**2,036**	–
– Others	**461**	387
Prepayments to suppliers (ii)	**48,699**	51,152
	63,109	74,499
Less: allowance	**322**	380
	62,787	74,119
	67,871	74,119

Notes:

(i) The amount is non-trading in nature, unsecured and non-interest bearing. The total amount has been repaid in 2018.

(ii) As at 31 December, 2017, included in the balance is prepayments of RMB5,228,000 to Henan Ketai Lexun Communication Equipment Industry Park Co. Ltd ("Ketai"), a fellow subsidiary of the Company. The amount was repaid to the Group in January 2018.

17. TRADE AND OTHER RECEIVABLES (CONTINUED)

The following is an aged analysis of trade receivables net of impairment allowance presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2018	2017
	RMB'000	RMB'000
Current	**2,763**	–
Less than 30 days	**2,321**	–
Within 30 days to 90 days	**–**	–
	5,084	–

The Group recognised impairment loss based on the accounting policy stated in Note 2A(ii).

Further details on the group's credit policy and credit risk arising from trade and other receivables are set out in Note 31.

Included in trade receivables are the following carrying amounts denominated in a currency other than the functional currency of the Group.

	2018	2017
	RMB'000	RMB'000
USD	**5,084**	–

The details of ECL assessment on trade and other receivables are disclosed in Note 31.

Included in other receivables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity.

	2018	2017
	RMB'000	RMB'000
USD	**–**	14,261

18. PLEDGED BANK DEPOSITS

The pledged bank deposits mainly represent deposits pledged for bills payable. As at 31 December 2018, the above pledged bank deposits carry interest from 0.3% to 1.65% per annum (2017: from 0.3% to 1.65%).

	2018	2017
	RMB'000	RMB'000
Pledged bank deposits	**85,461**	88,230
	85,461	88,230
Less: impairment allowance	**(435)**	–
	85,026	88,230

Included in pledged bank deposits are the following amounts denominated in currency other than functional currency of the relevant group entity:

	2018	2017
	RMB'000	RMB'000
Pledged bank deposits denominated in:		
– USD	**6**	6
– HKD	**84,994**	81,500

19. BANK DEPOSITS

The bank deposits were placed in the banks with high credit ratings in the PRC. The bank deposits carried a fixed annual interest rate of 1.5% to 2.25% which will be matured in one year.

	2018	2017
	RMB'000	RMB'000
Bank deposits	**681,700**	670,000
	681,700	670,000
Less: impairment allowance	**(3,477)**	–
	678,223	670,000

The details of ECL assessment on bank deposits are disclosed in Note 31.

The Group has no bank deposits that are dominated in a currency other than the functional currency of the relevant group entities as at 31 December 2018.

20. CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Cash and cash balances	**23,451**	42,492
	23,451	42,492
Less: impairment allowance	**(120)**	–
	23,331	42,492

Included in cash and bank balances are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2018 RMB'000	2017 RMB'000
– USD	**22,039**	37,343
– HKD	**362**	798
– EUR	**77**	–

Bank balances carried interest at market rates which range from nil to 0.30% per annum as at 31 December 2018 (2017: from nil to 0.3% per annum).

The bank balances denominated in RMB869,000 were deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

21. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**14,733**	15,477
Bills payables	**70,000**	76,698
	84,733	92,175

21. TRADE AND BILLS PAYABLES (CONTINUED)

The following is an aged analysis of trade payables presented based on the recognition date of inventory at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Within 90 days	–	–
91 to 180 days	–	–
181 days to 1 year	–	–
Over 1 year	**14,733**	15,477
	14,733	15,477

Included in trade payables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity.

	2018 RMB'000	2017 RMB'000
USD	**2,020**	2,765

The following is an aged analysis of bills payables based on the date of issue at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Within 90 days	–	–
91 to 180 days	**70,000**	3,271
181 days to 1 year	–	73,427
	70,000	76,698

22. BANK LOANS

As at 31 December 2018, the amount comprised one secured bank loans (2017: three). The terms and conditions of each loan are disclosed separately.

		Carrying amount	
	Maturity date	**2018**	2017
		RMB'000	RMB'000
Fixed-rate borrowings:			
Secured bank loan I	2 January 2018	**–**	9,870
Secured bank loan II	19 January 2018	**–**	6,932
Secured bank loan III	29 January 2018	**–**	2,222
Secured bank loan IV	20 January 2019	**3,432**	–
Total bank loan I		**3,432**	19,024

The effective interest rate of the three secured bank loans is charged at the United States Prime Rate, which is ranged from 4.25% to 5.25%.

The loans were jointly secured by the properties owned by two individuals connected to the Company.

2017: The Group's borrowings that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2018	2017
	RMB'000	RMB'000
USD	**3,432**	19,024

23. ACCRUALS AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Royalties payable	**13,210**	13,210
Other PRC tax payables	**–**	2,231
Staff cost payable	**1,183**	1,376
Payable for insurance premium and freights	**942**	942
Interest payable	**20**	103
Others	**17,035**	5,752
	32,390	23,614

24. PROVISION

	Warranty provision RMB'000
At 1 January 2017	2,464
Reversal of provision	(2,464)
At 31 December 2017	–
Reversal of provision	–
At 31 December 2018	–

The warranty provision represents management's best estimate of the Group's liability under one-year warranty granted on mobile telecommunication devices, based on prior experience. No warranty was granted during years ended 31 December 2017 and 2018.

25. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2018 and 2017 and will be expected to be recognised within one year:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of goods	**16,639**	–

It represented amounts received from customers in advance in relation to sales of goods. The amounts are recognised when control of the goods has transferred, being when the goods are delivered to and accepted by the customers according to the terms of contracts.

There were no contract assets as at 31 December 2017 and 2018 recognised on the consolidated statements of financial position.

Movements in contract liabilities

	2018
	RMB'000
Balance as at 1 January*	**48,650**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year (note 5)	**(35,507)**
Decrease in contract liabilities as a result of termination of contracts	**(13,143)**
Increase in contract liabilities as a result of billing in advance of sales of goods	**16,639**
Balance at 31 December	**16,639**

* Upon the adoption of IFRS 15, amounts previously included as "Deposits received from customers" have been reclassified to "Contract liabilities" as at 31 January 2018.

There were no contract assets as at 31 December 2017 and 2018 recognised on the consolidated statement financial position.

26. SHARE CAPITAL

	Number of shares	per share	Share capital
		HK$	HK$
At 31 December 2018 and 2017	850,000,000	0.1	85,000,000
			RMB'000
Presented as			67,041

27. SHARE-BASED PAYMENT TRANSACTIONS

On 9 June 2015, the Company approved and adopted the RSU Scheme. The purpose of the RSU Scheme is to (i) recognise the contributions of the personnel to the Group or its business; (ii) retain them for the continual operation and development of the Group; and (iii) to attract suitable personnel for the development of the Group (collectively referred to as the "Participant(s)"). The RSU Scheme shall be valid and effective for a term of 10 years commencing from 9 June 2015, subject to certain conditions and termination clause.

Upon the adoption of the RSU Scheme, The Core Trust Company Limited was appointed as RSU Scheme trustee (the "Trustee"), while Wisdom Managements which is a wholly-owned subsidiary of the Trustee was identified as nominee of the Trustee (the "Nominee").

On 26 May 2015, Winmate transferred to the Nominee by way of gift 50 shares for the RSU Scheme. Subject to the capitalisation issue, a further 32,299,950 shares have been allotted to the Nominee credited as fully paid up. Upon completion of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and as at 31 December, 2016, the Nominee holds 3.8% of the total shares of the Company, represents 32,300,000 shares. Ms. Rong is the settlor of the Trust.

On 2 November 2016, pursuant to the RSU Scheme, a total of 32,300,000 restricted shares were granted to the selected grantees without the exercise price, among which 18,950,000 restricted shares were granted to 2 executive directors, 3 independent non-executive directors of the Company and 16 employees of the Group and remaining 13,350,000 restricted shares were granted to 13 personnel of the fellow subsidiaries of the Company. The directors consider those 13 personnel are not relevant to the Group's business and those grants have no effect to the Group's consolidated financial statements.

27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The details of specific categories of options are as follows:

Number of restricted shares	Date of grant	Vesting period	Exercise price
5,830,000	2 November 2016	Vested immediately	Nil
13,120,000	2 November 2016	1/3 in each of the three year	Nil
18,950,000			

A Participant does not have any contingent interest in any ordinary shares underlying an RSU unless and until these ordinary shares are actually transferred to the Participants from the Trustee. Furthermore, a Participant may not exercise any voting right in respect of the ordinary shares underlying the RSU(s), nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any ordinary shares underlying the RSU(s).

27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The following table discloses the movement of the Company's shares granted to the Participants for the periods ended 31 December 2018 and 2017:

The movement for the period ended 31 December 2018

Category of Participant	Outstanding vested at 1 January 2018	Forfeited during the year	Vested during the year	Outstanding vested at 31 December 2018	Exercisable at 31 December 2018	Share price at grant date HK$	Vesting condition	Lock up period
Independent non-executive directors	–	–	–	–	–	1.14	No vesting condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Executive directors	2,373,334	–	2,373,334	–	–	1.14	Remain in service for three years	Not applicable
Subtotal	2,373,334	–	2,373,334	–	–			
Key employees I	1,866,666	1,149,999	716,667	–	–	1.14	Remain in service for three years	Not applicable
Key employees II	–	–	–	–	–	1.14	No vesting condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Subtotal	1,866,666	1,149,999	716,667	–	–			
Total	4,240,000	1,149,999	3,090,001	–	–			

27. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The movement for the period ended 31 December 2017

Category of Participant	Outstanding vested at 1 January 2017	Forfeited during the year	Vested during the year	Outstanding vested at 31 December 2017	Exercisable at 31 December 2017	Share price at grant date HK$	Vesting condition	Lock up period
Independent non-executive directors	–	–	–	–	620,000	1.14	No vesting condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Executive directors	4,746,667	–	2,373,333	2,373,334	4,746,666	1.14	Remain in service for three years	Not applicable
Subtotal	4,746,667	–	2,373,333	2,373,334	5,366,666			
Key employees I	4,000,000	266,667	1,866,667	1,866,666	3,866,667	1.14	Remain in service for three years	Not applicable
Key employees II	–	–	–	–	3,266,667	1.14	No vesting condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Subtotal	4,000,000	266,667	1,866,667	1,866,666	7,133,334			
Total	8,746,667	266,667	4,240,000	4,240,000	12,500,000			

At the end of each year, the Group revises its estimates of the number of RSUs that are expected to vest ultimately. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share-based payments reserve.

The Group recognised the share base payment expense of RMB766,000 for the year ended 31 December 2018 (2017: RMB2,642,000) in relation to the RSU Scheme in which the fair value of restricted shares granted and vested during the year amounting to RMB3,118,000 (2017: RMB4,211,000) was recognised as a shareholder's contribution in other reserve.

28. OPERATING LEASES COMMITMENTS

The Group as lessee

At the end of the year, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	RMB'000	RMB'000
Minimum lease payments under operating leases:		
Within one year	**2,667**	1,657
In the second to third year	**1,905**	1,724
	4,572	3,381

The above operating lease payments commitments represent rental payable by the Group for offices and equipment rental. The lease was negotiated for lease terms of one to third years. Monthly rental was fixed for certain lease.

29. RETIREMENTS BENEFITS CONTRIBUTION

The Group operates the MPF Scheme for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contribution per employee is HKD1,500 per month. During the year ended 31 December 2018, the retirement benefit scheme contribution arising from the MPF Scheme charged to profit or loss were approximately RMB95,000 (2017: RMB32,000).

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiary of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for the year 31 December 2018 amounted to RMB1,041,000 (2017: RMB876,000).

30. RELATED PARTY TRANSACTIONS OTHER THAN THE BALANCES DISCLOSED

(a) Name and relationship

Name	Relationship
Beijing Tianyu Communication Equipment Co. Ltd ("Tianyu") 北京天宇朗通通信設備股份有限公司（「天宇」）	Company controlled by Ms. Rong and Mr. Ni
Benywave Technology 北京百納威爾科技有限公司	Company controlled by Ms. Rong and Mr. Ni
Ketai"科泰樂訊(北京)通信設備有限公司"	Company controlled by Ms. Rong and Mr. Ni

(b) Related party transactions

	2018 RMB'000	2017 RMB'000
Premises rental expenses charged by Tianyu	**742**	737
Equipment rental expenses charged by Benywave Technology	**67**	66
Service expenses charged by Ketai	**–**	210
Service income charged to Ketai	**–**	1,941

In addition, Benywave Wireless has entered into an equity transfer agreement with Ketai Lexun (Beijing) Communication Equipment Company Limited, a wholly-owned subsidiary of Tianyu (the "Vendor"), Ms. Rong, Tianyu and Ketai (the "Target Company") on 15 June 2017 to acquire a 70% interest in the Target Company. The potential acquisition had been cancelled and disclosed in the announcement dated on 29 March 2018. Up to the date of the report, the transaction has been cancelled with no further process. Details have been disclosed in Note 34.

(c) Remuneration of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**3,826**	4,085
Post-employment benefit	**457**	262
Equity-settled share-based payments	**717**	1,866
	5,000	6,213

30. RELATED PARTY TRANSACTIONS OTHER THAN THE BALANCES DISCLOSED (CONTINUED)

(d) Guarantee

As disclosed in Note 22, as at 31 December 2018, the loans of RMB3,432,000 (2017: RMB19,024,000) were jointly secured by the properties owned by two individuals connected to the Company.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets at amortised cost		
Trade and other receivables	**19,421**	23,347
Pledged bank deposits	**85,026**	88,230
Bank deposits	**678,223**	670,000
Cash and cash equivalents	**23,331**	42,492
	806,001	824,069
Financial liabilities at amortised cost		
Other payables	**6,016**	8,070
Trade and bills payables	**84,733**	92,175
Bank loans	**3,432**	19,024
	94,181	119,269

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, pledged bank deposits, cash and bank balances, bank deposits, trade and bills payables, other payables and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Market risk

Foreign currency risk

The Group undertakes certain operating transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (trade and other receivables, cash and bank balances and pledged bank deposits) and liabilities (trade payables and bank loans) at the end of each reporting periods are as follows:

	Assets		**Liabilities**	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**21,129**	51,610	**5,452**	21,789
HKD	**85,356**	82,298	**–**	–

Sensitivity analysis

The following tables detail the Group's sensitivity to a 5% increase and decrease in RMB against USD and HKD. 5% represents management's assessment of the reasonably possible change in the foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to USD at each period end for a 5% change in the foreign currency rate. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against the USD and HKD. For a 5% strengthening of RMB against the USD and HKD, there would be an equal and opposite impact on the loss for the year, and the amounts below would be negative.

	2018	2017
	RMB'000	RMB'000
Profit for the year		
USD	**911**	1,247
HKD	**3,582**	4,108

31. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank deposits and bank loans with fixed interest rate (Note 22).

The Group manages its interest rate exposure based on the interest rate level and outlook as well as potential impact on the Group's financial position arising from volatility of the interest rate. The Group currently does not have interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arise.

The following table details the interest rate profile of the Group's bank deposits and borrowings at the end of the reporting period.

	2018		2017	
	Effective interest rate (%)	**RMB'000**	Effective interest rate (%)	RMB'000
Bank deposits and borrowings				
Pledged bank deposits	**0.3 to 1.65**	**85,026**	0.3 to 1.65	88,230
Bank deposits	**1.5 to 2.25**	**678,223**	1.5 to 2.25	670,000
Cash and bank balances	**Nil to 0.30**	**23,331**	Nil to 0.30	42,492
		786,580		800,722
Bank loans	**3.25**	**(3,432)**	3.25	(19,024)
		783,148		781,698

31. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Interest rate risk (continued)

Sensitivity analysis

At 31 December 2018, it is estimated that a general increase of 1 basis points in interest rates, with all other variables held constant, would increase the Group's profit for the year and retained profits by approximately RMB7,842,610 (2017: RMB7,816,980). Other components of consolidated equity would increase by approximately RMB7,842,610 (2017: RMB7,816,980) in response to the general increase in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for the bank deposits and borrowings in existence at that date. The 1 basis point increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date.

The analysis is performed on the same basis for 2017.

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, pledged bank deposits, bank deposits and cash and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Trade receivables are due within 30 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLS. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018, the Group has elected IFRS 9 simplified approach to calculate the ECLs:

	Expected loss rate (%)	Gross carrying Amount (RMB'000)	Loss allowance (RMB'000)
Current (not past due)	–	–	–
1-30 days past due	0.51%	2,763	15
31-60 days past due	0.51%	2,349	13
61-90 days past due	100%	304	304
More than 90 days past due	100%	14,742	14,742
		20,158	15,074

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of RMB20,351,000 was determined to be impaired.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Credit risk (continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at 31 December under HKAS 39	**20,351**	12,525
Impact of initial application of HKFRS 9	**–**	–
Adjusted balance at 1 January	**20,351**	12,525
Amounts written off during the year	**–**	–
Impairment losses recognised during the year	**332**	7,826
Recovery from impairment loss on trade receivables	**(5,609)**	–
Balance at 31 December	**15,074**	20,351

The Group has based on whether there is significant increase in credit risk since initial recognition 12-month ECLs for other receivables. The loss allowance for as at 31 December 2018 was RMB322,000, the increase in loss allowance upon the transition to IFRS9 as of 1 January 2018 was RMB380,000.

There was decrease of RMB58,000 in the impairment loss allowance on other receivables during the year ended 31 December 2018.

In order to minimise credit risk in respect of pledged bank deposits, bank deposits and cash and bank balances, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its deposits and cash balances and condition are performed on each and every bank periodically. These evaluations focus on the credit ratings of its bank, and take into account information specific to the bank as well as pertaining to the economic environment in which the bank operates.

In respect of bank deposits, the Group has significant amount of bank deposits in PRC' bank which has moderate credit ratings.

The Group has based on whether there is significant increase in credit risk since initial recognition 12-month ECLs for pledged bank deposits, bank deposits and cash and bank balances. The loss allowance as at 31 December 2018 was RMB4,032,000, the increase in loss allowance upon the transition to IFRS9 as of 1 January 2018 was RMB4,084,000.

There was decrease of RMB52,000 in the impairment loss allowance on pledged bank deposits, bank deposits and cash and bank balances during the year ended 31 December 2018.

31. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Liquidity risk

In management of liquidity risk, the Group's management monitors and maintains a reasonable level of cash and cash equivalents which deemed adequate by the management to finance the Group's operations and mitigate the impacts of fluctuations in cash flows. The management monitors the utilisation of bank loans and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate RMB'000	On demand or within one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018				
Financial liabilities				
Other payables	–	6,016	6,016	6,016
Trade and bills payables	–	84,733	84,733	84,733
Bank loans	4.78%	2,339	2,339	2,319
Total		93,088	93,088	93,068

	Weighted average effective interest rate RMB'000	On demand or within one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2017				
Financial liabilities				
Other payables	–	8,070	8,070	8,070
Trade and bills payables	–	92,175	92,175	92,175
Bank loans	4.39%	19,127	19,127	19,024
Total		119,372	119,372	119,269

31. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (Continued)

Fair value of financial instruments

There are no financial instruments measured at fair value or a recurring basis.

The fair values of financial assets and financial liabilities at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows from financing activities.

Reconciliation of liabilities arising from financing activities

	Bank loans (Note 22) RMB'000	**Interest payable** RMB'000	**Dividend payable** RMB'000	**Total** RMB'000
At 1 January 2018	19,024	103	–	19,127
Changes from cash flows:				
Proceeds from new bank loans	101,515	–	–	101,515
Repayment of loans	(118,323)	–	–	(118,323)
Interest paid	(743)	(103)	–	(846)
Total changes from financing cash flows:	(17,551)	(103)	–	(17,654)
Exchange adjustments:	1,113	–	–	1,113
Other changes:				
Interest expenses	846	20	–	866
Total other changes	846	20	–	866
At 31 December 2018	3,432	20	–	3,452

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (CONTINUED)

Reconciliation of liabilities arising from financing activities

	Bank loans (Note 22)	Interest payable	Amount due to the controlling shareholder	Dividend payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	–	–	30,521	–	30,521
Changes from cash flows:					
Proceeds from new bank loans	19,302	–	(30,521)	(14,454)	(25,673)
Total changes from financing cash flows:	19,302	–	(30,521)	(14,454)	(25,673)
Exchange adjustments:	(278)	–	–	–	(278)
Other changes:					
Interest expenses	–	103	–	–	103
Dividend declared	–	–	–	14,802	14,802
Shareholder's contribution	–	–	–	(348)	(348)
Total other changes	–	103	–	14,454	14,557
At 31 December 2017	19,024	103	–	–	19,127

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, while to maximise the return to the owners of the Company through optimisation of debt and equity balances. The Group's overall strategy remains unchanged during the year.

The capital structure of the Group consists of net debt, which includes bank loans disclosed in Note 22, net of cash and cash equivalents and the management reviews the capital structure on a quarterly basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on the recommendation of management, the Group will balance its overall capital structure through issue of new shares and new debts.

34. POTENTIAL ACQUISITION

On 15 June 2017, Benywave Wireless (being the purchaser), the Vendor, Ms. Rong, Tianyu and the Target Company entered into the equity transfer agreement to acquire a 70% interest in the Target Company. This potential acquisition had been cancelled and disclosed in the announcement dated on 29 March 2018.

35. STATEMENT OF FINANCIAL POSITION AND MOVEMENT IN THE COMPANY'S RESERVES

Financial information of the Company at the end of the reporting period includes:

	2018 RMB'000	2017 RMB'000
Non-current asset		
Investment in a subsidiary	–	–
	–	–
Current assets		
Trade and other receivables	810	8,953
Amounts due from subsidiaries	277,267	264,409
Pledged bank deposits	84,993	81,085
Cash and cash balances	209	199
	363,279	354,646
Current liabilities		
Amounts due to subsidiaries	7,008	9,244
	7,008	9,244
Net current assets	356,271	345,402
Net assets	356,271	345,402
Capital and reserves		
Share capital	67,041	67,041
Reserves	289,230	278,361
Total equity	356,271	345,402

35. STATEMENT OF FINANCIAL POSITION AND MOVEMENT IN THE COMPANY'S RESERVES (CONTINUED)

Details of movement in the Company's reserves are as follows:

	Total
	RMB'000
At 1 January 2017	307,622
Loss and total comprehensive income for the year	(17,449)
Recognition of equity-settled share-based payment	2,642
Dividends recognised as distribution	(14,802)
Shareholder's contribution	348
At 31 December 2017	278,361
Profit and total comprehensive expense for the year	10,103
Recognition of equity-settled share-based payment	766
At 31 December 2018	289,230

36. SUBSIDIARIES

Details of the Company's subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Equity interest attributable to the Group 31 December 2018 %	Equity interest attributable to the Group 31 December 2017 %	Principal activities
Vital Mobile Limited ("Vital BVI"s)*	BVI 27 June 2014	USD1	**100**	100	Investment holding
Vital Mobile (HK) Limited ("Vital HK")	Hong Kong 4 July 2014	HKD1	**100**	100	Selling mobile telecommunication with added supply chain management services(ROM modification, other related mobile telecommunication functions development)
Beijing Benywave Wireless Communication Co., Ltd.+ ("Benywave Wireless")	PRC 22 July 2014	RMB100,000,000	**100**	100	selling mobile telecommunication services manufacturer, selling mobile telecommunication with added supply chain management services (ROM modification, other related mobile telecommunication functions development), sale of mobile telecommunication related components and accessories, targeting global markets excluding the PRC
Kerr Unit Inc ("Kerr")	The United States of America 4 January 2017	USD300,000	**100**	100	Developing new sales channels in the United States of America
Vital Mobile D.O.O.	Slovenia 23 July 2018	EUR10,000	**100**	–	Developing new sales channels in Eastern Europe

Note:

* Directly held by the Company.

+ The English name is for identification only.

FINANCIAL SUMMARY – IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS					
Revenue	**911,448**	196,142	406,134	1,408,339	1,916,183
Profit/(loss) before tax	**14,549**	(107,729)	19,063	216,520	193,660
Income tax expense	**–**	(1,977)	(3,567)	(35,621)	(37,435)
Profit/(loss) and total comprehensive (expense)/income for the year attributable to equity holders of the Company	**14,549**	(109,706)	15,496	180,899	156,225

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**881,167**	916,546	1,373,386	1,986,947	540,429
Total liabilities	**(140,764)**	(186,994)	(522,316)	(1,129,963)	(242,965)
	740,403	729,552	851,070	856,984	297,464
Equity attributable to equity holders of the Company	**740,403**	729,552	851,070	856,984	297,464

Vital Mobile Holdings Limited
維太移動控股有限公司