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北京迪信通商貿股份有限公司

Beijing Digital Telecom Co., Ltd.

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6188)

**ANNOUNCEMENT OF AUDITED FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

AUDITED FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019:

Revenue of the Group was RMB15,350,953,000, representing an increase of 1.97% from last year (including discontinued operations).

Net profit attributable to the owners of the parent of the Company was RMB257,439,000, representing a decrease of 21.88% from last year.

Basic earnings per share was RMB0.39 per share, representing a decrease of RMB0.10 per share from last year.

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

The board (the “**Board**”) of directors (the “**Directors**”) is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019, together with comparable audited figures for the same period in 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

	<i>Notes</i>	2019 <i>RMB'000</i> (Audited)	2018 <i>RMB'000</i> (Audited)
CONTINUING OPERATIONS			
REVENUE	3	15,350,953	14,957,133
Cost of sales		(13,582,076)	(13,042,383)
Gross profit		1,768,877	1,914,750
Other income and gains	3	67,576	97,996
Selling and distribution expenses		(858,016)	(992,508)
Administrative expenses		(324,563)	(359,889)
Impairment losses on financial assets		(51,855)	(27,510)
Other expenses		(34,896)	(52,532)
Finance costs		(232,712)	(192,106)
Share of profits and losses of:			
Joint ventures		(679)	(4,253)
Associates		(1,586)	894
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		332,146	384,842
Income tax expense	4	(71,694)	(78,633)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		260,452	306,209
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation		–	15,892
PROFIT FOR THE YEAR		260,452	322,101
Attributable to:			
Owners of the parent		257,439	329,536
Non-controlling interests		3,013	(7,435)
		260,452	322,101
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted (RMB)			
For profit for the year	6	0.39	0.49
For profit from continuing operations	6	0.39	0.48

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

Year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	<i>Notes</i>	2019 RMB'000 (Audited)	2018 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		114,059	130,744
Right-of-use assets		550,002	–
Goodwill		68,119	72,646
Other intangible assets		8,459	7,492
Investments in joint ventures		74,349	74,313
Investments in associates		252,406	37,114
Debt instrument at amortised cost		500	–
Equity investments designated at fair value through other comprehensive income		35,623	41,713
Deferred tax assets		64,381	40,892
Loan receivables		–	16,472
		<hr/>	<hr/>
Total non-current assets		1,167,898	421,386
CURRENT ASSETS			
Inventories		2,937,176	2,541,787
Trade and bills receivables	7	2,689,638	2,172,337
Prepayments, other receivables and other assets		1,717,857	1,331,443
Financial assets at fair value through profit or loss		201,205	–
Loan receivables		–	40,640
Due from the controlling shareholder		–	35,000
Due from related parties		76,163	168,711
Pledged deposits		1,485,075	660,251
Cash and cash equivalents		666,245	708,548
		<hr/>	<hr/>
Total current assets		9,773,359	7,658,717

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2019

	<i>Notes</i>	2019 RMB'000 (Audited)	2018 <i>RMB'000</i> (Audited)
CURRENT LIABILITIES			
Trade and bills payables	8	1,097,525	484,876
Other payables and accruals		310,253	341,922
Interest-bearing bank and other borrowings		3,968,773	3,066,638
Lease liabilities		205,276	–
Due to related parties		432,309	4,253
Tax payable		426,188	348,709
		<hr/>	<hr/>
Total current liabilities		6,440,324	4,246,398
		<hr/>	<hr/>
NET CURRENT ASSETS		3,333,035	3,412,319
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,500,933	3,833,705
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liabilities		324,428	–
		<hr/>	<hr/>
NET ASSETS		4,176,505	3,833,705
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital		666,667	666,667
Reserves		3,347,591	3,093,663
		<hr/>	<hr/>
		4,014,258	3,760,330
		<hr/>	<hr/>
Non-controlling interests		162,247	73,375
		<hr/>	<hr/>
Total equity		4,176,505	3,833,705
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2019

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

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

NOTES

1. BASIS OF PREPARATION

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

Basis of consolidation

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

(a) Adoption of IFRS 16

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

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liability. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

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

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

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

Financial impact at 1 January 2019

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

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	649,515
Decrease in prepayments, other receivables and other assets	(47,883)
	<hr/>
Increase in total assets	601,632
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Liabilities	
Increase in lease liabilities	601,632
	<hr/>
Increase in total liabilities	601,632
	<hr/>
Decrease in retained profits	–
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The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

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

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “**uncertain tax positions**”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Revenue from contracts with customers		
Sales of mobile telecommunications devices and accessories	14,877,308	14,451,208
Including:		
Retail of mobile telecommunications devices and accessories	6,744,884	7,875,083
Sales of telecommunications devices and accessories to franchisees	2,726,784	3,039,672
Wholesale of mobile telecommunications devices and accessories	5,405,640	3,536,453
Service income from mobile carriers	312,421	378,337
Other service fee income	161,224	127,588
	<u>15,350,953</u>	<u>14,957,133</u>

Disaggregated revenue information

Segments

Mobile telecommunications devices

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Geographical markets		
Mainland China	15,023,563	14,905,625
Spain	322,137	50,724
Bangladesh	3,183	452
India	2,070	332
	<u>15,350,953</u>	<u>14,957,133</u>
Timing of revenue recognition		
Goods transferred at a point in time	14,877,308	14,451,208
Services transferred over time	473,645	505,925
	<u>15,350,953</u>	<u>14,957,133</u>

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Other income		
Interest income	9,143	42,254
Government grants (<i>note (a)</i>)	46,091	49,772
Others	6,447	5,720
	61,681	97,746
Gains		
Fair value gain on financial assets at fair value through profit or loss	1,105	–
Gain on acquisition of subsidiaries	1,929	189
Gain on disposal of a subsidiary	2,580	–
Gain on disposal of items of property, plant and equipment	281	61
	5,895	250
	67,576	97,996

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

4. INCOME TAX EXPENSE

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which became effective on 1 January 2008, except for Sichuan Yijialong Communication Technology Chain Co., Ltd. and Dixin Simaier Technology (Guangdong) Co., Ltd., two subsidiaries of the Company, which were subject to tax at preferential rates of 15% and 0%, respectively, for the year ended 31 December 2019. The major components of income tax expense are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Current:		
Tax charge for the year	94,411	85,929
Deferred	(22,717)	(7,296)
Total tax charge for the year from continuing operations	71,694	78,633
Total tax charge for the year from a discontinued operation	–	–
	71,694	78,633

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

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 666,667,000 (2018:666,667,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

The calculation of basic earnings per share is based on:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation		
From continuing operations	257,439	316,982
From a discontinued operation	–	12,554
	<u>257,439</u>	<u>329,536</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	<u>666,667,000</u>	<u>666,667,000</u>

7. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Trade receivables	2,667,684	2,278,015
Bills receivable	148,057	2,389
Impairment	<u>(126,103)</u>	<u>(108,067)</u>
	<u>2,689,638</u>	<u>2,172,337</u>

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

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

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Within 90 days	2,347,021	2,016,782
91 to 180 days	184,140	66,324
181 to 365 days	109,487	50,185
Over 1 year	48,990	39,046
	<u>2,689,638</u>	<u>2,172,337</u>

8. TRADE AND BILLS PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Trade payables	323,625	327,359
Bills payable	773,900	157,517
	<u>1,097,525</u>	<u>484,876</u>

An ageing analysis of the outstanding trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
	(Audited)	(Audited)
Within 90 days	644,121	308,797
91 to 180 days	84,413	160,858
181 to 365 days	365,361	11,467
Over 1 year	3,630	3,754
	<u>1,097,525</u>	<u>484,876</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 45 days.

9. SHARE-BASED PAYMENTS

The Group operates a share ownership plan (the “**plan**”) for the purpose of providing the eligible participants the opportunity to acquire equity interests from controlling shareholder and other co-founders at a preferential price to award the eligible participants for the past performance and contribution. The eligible participants include senior management personnel of the Company’s subsidiaries considered to be able to enhance the operations or the value of the Group.

The percentage of the equity interests and purchase prices are solely at the discretion of the controlling shareholder.

In 2019, 25% of the equity interest in Shanghai Dixin Electronic Communication Technology Co., Ltd., 25% of the equity interest in Shanghai Chuanda Communication Technology Co., Ltd. and 25% of the equity interest in Shanghai Dixin South Communication Technology Co., Ltd. were allotted to seven eligible participants at a total consideration of RMB70,000,000 with no vesting conditions. The fair value of the granted equity interest was determined by the management using a discounted cash flow method. The difference amounting to RMB25,295,000 between the consideration and the fair value was charged to profit or loss for the year ended 31 December 2019.

10. BUSINESS COMBINATIONS

Acquisition of Beijing Penglu Network Technology Co., Ltd.

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

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

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

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

Acquisition of Shenzhen Mizuan Network Technology Co., Ltd.

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

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

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

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

11. DISPOSAL OF A SUBSIDIARY

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

12. EVENTS AFTER THE REPORTING PERIOD

- (a) On 8 January 2020, the Company had issued 65,793,400 subscription shares in aggregate at the subscription price of HK\$3.25 per subscription share to Nelson Innovation Limited (the “Subscriber”). The total number of 65,793,400 subscription shares issued represented 16.67% and 8.98% of the total number of issued H shares and the total number of issued shares of the Company as enlarged by the issue of the subscription shares, respectively. The gross proceeds from the subscription were HK\$213,828,550.
- (b) Since the outbreak of the Coronavirus Disease 2019 (“COVID-19”) in January 2020, it continues to spread throughout China and countries around the world. The prevention and control measures of the COVID-19 have been implemented since then.

The COVID-19 situation has certain impacts on the business operations of the Group in particular the operation of retail stores and sales in Hubei Province as well as customer flows in China to certain degree, and the degree of the impact depends on the implementation of the epidemic preventive measures and the duration of the epidemic.

The Group will monitor the developments of the COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group in the year 2020.

MANAGEMENT DISCUSSION & ANALYSIS

I. BUSINESS REVIEW

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

II. FINANCIAL POSITION AND OPERATING RESULTS

(I) Overview

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

(II) Consolidated comprehensive income statement

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

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

1. Operating revenue

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

- (1) Our foreign market has witnessed excellent performance for the year, with revenue significantly increasing;
- (2) New 5g mobile phones have been launched this year, which facilitated a lot of sales opportunities for the Company;

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

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

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

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

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

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

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

2. Cost of sales

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

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

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

3. Gross profit and gross profit margin

Gross profit represents operating revenue net of cost of sales. The Group's gross profit for the year ended 31 December 2019 amounted to RMB1,768,877,050, representing a decrease of RMB158,399,320 or 8.22% from RMB1,927,276,370 for the same period in 2018. Our overall gross profit margins for the years ended 31 December 2018 and 2019 were 12.80% and 11.52%, respectively.

Decrease in our overall gross profit margin as compared to that of 2018 was primarily due to the higher proportion of wholesale revenue and the lower proportion of retail revenue in our primary operating revenue in 2019.

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

4. Sales volume and average selling price of handsets

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

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

5. *Other income and gains*

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

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

Items	For the year ended 31 December			Percentage of change
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Change <i>RMB'000</i>	
Interest income	9,142.18	42,253.51	(33,110.73)	(78.36%)
Government grants	46,090.76	49,771.72	(3,680.96)	(7.40%)
Gain on disposal of items of property, plant and equipment	281.11	60.66	220.45	363.42%
Gain on foreign exchange	256.81	619.84	(363.03)	(58.57%)
Others	11,804.83	5,290.64	6,514.19	123.13%
Total	<u>67,576.29</u>	<u>97,996.37</u>	<u>(30,420.08)</u>	<u>(31.04%)</u>

6. Selling and distribution expenses

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

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

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

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

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

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

7. Administrative expenses

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

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

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

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

8. *Other expenses*

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

Items	For the year ended 31 December			Percentage of change
	2019 RMB'000	2018 RMB'000	Change RMB'000	
Impairment losses on assets	81,135.79	72,216.82	8,918.97	10.99%
Non-operating expenses	2,751.88	6,424.63	(3,672.75)	(57.17%)
Loss from disposal of subsidiaries	2,863.75	1,400.40	1,463.35	104.50%
Total	<u>86,751.42</u>	<u>80,041.85</u>	<u>6,709.57</u>	<u>7.73%</u>

The Group's total other expenses for the year ended 31 December 2019 amounted to RMB86,751,420, representing an increase of RMB6,709,570 or 7.73% from RMB80,041,850 for the same period in 2018. The increase was mainly attributable to the increase in impairment losses on assets of the Group for the year resulting from the impairment loss of goodwill of subsidiaries and the increase in bad debts of current accounts.

9. Finance costs

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

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

10. Income tax expenses

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

* For identification purpose only

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

Items	For the year ended 31 December			Percentage of change
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Change <i>RMB'000</i>	
Income tax in the PRC for the year	94,410.44	85,929.37	8,481.07	9.87%
Deferred tax	(22,716.94)	(7,296.40)	(15,420.54)	211.34%
Total	71,693.50	78,632.97	(6,246.33)	(8.01%)

The Group's total income tax expense for the year ended 31 December 2019 amounted to RMB71,693,500, representing a decrease of RMB6,246,330 or 8.01% compared with the total income tax expense of RMB78,632,970 for the same period in 2018. Such decrease was primarily attributable to the increase in non-deductible expenses for the period.

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

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

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

1. Net cash generated from operating activities

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

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

2. Net cash used in investing activities

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

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

3. *Net cash generated from financing activities*

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

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

(IV) Balance Sheet Items

1. *Trade and bills receivables*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. *Prepayments and other receivables*

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

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

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

3. *Impairment of trade and other receivables*

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

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

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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

4. *Inventories*

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

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

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

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

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

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

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

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

5. Trade and bills payables

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

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

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

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

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

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

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

6. *Other payables and accruals*

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

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

Our advances from contract liabilities represent advance payments by customers for their procurements. Our contract liabilities as of 31 December 2019 amounted to RM117,666,290, representing a decrease of RMB13,070,750 or 10.00% from RMB130,737,040 as of 31 December 2018. The decrease was mainly because the properties segment of the Group during the year was not consolidated into its balance sheet at the end of the period of consolidated statements due to disposal, which resulted in the decrease in advance payment received from the property buyers.

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

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

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

7. *Net current assets position*

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

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

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

8. *Capital expenditure*

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

9. *Related party transactions*

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

	Year	Sales to related parties <i>RMB'000</i>	Purchases from related parties <i>RMB'000</i>	Amounts owed by related parties <i>RMB'000</i>	Amounts owed to related parties <i>RMB'000</i>
Controlling shareholder:					
Digital Science & Technology Group Limited	2019	–	–	–	–
	2018	–	–	35,000.00	–
Associates:					
Shenzhen Dixin Nuclear Communications Co., Ltd. ¹	2019	–	–	707.25	–
	2018	–	0.16	507.25	–
Shenzhen Aizuji Technology Co., Ltd. ¹	2019	11,058.17	–	–	–
	2018	–	–	–	–
Yangzhou D-phone Science and Technology Information Co., Ltd. ¹	2019	771.25	–	–	–
	2018	–	–	–	–
Beijing Xinyi Technology Co., Ltd. ²	2019	–	–	–	–
	2018	132.60	2,725.34	10,963.65	10.71
Shanghai Diju Information Technology Co., Ltd. ³	2019	–	33,571.04	–	2,095.27
	2018	47,826.25	–	–	–
Comservice Commercial Factoring Co., Ltd. ⁴	2019	–	–	–	74,213.36
	2018	–	–	–	–
Beijing Jingdixin Technology Co., Ltd. ⁵	2019	–	619,618.90	–	349,081.74
	2018	–	–	–	–

	Year	Sales to related parties <i>RMB'000</i>	Purchases from related parties <i>RMB'000</i>	Amounts owed by related parties <i>RMB'000</i>	Amounts owed to related parties <i>RMB'000</i>
Joint ventures:					
Hollard-D.Phone (Beijing) Technology Development Co., Ltd. ⁵	2019	–	13,002.92	–	6,717.53
	2018	–	21,897.57	–	3,950.25
Guangzhou Zhongqi Energy Technology Co., Ltd. ⁵	2019	48,308.06	28,226.38	52,497.31	–
	2018	92,448.46	12,442.29	55,619.78	–
Yunnan Dphone Investment Co., Ltd. ⁶	2019	186.19	–	–	–
	2018	–	–	–	–
A subsidiary of joint venture:					
Yunfu Zhongqi Communication Technology Co., Ltd. ⁷	2019	292.55	–	464.85	–
	2018	–	–	–	–
Fellow subsidiaries:					
Beijing Dphone Communication Services Co., Ltd. ⁸	2019	–	26.55	11,227.04	112.54
	2018	1,586.00	–	10,653.10	291.59
Guang'an Dixin Cloud Communication Technology Co., Ltd. ⁸	2019	231.51	–	459.80	–
	2018	253.87	–	275.68	–
Fushun Shenshang Commercial Real Estate Co., Ltd. ⁸	2019	–	–	–	–
	2018	–	–	90,000.00	–

	Year	Sales to related parties <i>RMB'000</i>	Purchases from related parties <i>RMB'000</i>	Amounts owed by related parties <i>RMB'000</i>	Amounts owed to related parties <i>RMB'000</i>
Companies significantly influenced by the controlling shareholders:					
Beijing Tianxingyuanjing Technology Development Co., Ltd. ⁹	2019	–	–	–	88.06
	2018	3,862.99	–	687.97	–
Luzhou Digital Science and Technology Co., Ltd. ¹⁰	2019	10.99	–	–	–
	2018	–	–	–	–
A subsidiary of non-controlling shareholder:					
Beijing Digital China Limited ¹¹	2019	–	6.28	0.15	–
	2018	–	15.08	2.92	–

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

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

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

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

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

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

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

- ⁸ The investments in the fellow subsidiaries, Beijing Dphone Communication Services Co., Ltd., Guang'an Dixin Cloud Communication Technology Co., Ltd. and Fushun Shenshang Commercial Real Estate Co., Ltd., are directly held by the controlling shareholders of the Company.
- ⁹ The investment in the entity, Beijing Tianxingyuanjing Technology Development Co., Ltd., is respectively held by Mr. Liu Donghai, the controlling shareholder of the Company, and Mr. Jin Xin, the former CEO. They directly and indirectly hold 20.53% equity interests in aggregate and have significant influence over the entity.
- ¹⁰ 40% of equity interests in Luzhou Digital Science and Technology Co., Ltd. are held by the controlling shareholders of the Company.
- ¹¹ Beijing Digital China Limited and the non-controlling shareholder of the Company, Digital China (HK) Limited, are all controlled by Digital China Group Co., Ltd. Digital China (HK) Limited holds 23.75% equity interests of the Company.

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

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

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

10. *Interest-bearing bank and other borrowings*

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

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

(V) Key financial ratios

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

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

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

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

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

(VI) Material acquisitions and disposals

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

(VII) Contingent liabilities

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

(VIII) Use of proceeds

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

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

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

As of 31 December 2019, HK\$883,235,380 out of the net proceeds had been utilized. As of 31 December 2019, the balance of the proceeds in the special account amounted to HK\$99,720 (including accrued interest of HK\$11,590).

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

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

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

(IX) Foreign exchange rate risks

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

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

2019

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

2018

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

(X) Restricted assets

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

(XI) Material investments

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

(XII) Equity arrangements

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

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

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

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

(XIV) Capital

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

(XV) Future material investment

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

(XVI) Explanations for any material variances

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

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

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

III. BUSINESS OUTLOOK FOR 2020

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

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

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

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

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

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

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

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

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

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

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

(VI) To continue expanding overseas 3C business

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

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

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

USE OF NET PROCEEDS FROM LISTING

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of shareholders of the Company will be closed from 22 April 2020 to 22 May 2020 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting to be held on 22 May 2020. Shareholders are required to lodge all transfer documents, accompanied by relevant share certificates and transfer forms, with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 21 April 2020.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") as its own code of corporate governance. During the year ended 31 December 2019, save as disclosed in this announcement, the Company has complied with all the code provisions of the CG Code and adopted most of the best practices.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' and supervisors' securities transactions. Having made specific enquiry with the Directors and supervisors of the Company, all of the Directors and supervisors of the Company confirmed that they have complied with the standards for securities transactions as set out in the Model Code during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Audit Committee, together with the management and the external auditor, has reviewed the accounting principles and practices adopted by the Group and reviewed the audited annual results for the year ended 31 December 2019.

This annual results announcement is based on the audited consolidated financial statements of the Group for the year ended 31 December 2019 which have been agreed with the auditor of the Company.

The Board has considered and approved the audited consolidated results of the Group for the year ended 31 December 2019 as set out in this announcement.

PUBLICATION OF AUDITED ANNUAL RESULTS AND 2019 ANNUAL REPORT

This audited annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.dixintong.com). The Company's 2019 annual report containing all the information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course and no later than 30 April 2020.

By order of the Board
Beijing Digital Telecom Co., Ltd.
LIU Donghai
Chairman and executive Director

Beijing, 20 April 2020

As at the date of this announcement, the executive Directors of the Company are Mr. LIU Donghai, Mr. LIU Yajun, Mr. LIU Songshan and Ms. LIU Wencui; the non-executive Directors are Mr. QI Xiangdong and Ms. XIN Xin; and the independent non-executive Directors are Mr. LV Tingjie, Mr. LV Pingbo and Mr. ZHANG Senquan.