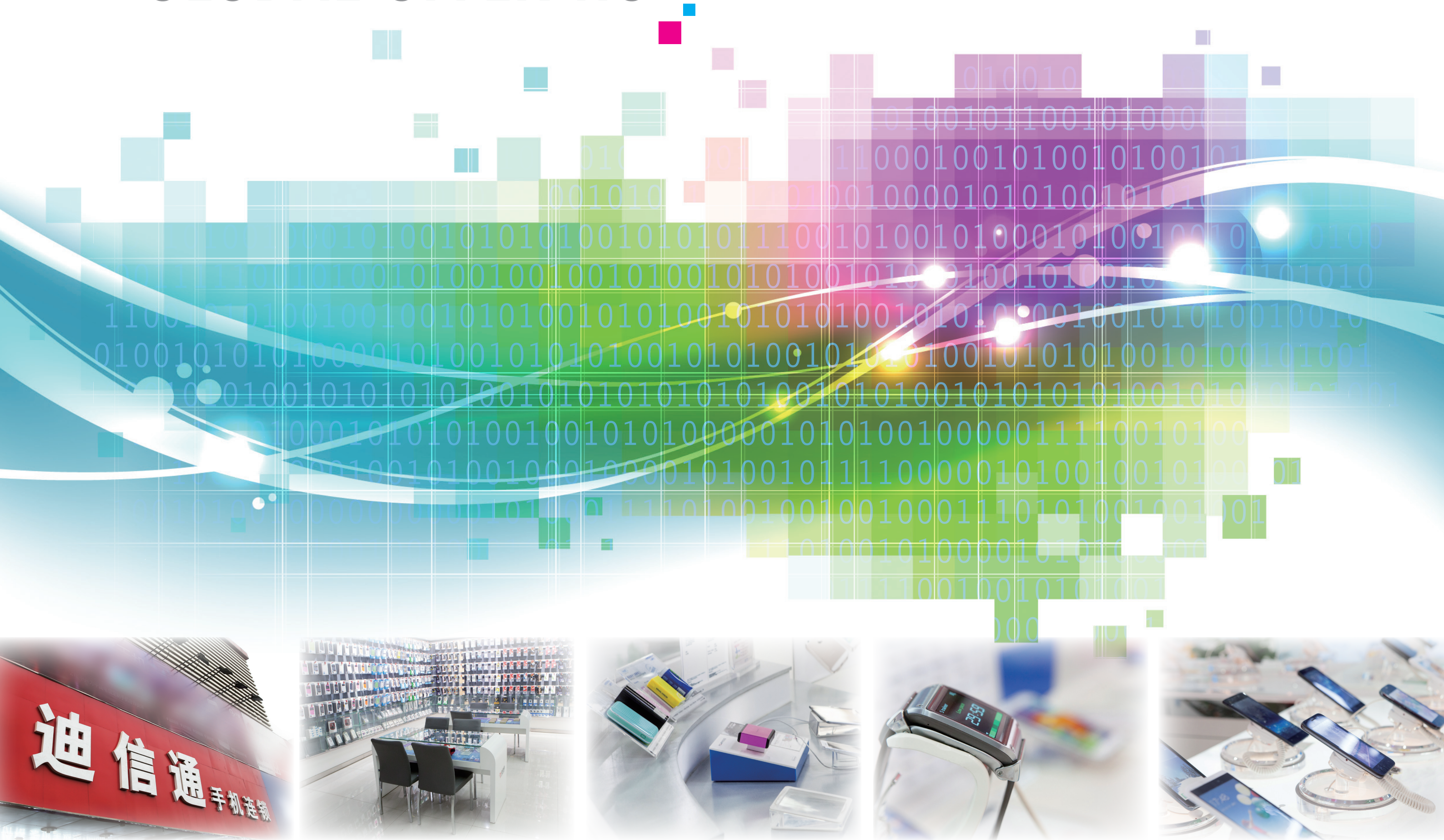
北京迪信通商貿股份有限公司
Beijing Digital Telecom Co., Ltd.

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

# GLOBAL OFFERING




Joint Global Coordinators and Joint Sponsors
(in alphabetical order)

citi UBS

Joint Bookrunners and Joint Lead Managers

citi UBS DBS Standard Chartered

***IMPORTANT: If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.***

迪信通

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

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

## GLOBAL OFFERING

| | | |
|---|---|---|
| **Number of Offer Shares under the Global Offering** | **:** | **166,667,000 H Shares (subject to adjustment and the Over-allotment Option)** |
| **Number of Hong Kong Offer Shares** | **:** | **16,667,000 H Shares (subject to adjustment)** |
| **Number of International Offer Shares** | **:** | **150,000,000 H Shares (subject to adjustment and the Over-allotment Option)** |
| **Maximum Offer Price** | **:** | **HK$7.10 per H Share, plus brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)** |
| **Nominal value** | **:** | **RMB1.00 per H Share** |
| **Stock code** | **:** | **06188** |

*Joint Global Coordinators and Joint Sponsors*
*(in alphabetical order)*

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*Joint Bookrunners and Joint Lead Managers*

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A copy of this Prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Hong Kong Companies (Winding up and Miscellaneous Provisions) Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or around June 30, 2014 and, in any event, not later than July 7, 2014. The Offer Price will be not more than HK$7.10 per Offer Share and is currently expected to be not less than HK$5.30 per Offer Share, unless otherwise announced. If, for any reason, the Offer Price is not agreed by July 7, 2014 between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for the Hong Kong Offer Shares are required to pay, upon application, the maximum Offer Price of HK$7.10 per Offer Share for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK$7.10 per Offer Share.

**The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at *www.dixintong.com*. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares."**

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this Prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus including the risk factors set out in the section headed "Risk Factors" in this Prospectus.

Our Company is incorporated, and our operations are primarily located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections entitled "Risk Factors", "Appendix III – Taxation and Foreign Exchange", "Appendix IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of the Articles of Association of our Company" in this Prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold or delivered to QIBs in reliance on Rule 144A or any other exemption from registration under the U.S. Securities Act of 1933, as amended, and outside the United States in reliance on Regulation S under the U.S. Securities Act of 1933, as amended.

June 25, 2014

***The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable[1] of the Hong Kong Public Offering.***

| | |
|---|---|
| Latest time to complete electronic applications under **White Form eIPO** service through the designated website at **www.eipo.com.hk**[2] | 11:30 a.m. on Monday, June 30, 2014 |
| Application lists of the Hong Kong Public Offering open[3] | 11:45 a.m. on Monday, June 30, 2014 |
| Latest time to lodge **WHITE** and **YELLOW** Application Forms | 12:00 noon on Monday, June 30, 2014 |
| Latest time to give **electronic application instructions** to HKSCC[4] | 12:00 noon on Monday, June 30, 2014 |
| Latest time to complete payment for **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) | 12:00 noon on Monday, June 30, 2014 |
| Application lists of the Hong Kong Public Offering close | 12:00 noon on Monday, June 30, 2014 |
| Expected Price Determination Date[5] | Monday, June 30, 2014 |

Announcement of:

- the Offer Price;
- the indication of the level of interest in the International Offering;
- the indication of the level of interest in the Hong Kong Public Offering; and
- the basis of allocation of the Hong Kong Offer Shares.

| | |
|---|---|
| to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at **www.hkexnews.hk** and our Company at *www.dixintong.com*[6] on or before | Monday, July 7, 2014 |

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see the section headed "How to Apply for Hong Kong Offer Shares") from . . . . . . . . . . . . . . . . . . . . . . . . . . . Monday, July 7, 2014

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function from . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Monday, July 7, 2014

Despatch of H Share certificates on or before . . . . . . . . . . . . . . . . . . Monday, July 7, 2014

and/or White Form e-Refund payment instructions and/or refund cheques (if applicable) on or before[7][8] . . . . . . . . . . .Monday, July 7, 2014

Dealings in H Shares on the Stock Exchange expected to commence on . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .Tuesday, July 8, 2014

*Notes:*

(1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this Prospectus.

(2) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Monday, June 30, 2014, the application lists will not open on that day. See "How to apply for Hong Kong Offer Shares – 10. Effect of bad weather on the opening of the application lists." If the application lists do not open and close on Monday, June 30, 2014, the dates mentioned in this section "Expected Timetable" may be affected. An announcement will be made by us in such event.

(4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section "How to Apply for Hong Kong Offer Shares – 6. Applying by giving **electronic application instructions** to HKSCC via CCASS." in this Prospectus.

(5) We expect to determine the Offer Price by agreement with the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, June 30, 2014 and, in any event, not later than Monday, July 7, 2014. If, for any reason, the Offer Price is not agreed among the Joint Global Coordinators (on behalf of the Underwriters) and us by Monday, July 7, 2014, the Hong Kong Public Offering and the International Offering will not proceed.

(6) The website, and all of the information contained on the website, does not form part of this Prospectus.

(7) H Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Tuesday, July 8, 2014. Investors who trade H Shares on the basis of publicly available allocation details before the receipt of H Share certificates or before the H Share certificates becoming valid certificates of title do so entirely at their own risk.

(8) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s), may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

You should read carefully the sections entitled "Underwriting", "How to Apply for Hong Kong Offer Shares", and "Structure of the Global Offering" in this Prospectus, for details relating to the structure and conditions of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable, including, among other things, conditions, effect of bad weather and the despatch of refund cheques and H Share certificates.

## IMPORTANT NOTE TO INVESTORS

***We have issued this Prospectus solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares, and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. We have taken no action to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.***

***You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, any of the Underwriters, any of their respective directors, agents, employees or advisers, or any other person or party involved in the Global Offering. Information contained on the website at www.dixintong.com does not form part of this Prospectus.***

# CONTENTS

***This summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.***

***There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.***

## OVERVIEW

We are the largest mobile telecommunications chain store and the third largest mobile phone retailer, both in terms of sales volume in China in 2013, according to the SINO Report. We maintain our leading position in the PRC mobile telecommunications devices industry by selling and distributing mobile telecommunications devices and accessories and providing value-added services. We benefit from our long-established and strategic collaborations with China's mobile carriers, namely China Mobile, China Unicom and China Telecom, through commissions derived from the development of a significant customer base for each of them over the years. We currently offer our customers a broad selection of more than 2,000 mobile phone models of different specifications (such as colors and formatting systems) and brands from international brands and domestic brands. Our value-added services are offered on a personalized basis and include mainly software and mobile application packages and mobile phone configuration services.

Our significant sales are generated through an O2O platform, which comprises (i) offline channels mainly including our physical retail and distribution network, and (ii) online channels mainly including e-commerce sales platforms and other virtual platforms. We have the largest physical retail and distribution network among China's mobile telecommunications chain stores in terms of number of retail outlets, according to the SINO Report. As of April 30, 2014, our offline channels comprised (i) a physical retail and distribution network of 1,512 outlets, including 956 independently operated outlets and 556 franchised outlets, spreading across 21 provinces and four municipal cities in China, both under the brand of D.Phone, and (ii) a wholesale distribution network which supplies mobile devices and accessories in bulk to the mobile carriers and other third-party retailers. Our franchised outlets are operated by third-party franchisees pursuant to their franchise agreements with us. In addition, in 2013, we promoted the sales of mobile products and services in over 1,500 outlets of the three mobile carriers in China (駐廳銷售). Our online channels comprise various e-commerce platforms, including our own Internet-based platform, *www.dixintong.com*, and third-party Internet-based platforms, such as Tmall, Amazon.cn and Yhd.com. Our virtual platforms also include television sales channels and credit card online stores. Benefiting from our extensive physical network of retail stores and developed virtual platforms, our O2O platform has allowed us to offer various mobile devices and value-added services and provide smart communications solutions, thereby providing our customers with access to the mobile Internet.

We provide our customers with superior shopping experience delivered through a variety of services offered by our highly trained sales staff. We cater for our customers' preferences and needs and provide a broad product offering of mobile telecommunications devices, accessories, software downloads and other value-added services. We believe our focus on customers' preferences and needs is the key strategy that differentiates us from our competitors and enhances our brand recognition for reliability, credibility and value.

## OUR BUSINESS MODEL

Our business is organized into three parts, including (i) sales of mobile telecommunications devices and accessories; (ii) provision of services to China's mobile carriers; and (iii) provision of repair, maintenance and value-added services to our customers. Our sales of mobile telecommunications devices and accessories include (i) our retail business through our independently operated outlets and online channels; (ii) our franchise business; and (iii) our wholesale business.

Our retail business involves the sale of mobile phones, mobile phone accessories, smart devices and other products through our independently operated outlets and outlets in cooperation with China's mobile carriers, and our own online platform and other e-commerce platforms. Our franchise business involves the sale of mobile telecommunications devices and accessories to third-party franchisees pursuant to their franchise agreements with us. Our wholesale business involves the distribution of the same products to wholesale customers who purchase from us in bulk. We derive service income from China's mobile carriers primarily through promoting and selling mobile phones that are bundled with contracted call service subscriptions and sending staff to their outlets to assist with sales of mobile telecommunications products and services. We also provide mobile phone repair and maintenance services and offer a range of value-added services for mobile devices at our retail outlets.

## OUR BUSINESS OPERATION PROCESS

Our business operation process is divided into four main parts: (i) procurement; (ii) inventory, distribution and logistics; (iii) sales and marketing; and (iv) after-sales services. We have implemented an integrated ERP system, to manage our procurement, inventory, sales, logistics and financial reporting functions. Our sales and marketing department works closely with our procurement department and our subsidiaries to carry out a series of promotional activities to boost our sales and maximize our profits. With our comprehensive after-sales services, we provide nationwide warranty for the mobile phones that our customers purchased from us and additional after-sales services to our members.

## OUR SUPPLIERS AND CUSTOMERS

As of April 30, 2014, we maintained relationships with over 800 suppliers, including China's mobile carriers, mobile device manufacturers and other distributors from all regions which provide us with mobile telecommunications devices including mobile phones, mobile device accessories, smart devices and other products. For more details of our suppliers, see "Business – Suppliers" on page 152 of this Prospectus.

Our customer base comprises both retail and wholesale customers. Our retail customers are end-users of mobile telecommunications devices and accessories. Our wholesale customers include China's mobile carriers, large online stores such as JD.com, regional distributors and retailers, and small or mid-sized independently operated telecommunication stores. For more details of our customers, see "Business – Customers" on page 155 of this Prospectus.

China's mobile carriers serve as both our suppliers and our customers. According to the SINO Report and based on our knowledge of the industry, such customer/supplier relationship with the mobile carriers is normal in China's telecommunications industry and consistent with the industry practice among mobile phone retailers in China. For more details of our cooperation with the mobile carriers, see "Business – Our Business – Cooperation with China's mobile carriers" from page 137 to page 147 of this Prospectus.

## OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

- The largest mobile telecommunications chain store in the PRC with an O2O platform
- Superior customer experience through offering one-stop shop and customized services
- Extensive network of physical stores covering a majority of the provinces across the PRC through favorable scalability
- Strong and strategic relationships with China's three mobile carriers
- Strong and long-standing relationships with major mobile device manufacturers and robust supply and inventory management system
- Dedicated and experienced management team and strong retail operation management capability

## OUR STRATEGIES

We aim to strengthen our leading position in the mobile telecommunications devices industry in the PRC through the following strategies:

- Improve our O2O platform and further develop our mobile Internet services
- Increase our market share by extending our retail and distribution network to other geographical locations in the PRC
- Strengthen and continue to leverage existing partnerships with mobile carriers and mobile device manufacturers

- Increase sales volume and revenue by enhancing our customer services

- Expand the range of the smart solutions we offer and become a smart living solutions provider

- Develop cooperative partnership with MVNO

## MAJOR RISK FACTORS

There are a number of risks relating to an investment in the Offer Shares. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to the industry in which we operate; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering. The following highlights some of the risks which are considered to be material by our Directors:

- If we cannot effectively manage the growth and expansion of our operations, our business and growth prospects may be adversely affected.

- Our business depends on our ability to continue to work effectively with the mobile carriers. If we fail to maintain our strategic partnerships with the mobile carriers, our business, financial condition and results of operations may be materially and adversely affected.

- We may not be able to manage our franchisees and their operations effectively, which may materially and adversely affect our business and results of operations.

As different investors may have different interpretations and criteria for determining the materiality of a risk, you are cautioned that you should read the whole section headed "Risk Factors" from page 26 to page 52 of this Prospectus carefully before you decide to invest in the Offer Shares.

## LEGAL AND ADMINISTRATIVE PROCEEDINGS AND COMPLIANCE

During the Track Record Period and as of the Latest Practicable Date, we were involved in certain incidents of non-compliance with applicable PRC laws and regulations, including rules regulating the operation of our former mobile phone software program, Dphone Market (迪風市場). Our Directors are of the view that these incidents of non-compliance, whether individually or in aggregate, will not have a material adverse operational or financial impact on us. For further details of the non-compliance incidents and the remedies and measures to prevent future breaches and ensure ongoing compliance, see "Business – Legal and Administrative Proceedings and Compliance – Compliance" from page 165 to page 167 of this Prospectus.

## SHAREHOLDER INFORMATION

Immediately following the completion of the Global Offering, Feng Yong Tai and Di Er Tong will directly own 46.90% of our issued share capital if the Over-allotment Option is not exercised. Feng Yong Tai and Di Er Tong are investment holding companies, which are held as to 39.47% and 52.33% by Mr. Liu Songshan, 47.75% and 34.89% by Mr. Liu Donghai, 5.13% and 5.13% by Ms. Liu Hua, 5.13% and 5.13% by Ms. Liu Yongmei, and 2.52% and 2.52% by Ms. Liu Wencui, respectively. Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui are siblings. In addition, Ms. Liu Wencui indirectly owns 1.12% of the issued share capital of our Company through her non-wholly owned holding company Rong Feng Tai. Accordingly, as Feng Yong Tai, Di Er Tong, Rong Feng Tai, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui, directly and indirectly, will together be entitled to exercise approximately 48.02% of the voting power at general meetings of our Company if the Over-allotment Option is not exercised, each of Feng Yong Tai, Di Er Tong, Rong Feng Tai, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui will be regarded as our Controlling Shareholder under the Listing Rules immediately following the completion of the Global Offering.

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as of and for the years ended December 31, 2011, 2012 and 2013, extracted from the Accountants' Report set out in Appendix I to this Prospectus.

### Summary Consolidated Income Statements

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| **Revenue** | 6,513,501 | 8,802,689 | 12,812,024 |
| Cost of sales | (5,297,597) | (7,339,689) | (11,074,062) |
| **Gross profit** | 1,215,904 | 1,463,000 | 1,737,962 |
| Other income and gains | 12,295 | 31,490 | 34,819 |
| Selling and distribution expenses | (668,575) | (816,866) | (952,644) |
| Administrative expenses | (189,707) | (232,244) | (286,318) |
| Other expenses | (17,452) | (18,363) | (56,127) |
| Finance costs | (48,161) | (73,038) | (107,334) |
| **Profit before tax** | 304,304 | 353,979 | 370,358 |
| Income tax expense | (82,799) | (104,177) | (96,166) |
| **Profit for the year and total comprehensive income** | 221,505 | 249,802 | 274,192 |
| **Profit for the year and total comprehensive income attributable to** | | | |
| Owners of the parent | 221,566 | 252,121 | 266,441 |
| Non-controlling interests | (61) | (2,319) | 7,751 |
| | 221,505 | 249,802 | 274,192 |

**Revenue**

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue |
| Sales of mobile telecommunications devices and accessories | 6,162,814 | 94.6% | 8,406,194 | 95.5% | 12,186,395 | 95.1% |
| – Retail of mobile telecommunications devices and accessories | 4,261,320 | 65.4% | 5,693,802 | 64.7% | 6,862,902 | 53.6% |
| – Sales of telecommunications devices and accessories to franchisees | 1,061,939 | 16.3% | 1,340,285 | 15.2% | 1,976,843 | 15.4% |
| – Wholesale of mobile telecommunications devices and accessories | 839,555 | 12.9% | 1,372,107 | 15.6% | 3,346,650 | 26.1% |
| Service income from mobile carriers | 257,227 | 4.0% | 329,208 | 3.7% | 496,205 | 3.9% |
| Other service fee income | 93,460 | 1.4% | 67,287 | 0.8% | 129,424 | 1.0% |
| **Total** | 6,513,501 | 100.0% | 8,802,689 | 100.0% | 12,812,024 | 100.0% |

**Gross Profit and Gross Profit Margin**

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Gross profit | % of total gross profit | Gross profit margin | Gross profit | % of total gross profit | Gross profit margin | Gross profit | % of total gross profit | Gross profit margin |
| | (RMB'000) | | | (RMB'000) | | | (RMB'000) | | |
| Sale of mobile telecommunications devices and accessories | 909,482 | 74.8% | 14.8% | 1,122,952 | 76.8% | 13.4% | 1,192,261 | 68.6% | 9.8% |
| – Retail of mobile telecommunications devices and accessories | 791,255 | 65.1% | 18.6% | 1,020,995 | 69.8% | 17.9% | 1,061,267 | 61.1% | 15.5% |
| – Sales of mobile telecommunications devices and accessories to franchisees | 36,852 | 3.0% | 3.5% | 39,552 | 2.7% | 3.0% | 44,508 | 2.5% | 2.3% |
| – Wholesale of mobile telecommunications devices and accessories | 81,375 | 6.7% | 9.7% | 62,405 | 4.3% | 4.5% | 86,486 | 5.0% | 2.6% |
| Service income from mobile carriers | 214,396 | 17.6% | 83.3% | 275,515 | 18.8% | 83.7% | 420,065 | 24.2% | 84.7% |
| Other service fee income | 92,026 | 7.6% | 98.5% | 64,533 | 4.4% | 95.9% | 125,636 | 7.2% | 97.1% |
| **Total** | 1,215,904 | 100.0% | 18.7% | 1,463,000 | 100.0% | 16.6% | 1,737,962 | 100.0% | 13.6% |

The decrease in our overall profit margin during the Track Record Period was primarily due to the decrease in gross profit margin from sales of mobile telecommunications devices and accessories. The decrease in our gross profit margin from sales of mobile telecommunications devices and accessories during the Track Record Period was primarily due to (i) the increase in the purchasing costs of smart mobile phones and 3G mobile phones outpacing the increase in their selling prices, while the proportion of these mobile phones in our sales was increasing steadily during the period; (ii) the increase in the proportion of wholesale of mobile telecommunications devices and accessories which generally commanded relatively low gross profit margin; and (iii) our strategy of developing our online sales platforms by offering lower selling prices which may lead to relatively low gross profit margin. See "Financial Information – Certain Income Statement Items – Gross Profit and Gross Profit Margin."

**Summary Statements of Financial Position**

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Non-current assets | 195,615 | 212,045 | 250,853 |
| Current assets | 2,541,761 | 3,449,048 | 4,357,137 |
| Current liabilities | 1,628,783 | 2,298,908 | 3,164,467 |
| Net current assets | 912,978 | 1,150,140 | 1,192,670 |
| Total assets less current liabilities and net assets | 1,108,593 | 1,362,185 | 1,443,523 |
| Equity attributable to owners of the parent | 1,105,093 | 1,357,214 | 1,423,655 |
| Non-controlling interests | 3,500 | 4,971 | 19,868 |
| Total equity | 1,108,593 | 1,362,185 | 1,443,523 |

**Summary Statements of Cash Flows**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Net cash generated from/(used in) operating activities | 226,588 | (79,342) | (15,297) |
| Net cash used in investing activities | (97,776) | (65,085) | (107,872) |
| Net cash generated from/(used in) financing activities | (2,935) | 382,081 | (104,627) |
| Net increase/(decrease) in cash and cash equivalents | 125,877 | 237,654 | (227,796) |
| Cash and cash equivalents at beginning of the year | 166,204 | 292,081 | 529,735 |
| Cash and cash equivalents at end of the year | 292,081 | 529,735 | 301,939 |

**Key Financial Ratios**

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Current ratio[1] | 1.6 | 1.5 | 1.4 |
| Gearing ratio[2] | 29.5% | 35.8% | 49.2% |
| Net debt-to-equity ratio[3] | 41.9% | 55.9% | 96.8% |

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Return on Equity[4] | 22.3% | 20.5% | 19.2% |

*Notes:*

(1) Equals our current assets divided by our current liabilities at the end of each financial period.

(2) Equals net debt divided by net debt and total equity at the end of each financial period and multiplied by 100%.

(3) Equals net debt divided by total equity at the end of each financial period and multiplied by 100%.

(4) Equals total comprehensive income attributable to owners of the company divided by shareholders' equity for each financial period and multiplied by 100%.

The increase in our gearing ratio during the Track Record Period was primarily due to the increase in our net debt, which was in turn attributable to the increase in our interest-bearing bank loans. The increase in our interest-bearing bank loans during the Track Record Period was primarily due to (i) our need for purchasing more mobile telecommunications devices and accessories as a result of our sales growth driven by our business expansion, and (ii) the financing need resulting from some suppliers not granting credit periods to us and requiring prepayments or current payments. See "Financial Information – Key Financial Ratios."

**USE OF PROCEEDS**

We estimate that we will receive the net proceeds from the Global Offering of approximately HK$942.0 million, after deducting the underwriting commission (not including incentive fees (if any)) and expenses payable by us in the Global Offering, and assuming the Over-allotment Option is not exercised and an Offer Price of HK$6.20 per Offer Share, being the mid-point of the Offer Price range stated in this Prospectus. If the Over-allotment Option is exercised in full, we estimate that we would receive additional net proceeds of approximately HK$150.3 million, after deducting the underwriting commission and expenses payable by us in the Global Offering.

We intend to use these net proceeds for the following purposes:

- approximately 56% or HK$527.5 million will be used to expand our retail and distribution network as follows:
  - approximately 28% or HK$263.8 million will be used to set up approximately 300 new standalone outlets in the PRC during the period from 2014 to 2016;
  - approximately 15% or HK$141.3 million will be used to set up approximately 150 store-in-store outlets in shopping malls in the PRC during the period from 2014 to 2016;
  - approximately 13% or HK$122.5 million will be used for potential acquisitions of regional telecommunications retail chains in Heilongjiang, Gansu and Jilin provinces and in Ningxia Hui autonomous region. As of the Latest Practicable

Date, we did not enter into any definitive acquisition agreement or have any proposal for acquisition, and did not identify any target retail chain for any potential acquisition yet, nor did we incur any capital commitment with respect to any potential acquisition;

- approximately 14% or HK$131.9 million will be used for repayment of bank borrowings which carry different interest rates of between 6.0% and 7.8% per annum, and will mature on various dates between July 2014 and January 2015, respectively. The borrowed funds were used for working capital purposes;
- approximately 9% or HK$84.8 million will be used to upgrade our information system to further improve our operational management capability;
- approximately 7% or HK$65.9 million will be used to upgrade our existing outlets and establish new call centers and new after-sales service system in the PRC;
- approximately 6% or HK$56.5 million will be used to undertake a series of multi-functional mobile Internet projects. See "Business – Our Strategies – Improve our O2O platform and further develop our mobile Internet services"; and
- approximately 8% or HK$75.4 million will be used for working capital and other general corporate purposes.

In the event that the Offer Price per Offer Share is not finally determined to be the mid-point of the Offer Price range stated in this Prospectus, the amount of proceeds for each use set out above will be increased or reduced, as the case may be, on a pro-rata basis.

## LISTING EXPENSES

We incurred listing expenses of approximately RMB3.4 million for the year ended December 31, 2013, which were charged to our administrative expenses. We estimate we will further incur listing expenses (excluding commissions and incentive fees (if any) to be payable to the Underwriters, the SFC transaction levy and the Stock Exchange trading fee) of approximately RMB48.2 million for the year ending December 31, 2014 in connection with the Global Offering, of which approximately RMB28.7 million will be charged to our administrative expenses and approximately RMB14.5 million will be capitalized. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2014.

## DIVIDEND POLICY

Our Directors, subject to approval by our Shareholders, may declare dividends after taking into account, among other things, our general business condition and strategics, results of operations, cash flows and financial condition, operating and capital requirements, interests of our Shareholders, taxation conditions, the amount of distributable profits based on PRC GAAP or IFRS, whichever is lower, our Articles of Association, the PRC Company Law, applicable laws and regulations and other factors that our Directors deem relevant. In particular, under applicable PRC laws and our Articles of Association, we can only distribute dividends out of our after-tax profit after the following allocations have been made: (i) recovery of accumulated losses, if any; (ii) mandatory allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit, unless the common reserve fund reaches 50% of our registered capital or above; and (iii) allocations to discretionary common reserve fund, subject to the Shareholders' approval at the Shareholders meeting.

In June 2013, we declared and paid dividends in the amount of RMB200.0 million. You should note that historical dividend distributions are not indicative of our future dividend distribution policy. There is no assurance that we will be able to declare dividends of such amount or any amount in any year. In addition, the declaration and/or payment of dividends may be limited by legal restrictions and/or by financing agreements that we may enter into in the future.

## RECENT DEVELOPMENTS

Based on our unaudited consolidated financial statements for the three months ended March 31, 2014, which have been reviewed by our reporting accountants with reference to the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", we recorded revenue of RMB3,440.7 million, gross profit of RMB473.0 million and a gross profit margin of 13.7% for the three months ended March 31, 2014. Our revenue for the three months ended March 31, 2014 increased by 13.7% as compared to that for the three months ended March 31, 2013. The increase in our revenue was primarily due to (i) increases in retail, wholesale and franchise sales of mobile telecommunications devices and accessories driven by increases in sales volumes; and (ii) an increase in service income from mobile carriers. Our gross profit margin increased from 13.4% for the three months ended March 31, 2013 to 13.7% for the three months ended March 31, 2014. The slight increase in our gross profit margin was primarily due to the increase in the proportion of service income from mobile carriers as a result of increased commissions received from carriers for contracted call service subscriptions, which commanded relatively high gross profit margin. In the three months ended March 31, 2014, we recorded net cash generated from operating activities in the amount of RMB144.1 million.

Our Directors confirm that, since December 31, 2013 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading conditions, and there had been no event which would materially affect the information shown in "Accountants' Report" set out in Appendix I to this Prospectus.

## GLOBAL OFFERING STATISTICS[(1)]

| | Based on an Offer Price of HK$5.30 per H Share | Based on an Offer Price of HK$7.10 per H Share |
|---|---|---|
| Market capitalization of our Shares[(2)] | HK$3,533 million | HK$4,733 million |
| Unaudited pro forma adjusted net tangible assets per Share[(3)] | HK$3.78 | HK$4.21 |

*Notes:*

(1) All statistics in this table are on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalization is based on 666,667,000 Shares expected to be in issue immediately after completion of the Global Offering.

(3) The unaudited pro forma adjusted net tangible asset per Share is based on 666,667,000 Shares expected to be in issue immediately after completion of the Global Offering.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK$5.30 and HK$7.10, respectively, per H Share, the unaudited pro forma adjusted net tangible assets per Share will be HK$3.83 per Share and HK$4.31 per Share, respectively.

***In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.***

| | |
|---|---|
| "affiliate" | any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| "Application Form(s)" | **WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s) or, where the context so requires, any of them that is (are) in relation to the application of the Hong Kong Public Offering |
| "Articles of Association" | the articles of association of our Company, adopted on February 27, 2014 and as amended from time to time |
| "associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Board" or "Board of Directors" | the board of directors of our Company |
| "Business Day" | any day (other than Saturday, Sunday and public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business |
| "CAGR" | compound annual growth rate |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant |
| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| "CCASS Participant" | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |

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| "CDH" | CDH Mobile (HK) Limited (鼎暉香港有限公司), a company established on April 26, 2007 in Hong Kong and one of the Substantial Shareholders of the Company |
| "Chang Qing Investment" | Chengmai Dixin Changqing Investment Centre (Limited Partnership) (澄邁迪信長青投資中心(有限合夥)), a limited partnership established in the PRC by core senior management members of the Company on February 28, 2011, with main business scope being project investments and consultation services; Chang Qing Investment is a Shareholder of our Company |
| "China" or "PRC" | the People's Republic of China excluding, for the purpose of this Prospectus only, Hong Kong, the Macau Special Administrative Region and Taiwan |
| "China Mobile" | China Mobile Communications Corporation (中國移動通信集團公司), a Chinese state-owned telecommunications company that provides mobile telecommunications services through its nationwide network |
| "China Telecom" | China Telecom Corporation Limited (中國電信股份有限公司), a Chinese state-owned telecommunications company that provides mobile telecommunications services through its nationwide network |
| "China Unicom" | China United Network Communications Group Co., Ltd. (中國聯合網絡通信集團有限公司), a Chinese state-owned telecommunications company that provides mobile telecommunications services through its nationwide network |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which came into effect on March 3, 2014 as amended, supplemented or otherwise modified from time to time |
| "Companies (Winding Up and Miscellaneous Provisions) Ordinance" | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |

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| "Company", "our Company", "the Company", "Dixintong", "we" or "us" | Beijing Digital Telecom Co., Ltd. (北京迪信通商貿股份有限公司), a joint stock company with limited liability converted from our predecessor Dixintong Investment in the PRC on December 28, 2009, and except where the context indicates otherwise, includes (i) our predecessors and (ii) with respect to the period before our Company became the holding company of its present subsidiaries, the business operated by it and its present subsidiaries or (as the case may be) their predecessors |
| "Connected Person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Controlling Shareholder(s)" | has the meaning ascribed under the Listing Rules and in this context, refers to Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui, and three investment holding companies namely, Feng Yong Tai, Di Er Tong and Rong Feng Tai |
| "Crown Flame" | Crown Flame Investment Limited (冠發投資有限公司), a company established on April 12, 2007 in Hong Kong |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會) |
| "Di Er Tong" | Beijing Di Er Tong Consulting Company Limited (北京迪爾通諮詢有限公司), a company established on May 26, 2005 in the PRC and one of the Controlling Shareholders of the Company |
| "Director(s)" | the director(s) of our Company |
| "Dixintong Investment" | Beijing Dixintong Investment Company Limited (北京迪信通投資有限公司), the predecessor of our Company, which was established by Mr. Liu Songshan and Ms. Liu Wencui on May 31, 2001, with main business scope being investment management, economic information consultation, technology development and transfer and technology consultation and services |
| "Dixintong Telecommunications Services" | Beijing Dixintong Telecommunications Services Co., Ltd. (北京迪信通通信服務有限公司), a company established on September 12, 1995 in the PRC and controlled by Feng Yong Tai and Di Er Tong, a Connected Person of our Company |

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| "Domestic Shares" | ordinary shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi |
| "EIT Law" | PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) adopted by the National People's Congress on March 16, 2007, and became effective on January 1, 2008 |
| "Feng Yong Tai" | Beijing Feng Yong Tai Consulting Company Limited (北京豐永泰諮詢有限公司), a company established on May 26, 2005 in the PRC and one of the Controlling Shareholders of the Company |
| "Founders" | Mr. Liu Donghai, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Hua and Ms. Liu Yongmei, who are siblings |
| "GDP" | gross domestic product (all references to GDP growth rates are to real as opposed to nominal growth rates of GDP) |
| "GFA" | gross floor area |
| "Global Offering" | the Hong Kong Public Offering and the International Offering |
| "**GREEN** Application Form(s)" | the application form(s) to be completed by **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited |
| "Group" or "our Group" | our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of our Company at the time |
| "H Share Registrar" | Computershare Hong Kong Investor Services Limited |
| "H Share(s)" | overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |

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| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| "HLB" | HLB Hodgson Impey Cheng Risk Advisory Services Limited (國衛風險諮詢服務有限公司), the internal control consultant of the Company |
| "Hong Kong" or "HK" | Hong Kong Special Administrative Region of the PRC |
| "Hong Kong dollars" or "HK dollars" or "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong Offer Shares" | the H Shares offered by us for subscription pursuant to the Hong Kong Public Offering |
| "Hong Kong Public Offering" | the offering by our Company of initially 16,667,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering" in this Prospectus) for cash at the Offer Price on the terms and conditions described in this Prospectus and the Application Forms |
| "Hong Kong Underwriters" | the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting – Hong Kong Underwriters" in this Prospectus |
| "Hong Kong Underwriting Agreement" | the underwriting agreement dated June 24, 2014 relating to the Hong Kong Public Offering entered into between, among others, the Joint Global Coordinators, the Joint Bookrunners, the Hong Kong Underwriters and us as further described in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement" in this Prospectus |
| "IFRS" | the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB) |
| "independent third party(ies)" | an individual or a company who is not connected with (within the meaning of the Listing Rules) any Directors, chief executive or Substantial Shareholders of our Company, its subsidiaries or any of their respective associates |

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| "International Offer Shares" | 150,000,000 H Shares initially offered by our Company for subscription under the International Offering, subject to the Over-allotment Option and adjustment as described in the section headed "Structure of the Global Offering" in this Prospectus |
| "International Offering" | the conditional placing of the International Offer Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, as further described in the section headed "Structure of the Global Offering" in this Prospectus |
| "International Underwriters" | the group of international underwriters expected to enter into the International Underwriting Agreement to underwrite the International Offering |
| "International Underwriting Agreement" | the underwriting agreement expected to be entered into on or about June 30, 2014 by, among others, the Joint Global Coordinators, the Joint Bookrunners, the International Underwriters and us in respect of the International Offering, as further described in "Underwriting – Underwriting Arrangements and Expenses – International Offering" |
| "Joint Bookrunners" and "Joint Lead Managers" | Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, DBS Asia Capital Limited and Standard Chartered Securities (Hong Kong) Limited |
| "Joint Global Coordinators" | Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch (in alphabetical order) |
| "Joint Sponsors" | Citigroup Global Markets Asia Limited and UBS Securities Hong Kong Limited (in alphabetical order) |
| "Latest Practicable Date" | June 18, 2014, being the latest practicable date for the inclusion of certain information in this Prospectus prior to its publication |
| "Listing" | listing of our H Shares on the Stock Exchange |
| "Listing Committee" | the Listing Committee of the Stock Exchange |

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| "Listing Date" | the date, expected to be on or about Tuesday, July 8, 2014, on which our H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time |
| "Mandatory Provisions" | the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Commission and other PRC government departments on August 27, 1994 |
| "MIIT" | Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) |
| "MOF" | Ministry of Finance of the PRC (中華人民共和國財政部) |
| "MOFCOM" | Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "MVNO Licencee" | Dixintong Telecommunications Services |
| "NBSC" | National Bureau of Statistics of China (中華人民共和國國家統計局) |
| "Non-PRC Resident Enterprise" | as defined under the EIT Law, companies established pursuant to non-PRC law with their de facto management conducted outside the PRC, but which have established organizations or premises in the PRC, or which have generated income within the PRC without having established organizations or premises in the PRC |
| "NPC" | National People's Congress of the PRC (中華人民共和國全國人民代表大會) |

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| "Offer Price" | the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%) at which the Hong Kong Offer Shares are to be subscribed, to be confirmed in the manner further described in the section headed "Structure of the Global Offering" in this Prospectus |
| "Offer Share(s)" | the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option |
| "Over-allotment Option" | the option expected to be granted by our Company to the International Underwriters exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) under the International Underwriting Agreement pursuant to which our Company may be required by the Joint Global Coordinators to issue and allot up to an aggregate of 25,000,000 additional H Shares at the Offer Price as described in the section headed "Structure of the Global Offering" in this Prospectus |
| "PBOC" | the People's Bank of China (中國人民銀行) |
| "PRC Company Law" or "Companies Law" | Company Law in the PRC (中華人民共和國公司法), which was adopted by the Standing Committee of the National People's Congress on October 27, 2005 and amended on December 28, 2013 and became effective on March 1, 2014 |
| "PRC GAAP" | generally accepted accounting principles in the PRC |
| "PRC Government" or "State" | the government of the PRC, including government departments at all levels (including provincial, municipal and other regional or local governmental agencies) |
| "PRC Securities Law" | the Securities Law of the PRC (中華人民共和國證券法), which was enacted by the Standing Committee of the National People's Congress on October 27, 2005 and amended and became effective on June 29, 2013 |

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| "Price Determination Date" | the date, expected to be on or around June 30, 2014 but no later than July 7, 2014, on which the Offer Price is to be fixed for the purposes of the Global Offering |
| "Prospectus" | this prospectus being issued in connection with the Hong Kong Public Offering |
| "Qualified Institutional Buyers" or "QIBs" | qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act |
| "Regulation S" | Regulation S under the US Securities Act, as amended from time to time |
| "Reorganization" | the reorganization undergone by our Group in preparation for Listing as described in the section headed "Our History, Reorganization and Corporate Structure – Reorganization" in this Prospectus |
| "RMB" or "Renminbi" | the lawful currency of the PRC |
| "Rong Feng Tai" | Beijing Rong Feng Tai Management and Consulting Company Limited (北京融豐泰管理諮詢有限公司), a company established on June 11, 2007 in the PRC and one of the Controlling Shareholders of the Company |
| "SAFE" | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| "SAIC" | State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) |
| "SAT" or "State Administration of Taxation" | State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Shareholder(s)" | holder(s) of our Share(s) |

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| "Share(s)" | share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, including our Domestic Shares and H Shares |
| "SINO" | Beijing SINO Market Research Ltd., a market research consulting firm headquartered in Beijing, an independent third party |
| "SINO Report" | a report prepared by SINO, on the mobile phone industry in general, which was commissioned by us |
| "Special Regulations" | Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) |
| "Stabilizing Manager" | Citigroup Global Markets Asia Limited |
| "State Council" | State Council of the PRC (中華人民共和國國務院) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited (香港聯合交易所有限公司) |
| "Subsidiary(ies)" | has the meaning ascribed thereto under the Listing Rules |
| "Substantial Shareholder(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Supervisor(s)" | one (or all) of our Company's supervisors |
| "Supervisory Board" | the supervisory board of our Company |
| "Track Record Period" | the three years ended December 31, 2011, 2012 and 2013 |
| "Underwriters" | the Hong Kong Underwriters and the International Underwriters |
| "Underwriting Agreements" | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| "United States" or "US" | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| "United States dollars" or "US dollars" or "US$" | United States dollars, the lawful currency of the United States |

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| "Unlisted Foreign-invested Shares" | unlisted ordinary shares of our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up by the financial investors in RMB |
| "US Securities Act" | the US Securities Act of 1933, as amended, and the rules and regulations promulgated under it |
| "**White Form eIPO**" | the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **White Form eIPO** at **www.eipo.com.hk** |
| "**White Form eIPO** Service Provider" | Computershare Hong Kong Investor Services Limited |
| "3i" | 3i Infocomm Limited, a company established on May 2, 2007 in Hong Kong and one of the Substantial Shareholders of the Company |

In this Prospectus:

- The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translation and/or transliteration of their Chinese names and are included for identification purposes only. In the event of inconsistency between the Chinese names and their English translations and/or transliterations, the Chinese names shall prevail.

***The glossary contains certain definitions of technical terms used in this Prospectus as they relate to us. Some of these definitions may not correspond to standard industry definitions.***

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|---|---|
| ERP system | enterprise resource planning system |
| EVDO | a telecommunications standard for the wireless transmission of data through radio signals, typically for broadband Internet access. It uses multiplexing techniques including code division multiple access (CDMA) as well as time division multiplexing (TDM) to maximize both individual users' throughput and the overall system throughput. |
| FDD-LTE | Frequency-Division Long Term Evolution, a standard for wireless communication of high-speed data for mobile phones and data terminals. |
| iOS | previously iPhone OS, a mobile operating system developed and distributed by Apple Inc. |
| MVNO | mobile virtual network operator, a wireless telecommunications services provider that does not own the wireless network infrastructure over which the MVNO provides services to its customers. |
| O2O | a business mode or strategy that improves a retailer's service offerings and user experience through online-to-offline or offline-to-online user engagement, cross-selling and marketing. A retailer's online-to-offline strategy can enhance user stickiness by offering a user experience which integrates the traditional brick-and-mortar experience with online engagement. Offline-to-online strategy can increase the total addressable market by serving non-Internet-connected customers through traditional brick-and-mortar retail outlets while migrating their user experience and behavior to include online engagement over time. |
| OEM | Original Equipment Manufacturer, manufacturer of products or components that are purchased by a company and retailed under that purchasing company's brand name. |
| store-in-store outlet(s) | store-in-store outlets include both store-in-store (店中店) outlets and sales counters. |

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| TD-SCDMA | Time Division Synchronous Code Division Multiple Access, an air interface found in the Universal Mobile Telecommunications System (UMTS) mobile telecommunications networks in China as an alternative to WCDMA. |
| TDD-LTE | Time-Division Duplexing Long-Term Evolution, a 4G mobile telecommunications technology and standard co-developed since late 2007 by Datang Telecom, China Mobile, Huawei, ZTE, Nokia Siemens Networks, Alcatel Shanghai Bell, Qualcomm, ST-Ericsson, Leadcore, etc. |
| WCDMA | Wideband Code Division Multiple Access, an air interface standard found in 3G mobile telecommunications networks. |
| 3G | the third generation of mobile telecommunications technology support services that provide an information transfer rate of at least 200 kilobit per second. |
| 4G | the fourth generation of mobile telecommunications technology standards, a successor to the 3G standards. |

This Prospectus contains certain statements that are, or may be deemed to be, "forward-looking statements." These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believe(s)", "aim(s)", "estimate(s)", "plan(s)", "project(s)", "anticipate(s)", "expect(s)", "intend(s)", "may", "seek(s)", "can", "could", "ought to", "potential", "will" or "should" or similar expressions, or, in each case, their negative or other variations, or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. In particular, references to "*estimate*(s)" only refer to the situations whereby best estimation was adopted by the management. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding our intentions, beliefs or current expectations concerning, among other things, our business, results of operations, financial position, liquidity, prospects, growth, strategies and the industries and markets in which we operate or may operate in the future.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance or the actual results of our operations, financial position and liquidity. The development of the markets and the industries in which we operate may differ materially from the description or implication suggested by the forward-looking statements contained in this Prospectus. In addition, even if our results of operations, financial position and liquidity as well as the development of the markets and the industries in which we operate are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- adverse changes or developments in the industries in which we operate;
- our operation and business prospect;
- our ability to maintain and enhance our market position;
- the effects of domestic and overseas competition in the industries or markets we operate and its potential impact on our business;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the PRC;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC Government to manage economic growth;
- fluctuations in inflation, interest rates and exchange rates;

- changes in the availability of, or new requirements for financing;
- material changes in the costs of the equipment required for our operations;
- our ability to successfully implement any of our business strategies, plans, objectives and goals;
- our ability to expand and manage our business and to introduce new services;
- our ability to obtain or extend the terms of the licenses necessary for the operation of our business;
- changes in restrictions on foreign currency convertibility and remittance aboard;
- changes to our expansion plans and estimated capital expenditure;
- our dividend policy;
- our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors; and
- other factors discussed in sections headed “Summary”, “Risk Factors”, “Future Plans and Use of Proceeds”, “Industry Overview”, “Business” and certain statements in the section headed “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this Prospectus reflect our management’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. Investors should specifically consider the factors identified in this Prospectus, which could cause actual results to differ, before making any investment decision. Subject to the requirements of the Listing Rules and except as may be required by applicable law, we undertake no obligation to revise any forward-looking statements that appear in this Prospectus to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this Prospectus. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.

***An investment in our H Shares involves significant risks. You should carefully consider all the information in this Prospectus, including the risks and uncertainties described below before you decide to buy our H Shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be materially and adversely affected, the trading price of our H Shares could decline and you could lose all or part of your investment. You should note that we are a PRC company governed by a legal and regulatory environment that may differ significantly from that of other jurisdictions. For more information concerning the PRC and certain related matters discussed below, see "Regulatory Overview", "Appendix IV – Summary of Principal Legal and Regulatory Provisions", and "Appendix V – Summary of the Articles of Association of our Company."***

## RISKS RELATING TO OUR BUSINESS

**If we cannot effectively manage the growth and expansion of our operations, our business and growth prospects may be adversely affected.**

We have experienced rapid growth and expansion, which places a strain on our management personnel, systems and resources. To accommodate our continued growth, we may need to implement new and upgraded operational and financial systems, procedures and controls, which will require substantial efforts by management and others. We will not only need to expand, train, manage and motivate our workforce, and manage relationships with new and existing customers, but will also need to effectively control and manage our costs in our expanded network, in particular, expenses related to rent, logistics, human resources and marketing. In addition, as we introduce new services or enter into new markets, we may face additional market, technological and operational risks and challenges. As a result of any of these risks, our business, financial condition and results of operations could be materially and adversely affected.

Our strategies include improving our O2O platform and developing our mobile Internet service platform, extending our retail and distribution network to other geographical locations, and expanding the range of smart solutions we offer. See "Business – Our Strategies." However, these initiatives require us to commit substantial capital resources, and we may be unable to compete effectively in new business areas. Furthermore, our competitors may possess greater resources and operating experience, and our plans may be subject to economic, political and legal risks, including obtaining relevant regulatory approvals. Failure to achieve expected results in the new geographical locations and new business areas may have a material and adverse effect on our business, financial condition and results of operations.

**Our business depends on our ability to continue to work effectively with the mobile carriers. If we fail to maintain our strategic partnership with the mobile carriers, our business, financial condition and results of operations may be materially and adversely affected.**

The success of our retail business and our growth depend, to a significant extent, on our ability to continue to cooperate with each of China's three mobile carriers, namely China Mobile, China Unicom and China Telecom. We have strategic partnerships with them to develop customer base, procure and sell their pre-formatted mobile devices, establish retail outlets with them and serve as their supply and distribution channels. We generate revenue from commissions through selling contracted call service subscriptions and pre-paid SIM cards for the mobile carriers, and from placements of our staff to the outlets that are established by the mobile carriers and operated by us. See "Business – Our Business – Cooperation with China's Mobile Carriers." For the years ended December 31, 2011, 2012 and 2013, our gross profit from service income from the mobile carriers was RMB214.4 million, RMB275.5 million and RMB420.1 million, respectively, accounting for 17.6%, 18.8% and 24.2% of our total gross profit, respectively. If we were unable to continue our collaboration with any of the mobile carriers or if the terms or scope of collaboration became less favourable to us, our revenue generated from them could be significantly reduced.

We cannot assure you that we will be able to maintain our cooperation with each of the mobile carriers. For instance, if we experience any material disagreement with a mobile carrier in negotiating the terms of our contracts to operate retail outlets, or if we fail to comply with the terms of our contracts with them, our relationship with such mobile carrier may be adversely affected. We may, from time to time, have disagreements over the commissions or other fees to be paid by the mobile carriers. In addition, if any mobile carrier terminates its relationship with us, or decides not to cooperate with us in establishing and/or operating a sales counter or outlet, we cannot assure you that we will be able to secure an alternative arrangement with another carrier in a timely manner, or at all. Any failure or undue delay by any of the mobile carriers to comply with the terms of any of the collaboration, or its unwillingness to cooperate with us for any reason, may also have a material and adverse impact on our business operations.

In addition, we collaborate with the mobile carriers to distribute mobile devices of other international and local brands designated by the mobile carriers. If we experience any material disagreement with a mobile carrier, our relationship with such mobile carrier may be adversely affected. Such mobile carrier may cease to engage us to distribute mobile phone products or may limit the range of products for our distribution, which could materially and adversely affect our business, financial condition and results of operations.

**The loss or reduction of commissions, subsidies and rebates payable to us by mobile carriers or other suppliers may cause our gross profit to decline.**

Certain of our suppliers, including mobile carriers, mobile phone manufacturers, and wholesale distributors, provide favorable purchasing terms to us through various commissions, subsidies and rebates. For example, we receive commissions from China's mobile carriers for selling pre-paid SIM cards and new call service subscriptions, and we receive subsidies from them for rental, renovation and salaries of sales personnel under certain circumstances. See "Business – Our Business – Cooperation with China's Mobile Carriers." We also receive rebates from mobile phone manufacturers when we purchase their products over a predetermined quantity. These commissions, subsidies and rebates help reduce our costs in distributing or selling mobile telecommunications products and providing services and increase our revenues. If our suppliers cease to provide, do not provide in a timely manner, or decrease the amount of such commissions, subsidies and rebates, or if we are unable to negotiate favorable commission, subsidy or rebate terms with our suppliers in the future, our gross profit may decline and our business, financial condition and results of operations may be materially and adversely affected.

**We may not be able to find suitable locations for new retail outlets on commercially acceptable terms, if at all, or successfully control the rent of existing retail outlets.**

Our performance depends, to a significant extent, on the location of our retail outlets. When selecting a site for a retail outlet, we take into account various factors, including market size, household income levels, customer spending preferences and competition in the relevant region. We secure locations primarily through long-term leases. Going forward, we will need to secure more locations to open new retail outlets. Our ability to acquire or lease suitable properties on terms acceptable to us is critical to the success of our expansion strategy. We cannot assure you that we will be able to identify and acquire or lease suitable properties on terms commercially acceptable to us. In the event that we encounter difficulties in securing suitable locations in regions that we plan to expand into, our growth prospects may be adversely affected.

As we operate almost all of our retail outlets on leased properties, we are exposed to the retail rental market. For the years ended December 31, 2011, 2012 and 2013, our rental expenses amounted to approximately RMB240.2 million, RMB297.4 million and RMB324.7 million, respectively, representing approximately 3.7%, 3.4% and 2.5% of our total revenue, respectively. In the past few years, the cost of securing locations in China has increased significantly overall. If the rent of the existing retail outlets continues to rise, and we cannot successfully pass such increased cost to our customers, our business, financial condition and results of operations may be materially and adversely affected.

**We may fail to sustain the same level of retail outlet sales and new retail outlets may fail to break even within our projected time frames.**

The success of our retail business depends on a number of factors, such as our ability to introduce products which respond effectively to local consumer preferences, the success of our marketing efforts, and our ability to compete with other retailers and distributors of mobile telecommunications products. In addition, whether our existing retail outlets will be able to sustain or continue to increase our sales and profitability is subject to a number of factors that are outside of our control, including local GDP and consumer spending power and spending preferences, the pedestrian flow in the area where our retail outlets are located and the competition that we encounter. We are constantly reviewing our performance data, both by retail outlet and by region.

One of our strategies is to continue to expand our retail and distribution network to other geographic locations in the PRC. Our expansion strategies are intended to benefit our growth in the long term. However, it takes time for new retail outlets to break even or reach the same level of sales in terms of sales volume and profitability as comparable mature retail outlets. Should the new retail outlets experience prolonged delays in breaking even or achieving our desired level of profitability, our overall profitability may be affected.

**We may not be able to manage our franchisees and their operations effectively, which may materially and adversely affect our business and results of operations.**

In addition to independently operated outlets, we also have a nationwide network of franchised outlets, whereby third parties operate outlets under our brand pursuant to franchise agreements with us. As of April 30, 2014, we had 556 franchised outlets in 20 provinces and three municipal cities. We typically identify local mobile device and accessory franchisees within a region to gain immediate entry into the market and enter into franchise agreements with them. See "Business – Our Business – Sales of mobile telecommunications devices and accessories – Our franchise business." For the years ended December 31, 2011, 2012 and 2013, revenue contributed by sales to our franchisees was RMB1,061.9 million, RMB1,340.3 million and RMB1,976.8 million, representing 16.3%, 15.2% and 15.4% of our total revenue, respectively. The terms of our franchise agreements stipulate various areas of the operations of the local retail franchisees and aim to provide a consistent shopping experience and customer services across all our franchised retail outlets. At the same time, our franchisees have a certain degree of autonomy to use their local knowledge and experience to develop business. While our franchisees source some of their products from us and are required to adhere to various terms of our franchise agreements, they are ultimately responsible for the end customers' shopping experience.

We may not be able to select well-qualified franchisees or provide them and their staff with sufficient guidance to operate their business, which may lead to situations that may materially and adversely affect our business and results of operations, including but not limited to the following:

- instances of negligence or non-compliance on the part of our franchisees or improper use of our name and brand, with possible damages to our brand image;
- damages to our reputation resulting from products sold or services provided by our franchisees that are not sourced from us;
- failure by our franchisees to maintain sufficient financial strength or to inject sufficient capital to effectively operate the franchised outlets;
- failure by some of our franchisees to comply with our credit policies and make payment on time; and
- franchisees engaging in business activities in violation of non-compete provisions or revealing our commercial secrets to rival businesses.

We cannot assure you that our franchisees will not make decisions or take actions that are not in our best interests, thereby harming our business and causing diversion of management resources or litigation exposure to third parties. They may choose not to renew the franchise agreements upon expiration. We may not have effective control over these franchisees as they are not part of our Group and their staff are not our employees. Not all of our franchisees are required to adopt our ERP system and any failure in the implementation of such system or failure on the part of other franchisees to manage and report inventory levels effectively would result in difficulties in managing our inventory which may harm our business. Furthermore, we may not be able to capitalize on the growth opportunities in certain markets if we rely on any of our franchisees to enter into or expand in these markets and if such franchisees fail to perform as expected.

**We experienced negative net operating cash flow during the Track Record Period and may not be able to generate sufficient cash from our operations or obtain adequate financing to fund our operations and capital requirements.**

For the years ended December 31, 2012 and 2013, we recorded negative net cash flow from operating activities of approximately RMB79.3 million and RMB15.3 million, respectively. Our negative net operating cash flow was principally attributable to increases in our inventories and purchases of mobile telecommunications devices and accessories, as well as increases in our trade and bills receivables driven by our sales growth. See "Financial Information – Liquidity and Capital Resources – Cash Flows." During the Track Record Period, we funded our capital expenditure with cash generated from our operations and bank borrowings. We cannot assure you that we will not continue to experience negative net operating cash flow in the future. Negative net operating cash flow requires us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we will be in default of our payment obligations and may not be able to generate sufficient funding to finance our working capital and capital expenditure requirements and to develop our business as planned. As a result, our business, financial condition and results of operations may be materially and adversely affected.

**Our overall gross profit margin decreased during the Track Record Period and any further decrease in gross profit margin may have a negative impact on our business, financial condition and results of operations.**

Our gross profit increased from RMB1,215.9 million in 2011 to RMB1,463.0 million in 2012, and further to RMB1,738.0 million in 2013. However, our overall gross profit margin decreased from 18.7% in 2011 to 16.6% in 2012 and further to 13.6% in 2013. The decrease in our overall profit margin during the Track Record Period was primarily due to the decrease in gross profit margin from sales of mobile telecommunications devices and accessories. The decrease was primarily due to the increase in the purchasing costs of smart mobile phones and 3G mobile phones outpacing the increase in their selling prices, while the proportion of these mobile phones in our sales was steadily increasing during the period. See "Financial Information – Certain Income Statement Items – Gross Profit and Gross Profit Margin." We cannot assure you that our gross profit will not continue to decrease for the above-mentioned reason or any other reasons. Any further decrease in our gross profit margin may materially and adversely affect our business, financial condition and results of operations.

**We generate part of our revenue from sales via third-party Internet-based platforms. If we fail to maintain our relationships with these Internet-based platforms, our business, financial condition and results of operations may be materially and adversely affected.**

We generate part of our revenue from sales via third-party Internet-based sales platforms, such as Tmall, Amazon.cn and Yhd.com. We enter into cooperation agreements with third-party Internet-based platforms. See "Business – Our Business – Our retail and distribution network – Our retail network – Online stores and other evolving retail channels." If our relationship with any of these third-party Internet-based platforms deteriorates, they may terminate or significantly reduce the scope of cooperation with us, which could significantly reduce our sales volumes through such platforms and, consequently, lower our revenue generated from such platforms. In addition, if any of these Internet-based platforms fail to attract a significant amount of consumers, or fail to perform due to technical difficulties, our sales on such platforms could be materially and adversely affected.

**Our ability to meet demand for the products we sell or distribute depends on our ability to maintain an optimal level of inventory.**

We believe that maintaining an optimal level of inventory is critical to our business. We generally maintain approximately 30 to 60 days of inventory supplies for our retail and wholesale business. We may not be able to maintain an optimal level of inventory to control inventory carrying costs and more efficiently deploy working capital. In addition, we may not be able to maintain the quality and variety of products available to our customers and we may not be able to adopt new inventory policies in time to match the demands of our customers. If we over-stock inventory, we may have to sell the over-stocked products at a discount and the working capital required to maintain our operations will increase and we may incur additional financing costs. If we under-stock inventory, we may not be able to generate sales that we otherwise would have generated had the products been available.

**We cooperate with a few large suppliers for our business and such suppliers can unilaterally terminate their relationship with us, which could jeopardize our ability to deliver products to customers and result in cancellation of orders and loss of revenue and market share.**

For the years ended December 31, 2011, 2012 and 2013, purchases from our five largest suppliers accounted for approximately 56.4%, 59.8% and 51.0% of our total products purchases, respectively, and purchase from our single largest supplier accounted for approximately 22.3%, 21.2% and 20.9% of our total products purchases, respectively. We adjust the product mix which we purchase from our suppliers according to changing customer needs and market shares. However, as a result of our concentration of purchases from these large suppliers, our retail and wholesale distribution business is depending on our principal suppliers to provide adequate inventories of mobile phone products in a timely manner and with favorable pricing and other terms.

Some of our purchase agreements with mobile phone manufacturers, mobile carriers and other suppliers have a term of one year and may be renewed by either party. Our suppliers may not renew their contracts with us or they may, in breach of contract, fail to provide us with the quantities or models of products that we order. Furthermore, these suppliers may refuse to continue to provide products to us on favorable or commercially reasonable terms. If any of the following occurs and we cannot procure alternative source of products in time, we may not be able to deliver products to customers in a timely manner, if at all, resulting in order cancellations, loss of revenues and/or loss of market share, which may have a material adverse effect on our business, financial condition and results of operations:

- downturn in our large suppliers' business prospects and/or financial results;
- loss of any of our large suppliers;
- failure to develop new suppliers or obtain favorable or reasonable pricing and other terms;
- inability of our suppliers to satisfy our inventory needs or provide products that appeal to our customers.

**The loss or reduction in orders from our large customers or a reduction in the pricing of the products that we sell or distribute may cause our revenue to decline and impair our cash flows.**

For the years ended December 31, 2011, 2012 and 2013, sales to our five largest customers accounted for approximately 13.9%, 11.1% and 14.2% of our total revenue, respectively, and sales to our single largest customer accounted for 6.0%, 5.2% and 3.7% of our total revenue, respectively. Many of our customers have experienced severe price competition and may seek to obtain products or services from us at lower prices than that in the past. The loss of any of our principal customers, a reduction in the amount of our customer orders, or our inability to maintain current terms with such customers could cause our revenues to decline and impair our cash flows. We have entered into contracts with one-year terms with a certain number of our largest customers. However, there is no assurance that these contracts will be renewed upon expiration and these customers will continue to purchase products or services from us, or that their purchases will be at the same or greater levels than those in previous periods.

**Future acquisitions, joint ventures and alliances may expose us to new risks or fail to perform as expected.**

One of the key components of our strategy is to expand our retail and distribution network both organically and through selective acquisitions. We may grow through acquisitions, joint ventures and other strategic alliances on a selective basis, particularly with respect to our retail operations. Any future acquisitions, joint ventures and strategic alliances may expose us to operational, regulatory and market risks, as well as risks associated with additional capital requirements. We may not be able to identify suitable acquisition candidates or alliance partners, or complete an acquisition or alliance on commercially acceptable terms in the future. If we fail to identify appropriate candidates or complete desired acquisitions, we may not be able to implement our growth strategies effectively.

In addition, our ability to realize the expected benefits from acquisitions may depend on our ability to retain the employees, efficiently integrate the operations, understand the factors contributing to the success of these retail chains and continue to adapt to local market dynamics. Our ability to successfully integrate the acquired companies and their operations may be adversely affected by a number of factors, including division of management's attention and difficulties in retaining customers of the acquired companies. Furthermore, the acquired companies might not perform as expected for a number of reasons, including legislative or regulatory changes or loss of key customers and personnel. We may also fail to identify potential issues or risks in our due diligence of the targets or address them properly prior to our acquisitions. If such risks materialize after the acquisitions are completed, we may suffer losses or be subject to liabilities. If we fail to realize the benefits envisioned from such acquisitions, joint ventures or strategic alliances, our overall profitability and growth plans may be hindered.

**Our revenue and profitability depend on the popularity of the products we sell or distribute, as well as customer preferences and spending patterns, which are outside of our control and extremely difficult to predict.**

Our revenue and profitability depend in part on the strength and reputation of the products that we carry. We cannot ensure the success of any of our mobile phone models, because the sales of such products depend on their market acceptance and desirability, which are extremely difficult to predict. In our retail and wholesale distribution business, most of the products that we sell are designed and produced by the mobile phone manufacturers, over which we have limited or no control. The success of our operations also depends in part on the manufacturers' marketing abilities, our own ability to select new models from our suppliers to gain customer acceptance, and our ability to make available sufficient quantities of attractive and popular products to satisfy customer demand. In particular, the performance of our retail outlets is sensitive to local customer spending preferences. Customers in different geographical locations of the PRC have different shopping patterns and tastes. If we or the manufacturers whose products we sell are unable to respond promptly to changing customer demands, demand for our products may decrease and our sales may be materially and adversely affected. Conversely, if we or the manufacturers fail to anticipate increased customer demand for certain models of our products, we may experience inventory shortages, which would result in sales loss and adversely impact our revenues and profitability.

**We collect, process, store and use personal information and data from our end-user customers, which subjects us to governmental regulations and other legal obligations related to privacy, and our actual or perceived failure to comply with such obligations could harm our business and reputation.**

We collect, process and store personal information and data from our end-user customers, such as their mobile phone numbers, purchase price of their mobile phones and accessories and their physical locations. We use such information and data primarily to enhance their shopping experience or to promote our or our business partners' products and services. There are laws and regulations regarding privacy and the storing, processing, use and protection of personal information and data that are applicable to us. See the section headed "Regulatory Overview." Any actual or perceived failure by us to comply with our privacy policies or legal obligations, or any compromise of security that results in the unauthorized release or usage of such personal information and data, may result in governmental enforcement actions, litigations or public outcries against us, which could have a material adverse effect on our business, reputation and results of operations. In addition, if any third party working with us abuses such personal information or data or violates applicable laws and regulations, it may put our end customers' personal information or data at risk and in turn may have a material and adverse effect on our business.

**We were involved in certain incidents of non-compliance with applicable PRC laws and regulations.**

During the Track Record Period and the subsequent period to Listing, we were involved in certain incidents of non-compliance with applicable PRC laws and regulations, including rules regulating the operation of our former mobile phone software program, Dphone Market (迪風市場), and the establishment of some of our subsidiaries and standalone outlets. See "Business – Legal and Administrative Proceedings and Compliance – Compliance" and "Our History, Reorganization and Corporate Structure – Reorganization."

As of the Latest Practicable Date, we were not fined or sanctioned by any regulatory authorities for these incidents of non-compliance. With the assistance of our internal control consultant, HLB, we have adopted a series of internal control measures to prevent future non-compliance with applicable laws and regulations. See "Business – Legal and Administrative Proceedings and Compliance – Measures designed to prevent future non-compliance and improve corporate governance." However, we cannot assure you that the regulatory authorities will not impose any penalty and/or fine for these incidents after the Listing, or that compliance with the relevant laws and regulations will not become more onerous and, as a result, further internal control measures need to be taken. Any such penalties and/or fines as well as additional internal control measures that may need to be taken could adversely affect our business, reputation, financial condition and results of operations.

**We conduct most of our business in leased properties and we face certain risks with respect to the properties we lease.**

We leased substantially all of our standalone outlets from third parties. We have also leased office premises and warehouses for our business operation. The terms of our existing leases generally range from three to five years. As these leases expire, we will need to negotiate the terms and conditions of renewal. For our existing 466 leased properties for our standalone outlets as of April 30, 2014, 81, 96 and 85 of the lease agreements will expire in 2014, 2015 and 2016, respectively, and 167 of the lease agreements will expire in or after 2017. The remaining 37 lease agreements are without fixed expiration date. If we are unable to renew these leases or to renew them on favorable terms and conditions, we may have to pay increased rent or relocate, which may result in additional costs and disruption to our business.

We also face certain risks with respect to certain properties we lease, for which our lessors have not provided us with relevant ownership certificates or necessary consents from the relevant owners to sublease the properties. As of April 30, 2014, we had not received copies of ownership certificates or the necessary consents to sublease for 110 out of our 524 leased properties, with an aggregate GFA of approximately 22,198.6 square meters, which accounted for approximately 14.1% of our total leased properties. The leased properties that we had not received copies of ownership certificates may be subject to challenges to the title or any mortgage of the leased properties. If our landlords are not authorized by the actual owners to lease the properties to us, the lease of the relevant properties could be potentially invalidated and we may need to relocate our operations at such locations or renegotiate the lease on terms less favorable to us.

**We depend on technology and computer systems for the timely and successful management of our supply chain and sales, development of our wholesale distribution network and support of our retail division, the failure of which may harm our business.**

The supply chain management, wholesale distribution network, sales management and retail functions on which our business depends are technology intensive. We rely significantly on our ability to acquire, develop and adopt new technologies to support our operations and differentiate our products and services from those of our competitors. In addition, new technologies affect the time and manner in which we deliver these products to our customers, our ability to maintain and streamline our sales function and support our retail division.

We depend on a large number of software applications and computers to develop our retail and wholesale distribution networks, manage sales relationships, and track and manage inventory. Any error, defect or failure in our software, hardware or backup facilities could delay product delivery and result in the unavailability of key inventory and sales information, all of which may harm our business.

**If we fail to obtain or maintain all required licenses, permits and approvals, our business may be materially and adversely affected.**

Our business operations are subject to a significant number of licenses, permits, filings, registrations and approvals in the PRC, such as those relating to foreign investment, commercial franchise activities, online sales, taxation, foreign exchange and social insurance. See "Business – Licenses, Permits and Approvals." Our ability to continue to operate our existing business and to successfully implement our expansion strategies into new businesses depends on our obtaining, maintaining and renewing, where necessary, the relevant regulatory approvals under PRC laws. If we are unsuccessful in obtaining or renewing such approvals, we may be prohibited from continuing our operations, and we may have to expend considerable time and costs in order to sustain our business.

**We may be required to relocate our store-in-store outlets to other locations with lower customer traffic within the supermarkets or other premises if our store-in-store outlets do not reach sales target.**

As of April 30, 2014, we operated 518 store-in-store outlets in third-party premises including supermarket chains, shopping centers and department stores, such as Carrefour, Wal-Mart and Vanguard. The premises providers receive from us either a portion of our sales proceeds generated from the relevant store-in-store outlets as rent or a fixed amount of rent. See "Business – Our Business – Our retail and distribution network – Our retail network – Independently operated outlets – Store-in-store outlets." We usually agree to meet certain revenue-related sales targets or volume and/or profit margin targets. If we fail to meet the relevant sales targets, we may have to make certain deficiency payment to the premises providers, change the products displayed or even relocate our store-in-store outlets within the supermarkets or other premises to locations with lower customer traffic, which may materially and adversely affect our business, financial condition and results of operations.

**Our operating results are subject to seasonal fluctuations in purchasing patterns.**

Our operating results remain subject to a number of seasonal factors in the markets in which we operate. These factors may cause our revenue and operating results to fluctuate on a quarterly basis. These fluctuations are a result of several factors, including, but not limited to:

- the timing of public holidays and other events affecting consumer demand;
- the timing of the introduction of new products by our suppliers and competitors;
- product availability and pricing;
- promotions and subsidies by mobile phone suppliers; and
- spending patterns of customers in different local markets.

Consumer electronics and retail sales in many geographic markets tend to be seasonal, resulting in uneven sales volumes for us. Our operating results may continue to fluctuate significantly from quarter to quarter in the future. If unanticipated events occur, including delays in securing adequate inventories of competitive products at times of peak sales or the existence of surplus inventory upon the occurrence of a significant drop in demand during these periods, our operating results could be harmed. As a result of these seasonal factors, our interim results may not be indicative of our annual results or comparable to our results in previous periods. If our operating results in one or more periods do not meet market expectations, the price of our Shares could be materially and adversely affected.

**Our finance costs on bank borrowings may increase in the future after the release of Controlling Shareholders' guarantees for our bank borrowings.**

During the Track Record Period, we entered into various short-term credit facility agreements with commercial banks to finance our business operations and expansion, and we were usually required by the banks to obtain guarantees for the performance of our contractual obligations from our Controlling Shareholders. As of December 31, 2011, 2012 and 2013, our bank borrowings with Controlling Shareholders' guarantees were in the amount of RMB626.0 million, RMB1,100.3 million and RMB1,427.8 million, respectively. As of April 30, 2014, we had short-term bank borrowings of approximately RMB1,794.9 million, approximately 76.7% of which were guaranteed by our Controlling Shareholders. We have released the Controlling Shareholders' guarantees for all of our outstanding bank borrowings as of the date of the Prospectus. For more information about guarantees provided by our Controlling Shareholders, see "Relationship with our Controlling Shareholders – Independence from our Controlling Shareholders – Financial Independence." Our finance costs may increase in the future after the release of guarantees for our bank borrowings from our Controlling Shareholders, as we may need to incur additional costs to obtain guarantees from third parties. Any such increase in our finance costs may have a material adverse effect on our financial condition and results of operations.

**Our business may be affected by quality controls of third-party manufacturers.**

As a retailer and wholesale distributor, we do not directly monitor the quality, design or control procedures of our suppliers. We cannot guarantee the quality of the products provided by our suppliers. We rely entirely on the manufacturers' quality control procedures and standards to ensure the quality of the products that we sell. The products could be defective or damaged during transportation from our suppliers to us and we may reject, return or replace such defective or damaged products. We may experience delays in the provision of technical support to defective products in the future. If any products that we sell or distribute have defects or safety or performance problems, our reputation and ability to sell or distribute other products to customers could suffer and we may be subject to product liability claims arising from such defects or problems. We may also cease our business relation with any supplier who provides us with defective products, which may affect our ability to provide certain products or cause disputes with such supplier. All these may adversely affect our business, financial condition and results of operations.

**We may be subject to product liability claims for products we sell.**

Generally under the terms of our agreements with the suppliers, the manufacturers or suppliers are obligated to repair, accept return of or replace defective products. However, under current PRC laws, we, as the retailers and wholesale distributors, may be liable for damages caused by defective products as well as the manufacturers. The end users may choose to sue us in addition to suing the product manufacturer when a claim arises. As a result, we may spend significant time, money and resources to defend or settle any product liability claims. PRC laws do not require retailers in China to maintain, and we do not maintain product liability insurance. Therefore, if we were found liable, we would be responsible for damages arising from such product liability claims and would not be able to obtain any refund under any insurance policy. In addition, our reputation may be materially and adversely affected and we may consequently lose market share even if we can successfully defend against or settle such claims. Furthermore, we may need to stop selling products that result in product liability claims, which could adversely affect the range of mobile phone products that we offer and the size of our customer base.

**We outsource a majority of our logistics needs to third parties. Failure of these third parties to fulfill their responsibilities may prevent us from fulfilling obligations to our customers and adversely affect our ability to maintain or promote our brand and may limit our future success.**

We believe that our customers' recognition of and familiarity with our reputation and brand are important to our business, and our reputation depends on the goodwill associated with our brand. We outsource a majority of our logistics needs to third parties, which are responsible for delivering products. Disruption to the delivery of products to our warehouses or retail outlets by these third-party providers may occur for reasons such as poor handling, transportation bottlenecks, or labor strikes, which could lead to delayed or lost deliveries or damaged products. As a result, we may not be able to fulfill our obligations to our customers in a timely manner or at all and our brand image and reputation may suffer. This could lead to the erosion of our relationships with potential and existing customers, and our business, financial condition, results of operations and our growth prospects may be materially and adversely affected.

**We grant credit periods to certain of our wholesale customers, which could expose us to credit risks and lead to difficulty in the collection of our accounts receivables.**

For our wholesale distribution business, we grant some of our wholesale customers certain credit periods ranging from 30 to 90 days, which may subject us to credit risks, particularly to the extent that receivables represent sales to a limited number of customers or are concentrated in certain geographic markets. The collection of accounts receivables and our ability to accelerate the collection cycle of accounts receivables may be affected by several factors, including:

- our credit policies;
- the terms of the contracts by which we grant credit periods to our wholesale customers;

- credit worthiness of our wholesale customers;
- industry and economic conditions;
- the ability of our wholesale customers to provide security, collateral or guarantees for credit extended by us; and
- our operating results, financial position and cash flows and those of our wholesale customers.

Adverse aspects of or changes to any of these factors, many of which are not in our control, could create delays in collection or an inability to collect accounts receivable, which could impair our cash flows and financial position and adversely affect our results of operations. The credit periods we grant to our wholesale customers are normally based on the credit worthiness of the customer and the size of the customer's order. However, we operate in a competitive environment and may be required to provide more preferential terms to certain customers, which may place further strain on our cash flows.

Our wholesale customers are subject to market and business risks and other risks. We cannot be certain that our reserve for credit losses will be adequate to cover credit losses in our portfolio because of unanticipated adverse changes in the economy or events adversely affecting specific customers, industries or markets. If the overall credit quality of our wholesale customer base materially decreases as a result of economic conditions or if our reserves for credit losses are not adequate, our business, financial condition and results of operations may suffer.

**Major remodeling or renovations of our existing retail outlets may affect our business, financial condition and results of operations.**

We renovate and remodel our retail outlets from time to time in order to improve their functionality and enhance our customers' shopping experience, or at the request of our mobile phone suppliers. Any major remodeling or renovation to the retail space of our existing retail outlet may disrupt our business and cause loss of turnover during such remodeling or renovation. In addition, it may require significant time to recreate the optimal product mix and generate the same level of customer traffic at a store after remodeling or renovation. If we are unable to complete such remodeling or renovation in a timely manner or if we fail to enhance our customer traffic following such remodeling or renovation, our business, financial condition and results of operations may be materially and adversely affected.

**We have no business insurance coverage in China.**

Insurance companies in China offer limited business insurance products. As a result, we do not have any business interruption insurance, business liability insurance, key-man insurance or insurance covering potential environmental damage claims. Any disruption to our business, litigation or natural disaster might cause us to incur substantial costs or divert our resources. In addition, we do not have insurance with respect to certain risks, including product liability insurance. As a result, any product liability or other claims may materially and adversely affect our business, financial condition and results of operations.

**If we cannot successfully control our staff costs, our business, financial condition and results of operations may be materially and adversely affected.**

For the years ended December 31, 2011, 2012 and 2013, our total staff costs, consisting of staff salaries and compensation, amounted to approximately RMB312.2 million, RMB379.0 million and RMB466.0 million, representing approximately 4.8%, 4.3% and 3.6% of our total revenue, respectively. In the past few years, the labor costs in China have increased significantly overall. We expect our staff costs, including those of our sales and marketing staff and administrative staff, to increase in the future due to factors beyond our control, including rates of inflation, minimum wages and laws relating to employee salaries and benefits. If our staff costs continue to rise, and if we fail to successfully pass such increased costs to our customers, our business, financial condition and results of operations would be materially and adversely affected.

**We have a short operating history in providing value-added services in addition to sales of telecommunications devices and accessories, which makes it difficult to evaluate the prospect and financial results of such new business.**

We offer value-added services that include mobile application packages, software and Internet service applications, the cloud platform, and other location based services, which offer entertainment and lifestyle services based on customers' geographical location. Our relatively short operating history in this business makes it difficult to evaluate the prospects and financial results of such new business. We face certain risks related to such new business, including failure to obtain regulatory approvals. If we are not able to meet the challenges of building and managing our value-added services business, we may face reduced growth, lower margins, additional operational costs and lower income in this business.

**If the value of our brand or image diminishes or if we fail to protect our brand and other intellectual property rights, our business and results of operations could be materially and adversely affected.**

Our brand is integral to our selling and marketing efforts. Our continued success in maintaining and enhancing our brand and image depends to a large extent on our ability to satisfy customer needs by further developing and maintaining the quality of products and services across our operations, as well as our ability to respond to competitive pressures. If we cannot satisfy customer needs or if our public image or reputation were otherwise diminished due to negative publicity associated with our products or services, our business transactions with our customers may decline, which could in turn adversely affect our results of operations.

In addition, any unauthorized use of our brand, trademarks and other intellectual property rights could harm our competitive advantages and business. During the Track Record Period, we found certain third-party mobile phone retail outlets using our D.Phone brand without our authorization. As the right to use Internet domain names is not rigorously regulated in China, if other companies incorporate in their domain names elements similar in writing or pronunciation to our trademarks, it may result in confusion between those companies and us and may lead to the dilution of our brand value, which could adversely affect our business. Historically, China's intellectual property rights enforcement has not been vigorous, and infringement of intellectual property rights continues to pose a serious risk to development of business in China. Monitoring and preventing unauthorized use is difficult. The measures we take to protect our intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving, and could pose substantial risks to us. If we cannot adequately protect our brand, trademarks and other intellectual property rights, we may lose these rights and our business may suffer materially.

We have imposed contractual obligations on employees and consultants and have taken other precautionary measures to maintain the confidentiality of our proprietary information and restrict the use of our proprietary information other than for our benefit. If our employees and consultants do not honor their contractual obligations and misappropriate our proprietary information, our business may suffer as a result.

**The mobile phones and accessories sold by us and the services provided by us may infringe third-party intellectual property rights.**

In the event that the mobile phones or accessories which we sell or the services that we provide infringe on third-party intellectual property rights, we, in our capacity as a retailer or wholesaler, may be found liable for the infringement and be compelled to discontinue the sale of offending products or the provision of offending services and/or pay damages or other fines. A legal dispute between different mobile phone manufacturers over their intellectual property rights may also have a negative impact on our sales. A court may grant an injunction barring one mobile phone manufacturer from selling its product which allegedly infringes on the other mobile phone manufacturer's intellectual property rights. As a result, we may not be able to continue to sell such product, which could materially and adversely affect our business and results of operations. We may not be able to obtain indemnification against such loss from the relevant mobile phone manufacturer.

**We may continue to be adversely affected by the global financial crisis and slowdown in China's economy.**

The recent global financial crisis has adversely affected the United States, and other major economies, including China. As the financial crisis broadened and intensified, the growth of China's economy has been negatively impacted. An extended downturn could adversely impact the retail sector and the market for the wholesale distribution of mobile telecommunications products in the PRC. Any persistent slowdown in China's economy or the recurrence of any financial disruptions could adversely affect our business and financial results.

A slowdown in China's economy, whether as a result of the global financial crisis or any other factors, could adversely impact consumer spending patterns. Recessionary economic cycles, inflation, deflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels and other economic factors that may affect consumer spending or buying habits in the PRC could adversely affect the demand for products we sell in our outlets or distributes to our retail customers and regional wholesale distributors. Our retail outlets and our wholesale customers could experience reduced traffic or limitations on the prices they may charge for our products, either of which could reduce sales and profit margins. In addition, the global financial crisis adversely affected the ability of our customers and suppliers to obtain financing for significant purchases and operations and resulted in a decrease in or cancellation of orders for the products we sell or distribute or limitations on the quantity of products supplied to us. Furthermore, these economic conditions make it difficult for us and our customers and suppliers to accurately forecast and plan future business activities, which could cause our customers to reduce spending on the products we distribute and sell, and thus may prolong our sales cycles. If the mobile telecommunications products market in China deteriorates due to these global economic conditions, our business, financial condition and results of operations may be materially and adversely affected.

**Our success depends substantially on our management and certain key employees, and our business may be severely disrupted if we lose their services.**

Our future success depends heavily upon the continued services of our management and other key personnel. In particular, we rely on the expertise and experience of our executive Directors and senior management team. If one or more of our management or key personnel were unable or unwilling to continue in their present positions, we might not be able to find suitable replacement easily, or at all. As a result, our business could be severely disrupted, our financial condition and results of operations could be materially and adversely affected, and we would incur additional expenses to recruit, train and retain personnel to replace our former key employees. We do not maintain any key personnel insurance. If any of our management or key personnel joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key professionals and staff members.

Furthermore, as we expect to continue expanding our operations, we will need to continue attracting and retaining experienced management personnel. Competition for experienced personnel in our industry could cause us to offer higher compensation and other benefits to them in order to attract and retain them, which could increase our operating costs. We may not be able to attract or retain the personnel required to achieve our business objectives, which could disrupt our business and growth.

**We, our Directors, management and employees may become involved in legal or administrative proceedings and adverse results may harm our business or reputation.**

We, our management or employees may from time to time become a party to legal or administrative proceedings arising in the ordinary course of business. Such legal and other proceedings may include, but are not limited to, actions or disputes relating to commercial contracts, employment, non-competition and labor law, intellectual property, fiduciary duties, personal injury, property damage or other harm resulting from actions or omissions by us or our employees. We cannot predict with certainty the cost of defense, the cost of prosecution or the ultimate outcome of litigation and other proceedings filed by or against us, our management or employees, including remedies or damage awards. Any adverse results in such litigation and other proceedings may harm our business or reputation.

**Voting control by our executive officers, Directors and other affiliates may limit your ability to influence the outcome of director elections and other matters requiring shareholder approval.**

As of the Latest Practicable Date, our executive officers, Directors and other affiliates own over 60% of our voting Shares. These shareholders can control substantially all matters requiring approval of our Shareholders, including the election of directors and the approval of other business transactions. This concentration of ownership could have the effect of delaying or preventing a change in control of us or discouraging a potential acquirer from attempting to obtain control of us, which could prevent our Shareholders from realizing a premium over the market price for their H Shares.

## RISKS RELATING TO OUR INDUSTRY

**We face a number of operational and industry risks. The market in which we operate changes rapidly and our failure to adjust effectively to these changes may have a material adverse effect on our operations and financial condition.**

We face a number of operational and industry risks, and the market for mobile telecommunications products is fast-changing. Recent developments in the industry include the following:

- Mobile phone technology advances rapidly, and product life cycles may be shorter than anticipated. As a retailer and wholesale distributor in this sector, we must closely monitor these changes.

- The mobile telecommunications products market in China has traditionally been fragmented, making it difficult for manufacturers to sell products to customers without national wholesale distributors. These wholesale distributors, including us, have had to develop efficient distribution logistics and wide retail networks. Failure to maintain such efficiencies and networks will have an adverse effect on our ability to sustain or expand our customer base, which will in turn erode our market share.

- China's mobile carriers are increasingly offering bundled mobile phone products and wireless services through cooperation with retailers like us. Failure to provide mobile phones with integrated services tailored to the mobile carriers, or to cooperate with the mobile carriers in promoting mobile phones, would result in weaker customer relationships with the mobile carriers, and the loss of a potential source of significant revenues.

For more information on recent development in the industry, see "Industry Overview – Driving Forces and Trends in China's Mobile Phone Market." These developments, as well as other changes relating to mobile telecommunications product retailers and wholesale distributors, may have an adverse effect on our operations and financial condition if we cannot adapt effectively to these changes to remain competitive. Our failure to adapt effectively could erode our market share, result in a decline in our number of customers or lead to price reductions or increased spending for marketing, service promotion and product wholesale distribution, any of which would adversely affect our profitability.

**The demand for the products that we sell may not continue to grow due to industry changes, and our revenues may decline.**

Our business substantially depends on the demand for products we sell. As China's mobile telecommunications industry matures, our mobile phone suppliers will likely focus increasingly on differentiating their products from those of their competitors, including adding more sophisticated mobile phones and upgrading existing models, and produce less generic products. As mobile phone and wireless technology advances rapidly, product life cycles may become shorter than anticipated. As a result, our customers may change their product preferences constantly. As a retailer and wholesale distributor in this sector, we must closely monitor these changes. If we cannot successfully adapt to changing customer demands in a rapidly developing market, our customers may turn to other sellers that offer mobile telecommunications products that we do not provide, which may reduce the demand for the products we sell. As a result, our business, financial condition and results of operations could suffer.

**The selling prices of older mobile telecommunications products are usually subject to rapid decreases, and products may become obsolete or less marketable. We may not be able to adjust our product mix and optimize pricing quickly enough to reduce our stock of obsolete products.**

Like most electronic products, mobile telecommunications products typically are priced highest at the time of introduction, but the selling prices tend to decrease over time as such products become commoditized and are replaced by newer generation products. As retailer and wholesale distributor, we are constantly subject to such downward pricing pressure of our mobile telecommunications products. The suppliers for our retail and wholesale distribution businesses may or may not provide us with appropriate pricing adjustments or other forms of price protection against such downward pricing trend. See "Business – Sales and Marketing – Pricing." In particular, in our retail business, in line with the industry practice, we set the prices for the products we sell based on reference prices set by certain manufacturers or mobile carriers. See "Business – Sales and Marketing – Pricing."

We may not be able to predict the timing or amount of any decline in the selling prices of the products we sell or distribute. Moreover, we must anticipate future technological changes and continually identify, obtain and market new products in order to minimize the risk of product obsolescence or decreased marketability. If we were unable to adjust product mix and optimize pricing, we may accumulate stock of obsolete products, and our business, financial condition and results of operations would be materially and adversely affected. Should we experience slow movements of certain items due to mispricing by the manufacturers or other factors, we may not be able to dispose of excessive inventory through markdowns or promotional sales in a timely manner or at all. As a result, our working capital requirements may increase, our sales and profits may decrease, and our results of operations and financial condition may be materially and adversely affected.

**We operate in a competitive market which may result in lower profit margins.**

The PRC retail market for mobile telecommunications devices and accessories is competitive, and has no significant barriers to entry. We experience competition from other retailers and wholesale distributors through physical or online sales channels in the geographical markets in which we currently operate and expect to face similar competition in the markets which we plan to enter. Some of our competitors may have more financial and human resources, better access to attractive retail outlet locations, more competitive pricing strategies or closer relationships with manufacturers or mobile carriers than we do. Competition may lead to, among other things, stricter terms in agreements with manufacturers or mobile carriers, higher costs for retail space and lower sales, all of which could have a material adverse impact on our results of operations and financial condition and lower our profit margins.

**Failure to maintain an efficient distribution network to remain competitive in a fragmented market may have a material adverse effect on our business and financial condition.**

The mobile telecommunications product market in China has traditionally been fragmented, making it difficult for manufacturers to sell products to customers without national distributors. These distributors, including us, have had to develop efficient distribution logistics and wide retail networks to reach the customers. Some of our competitors may have extensive national distribution networks and constantly compete with us for retail store locations and human resources. Failure to maintain an efficient network will have an adverse effect on our ability to sustain or expand our consumer base, which may in turn erode our market share and result in a decline in our revenue.

## RISKS RELATING TO THE PRC

**Changes in economic and political policies of the PRC Government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect our business.**

We conduct substantially all of our business operations in China. Accordingly, our business, results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal conditions in China. China's economy differs from the economies of developed countries in many respects, including with respect to government regulation and control of foreign exchange, the level of development, growth rate and the allocation of resources. In the past, we have benefited from the rapid growth of the Chinese economy, which has fueled the increase in demand for mobile telecommunications products. Such growth may not continue at the same rate or at all.

While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and economic sectors. The PRC Government has implemented certain measures to encourage economic development and guide the allocation of resources. While some of these measures benefit the overall PRC economy, they may adversely affect us. For example, our business, financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations applicable to us.

The PRC economy was previously a planned economy and a substantial portion of productive assets in China are still owned by the PRC Government. The government exercises significant control over the economic growth in China by allocating resources, formulating monetary policy and providing preferential treatment to particular industries or companies. Despite the fact that the government has implemented economic reform measures to introduce market forces and establish sound corporate governance systems in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, we may not benefit from some of such measures.

The PRC Government has the power to implement macroeconomic measures affecting China's economy. The government has implemented various measures in an effort to speed up or control the rate of growth and adjust the structure of certain industries. For example, in late 2003, the PRC Government raised bank reserves against deposit rates and placed additional limitations on the ability of commercial banks to make loans and raise interest rates, in an attempt to slow down specific segments of China's economy that the government believed to be overheating. Since early September 2008, however, in response to the global financial crisis, the PRC Government had begun to implement a series of macroeconomic measures and moderately loose monetary policies, including announcing economic stimulus packages and lowering benchmark interest rates. In order to curb inflation, the PRC Government implemented a number of macroeconomic measures from the second half of 2009 to October 2011 and a moderate monetary policy since 2011. These measures, as well as future actions and policies of the PRC Government, could materially affect our liquidity and access to capital, as well as our ability to operate our business.

**Uncertainties with respect to the PRC legal system could adversely affect us.**

We conduct our business primarily in China. Our operations in China are governed by PRC laws and regulations. The PRC legal system is principally based on statutes. Prior court decisions may be cited for reference but typically have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to foreign investments and domestic companies in China. However, China has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions (and the nonbinding nature of such decisions), the interpretation and enforcement of these laws and regulations raise uncertainties. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after a violation occurs. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

**The PRC Government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.**

Currently, RMB still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. We cannot guarantee you that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future.

In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially and adversely affected.

**Payment of dividends is subject to restrictions under PRC law.**

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in periods in which we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders, including periods in which we are profitable.

**Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares.**

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and Non-PRC Resident Enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares. Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside, reduce or provide an exemption for, the relevant tax obligations. Generally, a convenient tax rate of 10% shall apply to the dividends paid by the company listed in Hong Kong to foreign individuals according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall: (1) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%, (2) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, and (3) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For Non-PRC Resident Enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under the EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders Which are Overseas Non-resident Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between China and the jurisdiction of the residence of the relevant Non-PRC Resident Enterprise.

Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders will be subject to PRC individual income tax at a flat rate of 20%. In addition, there remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by PRC's tax authorities, including the taxation of capital gains by the Non-PRC Resident Enterprises, individual income tax on dividends to non-PRC resident individual holders of our H Shares and on gains realized on sale or other disposition of our H Shares. PRC's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our H Shares may be materially affected.

**Holders of H Shares may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management and to take action on the basis of violations of the Listing Rules.**

We are a company incorporated under the laws of the PRC and substantially all of our assets and subsidiaries are located in the PRC. The majority of our Directors, Supervisors and senior management reside within the PRC. The assets of these Directors, Supervisors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible. On July 14, 2006, the Supreme People's Court of Mainland and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under this arrangement, where any designated People's Court of the PRC or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court of PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

Although we will be subject to the Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong upon the listing of our H Shares on the Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Listing Rules and the Codes on Takeovers and Mergers and Share Repurchases of Hong Kong do not have the force of law in Hong Kong.

**Changes in PRC laws and regulations on labor and employee benefits may adversely affect our business and results of operations and substantially increase our labor-related costs.**

As we conduct substantially all of our business through our subsidiaries in China, we are subject to PRC laws and regulations on labor and employee benefits. In recent years, the PRC Government has implemented policies to strengthen the protection of employees and obligate employers to provide more benefits to their employees. The PRC Employment Contract Law and the Employment Contract Regulation, both of which became effective in 2008, require more benefits to be provided to employees, such as an increase in pay or compensation for termination of employment contracts. In addition, the Employment Contract Law and the Employment Contract Regulation contain provisions that are more favorable to employees than the prior labor laws and regulations in China. For example, an employer is obligated to compensate an employee if the employer decides not to renew an existing employment contract, unless the employee refuses the employer's offer to renew the expiring employment contract with the same or better terms. In addition, an employer is obligated to provide an open-ended employment contract after an employee has completed two consecutive terms of fixed-term employment, under which the employer will be liable to pay damages to an employee if the employer terminates the employment without cause, until the employee reaches an age at which he or she is eligible for pension payment. As a result of the implementation of the Employment Contract Law and the Employment Contract Regulation, we may have greater difficulty terminating under-performing employees and may incur higher levels of labor costs in order to comply with the provisions of the new law and regulation, which may adversely affect our business, financial condition and operating results.

**Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in China may have a material adverse effect on our business operations, financial condition and results of operations.**

Our business could be materially and adversely affected by the outbreak of avian influenza from H1N1, H7N9 or other strains, severe acute respiratory syndrome, or SARS, or another epidemic. In 2006 and 2007, occurrences of avian influenza were reported in various parts of China, including a few confirmed human cases and deaths. In April 2009, an outbreak of a new strain of influenza identified as the Influenza A (H1N1) virus occurred in Mexico resulting in a number of deaths. As the virus continues to spread worldwide including China, the World Health Organization ("**WHO**") on June 11, 2009 declared the H1N1 virus outbreak a global pandemic. In March 2013, an H7N9 virus was first reported to have infected humans in China. The WHO has identified H7N9 as an unusually dangerous virus for humans. The spread of H1N1, H7N9 or any prolonged recurrence of avian influenza, SARS or other adverse public health developments in China could require the temporary closure of our offices or our retail outlets or prevent our staff from traveling to customers' offices to sell products or provide on-site services. Such closures could severely disrupt our business operations and adversely affect our results of operations.

Our operations are also vulnerable to interruption and damage from natural and other types of disasters, including snowstorms, earthquakes, fire, floods, environmental accidents, power loss, communications failures and similar events. In January and February 2008, large portions of Southern and Central China were hit with a series of snowstorms, which caused extensive damage and transportation disruption. In May 2008 and April 2013, Sichuan province experienced earthquakes measuring approximately 8.0 and 7.0 on the Richter scale, resulting in numerous casualties and severe property damage. If any disaster were to occur in the future, our ability to operate our business could be seriously impaired.

## RISKS RELATING TO THE GLOBAL OFFERING

**There has been no prior public market for our H Shares and the liquidity and market price of our H Shares may be volatile.**

Prior to the completion of the Global Offering, there has been no public market for our H Shares. The Offer Price is the result of negotiation between us and the Joint Global Coordinators, which may not be indicative of the price at which our H Shares will be traded following the completion of the Global Offering. In addition, there can be no guarantee that an active trading market for our H Shares will develop, or, if it does, that it will be sustained following the completion of the Global Offering, or that the market price of our H Shares will not decline below the Offer Price.

The market price for our H Shares may be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results and changes or revisions of our expected results;
- changes in financial estimates by securities research analysts;
- conditions in the markets for mobile telecommunications products;
- changes in the economic performance or market valuations of companies specializing in retail and wholesale distribution of mobile telecommunications products; announcements by us or our competitors of new products, acquisitions, strategic relationships, joint ventures or capital commitments; and
- addition or departure of our senior management and key personnel.

Volatility in the price of our H Shares may be caused by factors outside of our control and may be unrelated or disproportionate to our results of operations, which could result in substantial losses to you.

**Because the Offer Price is higher than our net tangible book value per Share, you will incur immediate dilution.**

The Offer Price of our Offer Shares is higher than the net tangible book value per Share issued to existing holders of our Shares. Therefore, all investors and purchasers of our Offer Shares in the Global Offering will experience an immediate dilution in pro forma net tangible book value and existing holders of our Shares will receive an increase in net tangible book value per Share of their Shares. If we issue additional Shares or equity-linked securities in the future, investors and purchasers of Shares may experience further dilution in their ownership percentage.

**Future sales, or market perception of sales, of substantial amounts of our H Shares or other securities relating to our H Shares in the public market could materially and adversely affect the prevailing market price of our H Shares.**

Future sales by our Shareholders of substantial amounts of our H Shares or other securities relating to our H shares in the public markets after the Global Offering, or the perception that these sales may occur, could adversely affect market prices of our H Shares prevailing from time to time. In addition, Domestic Shares can be converted into H Shares after Listing subject to relevant laws and regulations and approvals. See "Information about this Prospectus and the Global Offering – Restrictions on Offer and Sale of Offer Shares." After these restrictions lapse, the market price of our H Shares may decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, the issuance of new H Shares or other securities relating to our H Shares, the conversion of substantial amounts of Domestic Shares into H Shares or the perception that such sales, conversion or issuances may occur. This could also materially and adversely affect our ability to raise capital at a time and at a price we deem appropriate.

**If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price for our H Shares and trading volume may decline.**

The trading market for our H Shares will be influenced by research or reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publishes negative opinions about us, the market price for our H Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our H Shares to decline.

## MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Listing Rules, the Company must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Since our core business and operations, principal clients and assets are primarily located in the PRC, we do not, and for the foreseeable future, will not, have executive Directors who are ordinarily resident in Hong Kong, for the purposes of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules. Currently, all of our executive Directors and members of senior management reside in the PRC.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules. We have made arrangements to maintain effective communication between the Stock Exchange and us as follows:

(i) both of our authorized representatives, Mr. Liu Yajun and Ms. Li Dongmei, will act at all times as our principal channel of communication with the Stock Exchange and ensure the Company complies with the Listing Rules at all times. Although Mr. Liu Yajun and Ms. Li Dongmei reside in the PRC, they possess valid travel documents and are able to renew such travel documents when they expire in order to visit Hong Kong. Accordingly, our authorized representatives will be able to meet with the relevant members of the Stock Exchange on short notice;

(ii) both of our authorized representatives have means of contacting all Directors (including our independent non-executive Directors) and members of senior management promptly at all times and when the Stock Exchange wishes to contact a Director for any reason;

(iii) each Director has provided his mobile phone number, office phone number, fax number and e-mail address to the authorized representatives of the Company and the Stock Exchange, and in the event that any Director expects to travel or otherwise be out of office, he will provide the phone number of the place of his accommodation to the authorized representatives;

(iv) we will have at least one independent non-executive Director to be ordinarily resident in Hong Kong;

(v) each of our Directors who does not ordinarily reside in Hong Kong possesses valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time;

(vi) Ms. Ng Sau Mei, one of our joint company secretaries, who is a Hong Kong resident, will, among other things, act as our alternative channel of communication with the Stock Exchange and be able to answer enquiries from the Stock Exchange; and

(vii) we have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser (the "**Compliance Adviser**") in compliance with Rules 3A.19 of the Listing Rules. The Compliance Adviser will, among other things, advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after listing of our H shares, and in addition to our authorized representatives, act as our additional channel of communication with the Stock Exchange and be available to answer enquiries from the Stock Exchange at least for the period commencing from the Listing Date and ending on the date on which we despatch our first full financial year annual report pursuant to Rule 13.46 of the Listing Rules. We will ensure that there are adequate and efficient means of communication among us, our authorized representatives, our Directors, other officers, and the Compliance Adviser.

## APPOINTMENT OF JOINT COMPANY SECRETARIES

### Rule 8.17

According to Rule 8.17 of the Listing Rules, the issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules.

### Rule 3.28

According to Rule 3.28 of the Listing Rules, the secretary of the Company must be a person who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and

(c) a certified public accountant (as defined in the Professional Accountants Ordinance).

In assessing "relevant experience", the Stock Exchange will consider the individual's:

(a) length of employment with the issuer and other issuers and the roles he played;

(b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Future Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

Our Company has appointed Ms. Li Dongmei as one of the joint company secretaries. Ms. Li Dongmei joined our Company in April 2006 and has been the secretary to the Board and chief legal officer since November 2009. For details, see the section headed "Directors, Supervisors and Senior Management". Since Ms. Li Dongmei does not possess the acceptable professional or academic qualifications as stipulated in Rule 3.28 of the Listing Rules, our Company has appointed Ms. Ng Sau Mei, an associate member of the Hong Kong Institute of Charted Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom, as one of the joint company secretaries. Over a period of three years from the Listing Date, we propose to implement the following measures to assist Ms. Li Dongmei to become a company secretary with the requisite qualifications or relevant experience as required under the Listing Rules:

(i) Ms. Ng Sau Mei will be engaged as a joint company secretary of the Company for an initial period of three years from the Listing Date. She will also provide training and ongoing assistance to Ms. Li Dongmei by introducing her the relevant provisions and requirements of the Listing Rules to enhance and improve Ms. Li's knowledge of and familiarity with the requirements of the Listing Rules. We will further ensure that Ms. Li Dongmei has access to the relevant training and support that would enable her to familiarize herself with the Listing Rules and the duties required of a company secretary of an issuer listed on the Stock Exchange. In addition, Ms. Li will endeavor to familiarize herself with the Listing Rules during the three-year period from the Listing Date and will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules;

(ii) we undertake to reapply to the Stock Exchange in the event that Ms. Ng Sau Mei ceases to meet the requirements under Rules 3.28 and Rule 8.17 of the Listing Rules or otherwise ceases to serve as a joint company secretary of our Company;

(iii) upon expiry of Ms. Li Dongmei's initial term of appointment as the joint company secretary of our Company, we will re-evaluate her experience in order to determine if she has acquired the qualifications required under Rules 3.28 of the Listing Rules, and whether the above joint company secretaries arrangement would still be necessary; and

(iv) the Compliance Adviser will act as the additional communication channel with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute our first full financial year annual report after the Listing Date.

We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver will be revoked immediately if Ms. Ng Sau Mei ceases to provide assistance and guidance to Ms. Li Dongmei. In the event that Ms. Li Dongmei has obtained relevant experience under Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement will no longer be required by the Company.

## CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into certain transactions which would constitute continuing connected transactions of our Company pursuant to Chapter 14A of the Listing Rules upon Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver in relation to certain continuing connected transactions under Chapter 14A of the Listing Rules. For further details of such continuing connected transactions and the waiver, see "Connected Transactions – Waiver Application for Non-exempt Continuing Connected Transaction."

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this Prospectus or this Prospectus misleading.

## CSRC APPROVAL

The CSRC issued an approval letter on June 3, 2014 for the Global Offering and for the submission of the application to list our H Shares on the Stock Exchange. In granting its approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this Prospectus or in the Application Forms.

## INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this Prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Global Offering comprises the Hong Kong Public Offering of initially 16,667,000 Hong Kong Offer Shares and the International Offering of initially 150,000,000 International Offer Shares, subject, in each case, to adjustment on the basis as described in the section headed "Structure of the Global Offering" and, in case of the International Offering, to any exercise of the Over-allotment Option.

This Prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Details of the terms of the Hong Kong Public Offering are described in the section headed "Structure of the Global Offering" and on the Application Forms.

## UNDERWRITING

The listing of our H Shares on the Stock Exchange is sponsored by Citigroup Global Markets Asia Limited and UBS Securities Hong Kong Limited, collectively referred to as our Joint Sponsors. Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch are the Joint Global Coordinators of the Global Offering. Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, DBS Asia Capital Limited and Standard Chartered Securities (Hong Kong) Limited are the Joint Bookrunners and the Joint Lead Managers of the Hong Kong Public Offering and the International Offering.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement and subject to agreement on the Offer Price between us and the Joint Global Coordinators (on behalf of the Underwriters).

The International Offering is expected to be underwritten by the International Underwriters pursuant to the International Underwriting Agreement. The International Underwriting Agreement is expected to be entered into on or about June 30, 2014.

For further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting."

## DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or around June 30, 2014, and in any event no later than July 7, 2014.

If the Joint Global Coordinators (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before July 7, 2014, or such later date or time as may be agreed between the Joint Global Coordinators (on behalf of the Underwriters) and our Company, the Global Offering will not become unconditional and will lapse.

## RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

We offer the Hong Kong Offer Shares solely on the basis of the information contained and representations made in this Prospectus and the related Application Forms and on the terms and subject to the conditions contained in this Prospectus and the Application Forms.

Each person acquiring Hong Kong Offer Shares will be required to confirm, or by his/her acquisition of Hong Kong Offer Shares will be deemed to confirm, that he/she is aware of the restrictions on offers of the Hong Kong Offer Shares described in this Prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

## CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

### Application for Listing on the Stock Exchange

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our H Shares, including (i) the Offer Shares; including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option; and (ii) any H Shares converted from Unlisted Foreign-invested Shares which are to be held by 3i, CDH and Crown Flame. Dealings in our H Shares on the Stock Exchange are expected to commence on July 8, 2014.

Except as otherwise disclosed in this Prospectus, no part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### Shares Will Be Eligible for Admission into CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our H Shares to be admitted into CCASS.

### Stamp Duty

Dealings in the H Shares registered in our register of members in Hong Kong will be subject to Hong Kong stamp duty.

### Professional Tax Advice Recommended

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to the Offer Shares.

It is emphasized that none of us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, their respective directors, agents, employees and advisers, nor any other person involved in the Global Offering accepts any responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding or disposing of, dealing in or exercising any rights in relation to the Offer Shares.

**Registration of Subscription, Purchase and Transfer of H Shares**

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

(a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;

(b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and

(d) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

**H Share Register of Members**

Our principal register of members will be maintained by us at our legal address in the PRC and all of the H Shares issued pursuant to applications made in the Global Offering will be registered on our H Share register to be maintained in Hong Kong.

**Procedure for Application for Hong Kong Offer Shares**

The procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this Prospectus and on the relevant Application Forms.

## STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this Prospectus.

## OVER-ALLOTMENT AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and Stabilization are set out in "Structure of the Global Offering – Over-allotment Option" and "– Stabilization" in this Prospectus.

## EXCHANGE RATE

Unless otherwise specified, this Prospectus contains certain translations for the convenience of the reader at the following rates: Renminbi into Hong Kong dollars at the rate of HK$1.00 to RMB0.7934 and Hong Kong dollars into U.S. dollars at the rate of US$1.00 to HK$7.7515. The RMB to HK$ exchange rate is quoted by the PBOC for foreign exchange transactions prevailing on June 13, 2014. The US$ to HK$ exchange rate is set forth in the H10 weekly statistical release of the Federal Reserve Board of the United States on June 13, 2014. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB, HK$ or US$ can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

## MARKET SHARE DATA

The statistical and market share information contained in this Prospectus has been derived from official government publications, market data providers and other independent third parties sources. Unless otherwise indicated, the information has not been independently verified by our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Underwriters, or any other parties involved in the Global Offering. This statistical information may not be consistent with other statistical information from other sources within or outside the PRC. Our Directors have reproduced the data and statistics extracted from such official government publications and other sources in a reasonably cautious manner.

## LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. Translations or transliterations of the names of Chinese laws and regulations, governmental authorities, departments, entities, institutions, natural persons, facilities, certificates, titles and the like included in this Prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

## ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

## DIRECTORS

| Name | Address | Nationality |
|---|---|---|
| *Executive Directors* | | |
| Mr. Liu Donghai (劉東海) | Room 202, 5th Building,<br>Wanshou Road West Street No. 11,<br>Haidian District,<br>Beijing, PRC | Chinese |
| Mr. Liu Yajun (劉雅君) | 426, Wanxiang Xintian,<br>District No. 4,<br>Chaoyang District,<br>Beijing, PRC | Chinese |
| Mr. Liu Songshan (劉松山) | Room 1801, 1st Floor,<br>Beijiadi Road 6th Yard,<br>Fengtai District,<br>Beijing, PRC | Chinese |
| Ms. Liu Wencui (劉文萃) | Room 120, 29th Building,<br>Muxidi Nanli, Xicheng District,<br>Beijing, PRC | Chinese |
| Ms. Liu Hua (劉華) | 701, Unit 3, Building 10,<br>Wanke Zitai, No. 2 Yard,<br>Qingta West Road,<br>Fengtai District,<br>Beijing, PRC | Chinese |
| *Non-executive Director* | | |
| Mr. Wang Lin (王霖) | 418, Heqiao Building B,<br>Guanghua Road Jia No. 8,<br>Chaoyang District,<br>Beijing, PRC | Chinese |

| Name | Address | Nationality |
|---|---|---|
| *Independent non-executive Directors* | | |
| Mr. Lv Tingjie (吕廷杰) | Room 1105, 66th Building, Yuxinhuayuan, Xisanqi, Haidian District, Beijing, PRC | Chinese |
| Mr. Leng Rongquan (冷榮泉) | Room 303, Door 2, Xibahe Zhongli 26th Building, Chaoyang District, Beijing, PRC | Chinese |
| Mr. Vincent Man Choi, Li (李文才) | 30/D., Block 3, Hilltop Gardens, 33 Fung Shing Street, Hammer Hill, Kowloon, Hong Kong | British |

**SUPERVISORS**

| Name | Address | Nationality |
|---|---|---|
| Ms. Xiao Hong (肖紅) | Room 2708, 19th Building, No.4 Cuiwei Road, Haidian District, Beijing, PRC | Chinese |
| Mr. Li Wanlin (李萬林) | 7-2-401 Guolingli, Guangze Road No.2, Chaoyang District, Beijing, PRC | German |
| Mr. Hu Yuzhong (胡玉忠) | Room 201, Unit 1, Building 6, Cross Slope East, Dongcheng District, Beijing, PRC | Chinese |

See "Directors, Supervisors and Senior Management" for further details of our Directors and Supervisors.

## OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|---|---|
| **Joint Sponsors (in alphabetical order)** | Citigroup Global Markets Asia Limited<br>50/F Citibank Tower<br>Citibank Plaza<br>3 Garden Road<br>Central<br>Hong Kong |
| | UBS Securities Hong Kong Limited<br>42/F, One Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong |
| **Joint Global Coordinators (in alphabetical order)** | Citigroup Global Markets Asia Limited<br>50/F Citibank Tower<br>Citibank Plaza<br>3 Garden Road<br>Central<br>Hong Kong |
| | UBS AG, Hong Kong Branch<br>52nd Floor Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong |
| **Joint Bookrunners and Joint Lead Managers** | Citigroup Global Markets Asia Limited<br>50/F Citibank Tower<br>Citibank Plaza<br>3 Garden Road<br>Central<br>Hong Kong |
| | UBS AG, Hong Kong Branch<br>52nd Floor Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong |

| | |
|---|---|
| | DBS Asia Capital Limited<br>17th Floor, The Center<br>99 Queen's Road<br>Central<br>Hong Kong |
| | Standard Chartered Securities<br>(Hong Kong) Limited<br>15/F Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong |
| **Legal advisers to our Company** | *As to Hong Kong and US Laws*<br>Clifford Chance<br>27th Floor, Jardine House<br>One Connaught Place<br>Central<br>Hong Kong |
| | *As to PRC Law*<br>Zhong Lun Law Firm<br>36-37/F, SK Tower<br>6A Jianguomenwai Avenue<br>Beijing<br>PRC |
| **Legal advisers to the underwriters** | *As to Hong Kong and US Law*<br>Shearman & Sterling<br>12th Floor, Gloucester Tower<br>The Landmark<br>15 Queen's Road Central<br>Central<br>Hong Kong |
| | *As to PRC Law*<br>Haiwen & Partners<br>20/F, Fortune Financial Center<br>5 Dong San Huan Central Road<br>Chaoyang District<br>Beijing 100020<br>PRC |

| | |
|---|---|
| **Auditors and reporting accountants** | Ernst and Young<br>*Certified Public Accountants*<br>22/F, CITIC Tower<br>1 Tim Mei Avenue<br>Central, Hong Kong |
| **Compliance adviser** | Shenyin Wanguo Capital (H.K.) Limited<br>Level 19<br>28 Hennessy Road<br>Hong Kong |
| **Receiving bank** | Standard Chartered Bank (Hong Kong) Limited<br>15/F, Standard Chartered Tower<br>388 Kwun Tong Road<br>Kowloon, Hong Kong |

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|---|---|
| **Registered Office** | No. 101, 4/F, C Yi'an Business Building,<br>18 Building Yi'an Jiayuan,<br>Beiwa West,<br>Haidian District,<br>Beijing, PRC |
| **Head Offices in the PRC** | No. 101, 4/F, C Yi'an Business Building,<br>18 Building Yi'an Jiayuan,<br>Beiwa West,<br>Haidian District,<br>Beijing, PRC |
| **Principal Place of Business in Hong Kong** | 8th Floor, Gloucester Tower,<br>The Landmark,<br>15 Queen's Road Central,<br>Hong Kong |
| **Company's Website** | *www.dixintong.com*<br>(information contained on this website do not form part of this Prospectus) |
| **Joint Company Secretaries** | Ms. Li Dongmei<br>No.12, Hepingli Middle Street,<br>Dongcheng District,<br>Beijing, PRC<br><br>Ms. Ng Sau Mei<br>*(a Member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators)*<br>8th, Gloucester Tower,<br>15 Queen's Road Central,<br>Hong Kong |
| **Authorized Representatives** | Mr. Liu Yajun<br>426, Wanxiang Xintian,<br>District No. 4,<br>Chaoyang District,<br>Beijing, PRC<br><br>Ms. Li Dongmei<br>No.12, Hepingli Middle Street,<br>Dongcheng District,<br>Beijing, PRC |

| | |
|---|---|
| **Audit Committee** | Mr. Vincent Man Choi, Li *(Chairman)*<br>*(Independent non-executive Director)*<br>Mr. Lv Tingjie<br>*(Independent non-executive Director)*<br>Mr. Wang Lin<br>*(Non-executive Director)* |
| **Nomination Committee** | Mr. Lv Tingjie *(Chairman)*<br>*(Independent non-executive Director)*<br>Mr. Leng Rongquan<br>*(Independent non-executive Director)*<br>Mr. Liu Songshan<br>*(Executive Director)* |
| **Remuneration and Assessment Committee** | Mr. Leng Rongquan *(Chairman)*<br>*(Independent non-executive Director)*<br>Mr. Vincent Man Choi, Li<br>*(Independent non-executive Director)*<br>Ms. Liu Hua<br>*(Executive Director)* |
| **Strategy Committee** | Mr. Liu Donghai *(Chairman)*<br>*(Executive Director)*<br>Mr. Liu Yajun<br>*(Executive Director)*<br>Mr. Liu Songshan<br>*(Executive Director)*<br>Mr. Lv Tingjie<br>*(Independent non-executive Director)*<br>Mr. Wang Lin<br>*(Non-executive Director)* |
| **H Share Registrar** | Computershare Hong Kong Investor<br>Services Limited<br>Shops 1712-1716, 17th Floor,<br>Hopewell Centre,<br>183 Queen's Road East,<br>Wanchai,<br>Hong Kong |

| | |
|---|---|
| **Principal Bankers** | Bank of Communications Co., Ltd.<br>(Lincui Road Sub-branch, Beijing)<br>Block 24, Yilin Jiayuan,<br>Lincui Road,<br>Chaoyang District,<br>Beijing, PRC |
| | Shanghai Pudong Development Bank<br>Co., Ltd.<br>(Business Department of Beijing Branch)<br>18 Taipingqiao Avenue,<br>Xicheng District,<br>Beijing, PRC |
| | China Minsheng Banking Corp. Ltd.<br>(Fuchengmen Sub-branch, Beijing)<br>2 Fuwai Avenue,<br>Xicheng District,<br>Beijing, PRC |
| | Citibank (China) Co., Ltd.<br>(Beijing Branch)<br>17/F, Excel Centre,<br>6 Wudinghou Avenue,<br>Xicheng District,<br>Beijing, PRC |

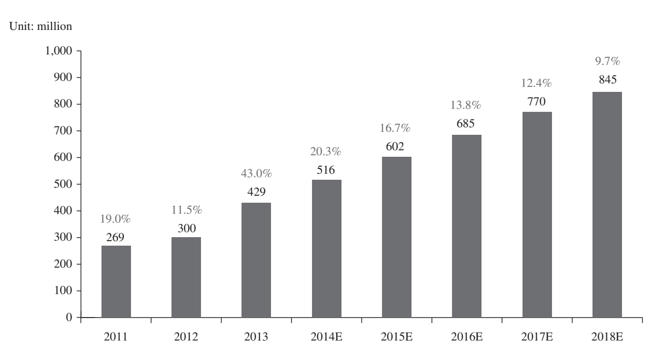
***This section contains information and statistics primarily relating to the mobile phone industry in the PRC in general. We have derived such information and statistics from various official government publications, other publications and the SINO Report. See "Sources of Information" below. We believe that these sources are appropriate sources for such information and have exercised reasonable care in compiling and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Underwriters, or any other parties involved in the Global Offering has independently verified the information and statistics derived from the SINO Report, nor do they make any representation as to the correctness, accuracy, completeness or fairness of such information and statistics. Such information may not be consistent with other information compiled within or outside the PRC.***

## MOBILE PHONE MARKET DEVELOPMENT

### Development status and geographical structure of China mobile phone market

Mobile phones were a new phenomenon in China back in 1987 available to only a privileged class of people. Driven by the economic reform and the growth of household income, mobile phones have become indispensable in people's day-to-day life. In 2013, the sales volume of mobile phones in China grew to 429 million handsets representing a year-on-year growth of 43%, from 300 million handsets sold in 2012. The MIIT issued TDD-LTE licenses to China's mobile carriers on December 4, 2013. According to the SINO Report, FDD-LTE licenses are expected to be issued in 2014. It is believed that 4G technology will spur further growth in 2014 with mobile phones sales volume reaching 516 million handsets in 2014 and 845 million handsets in 2018. The following chart shows the historical and estimated trend of mobile phone sales volume in China for the periods specified.

**Historical and forecasted mobile phone sales volume in China from 2011-2018E(1)**




*Source:* *SINO*

*Note:* (1) Statistics in this chart include sales volume through both online and offline channels.

Demand for mobile phones depends on the level of regional economic development and population density. The market potential offered by developed areas (e.g. Guangdong) tends to be more promising than developing areas, and the market potential offered by developing areas tends to be more promising than rural areas. The densely populated provinces in China (e.g. Henan, Hebei, and Sichuan) have a comparatively larger market scale than those less populated. In terms of sales volume in 2013, the largest five provinces include Guangdong, Jiangsu, Zhejiang, Sichuan and Henan provinces. As for general economic growth, the rapid growth areas have shifted from south-eastern coastal areas in China (e.g. Jiangsu and Zhejiang) to western inland areas (e.g. Qinghai and Gansu). Western inland areas have witnessed high growth in economic sales after 14 years of the "go west" campaign, which has attracted significant direct investments needed to stimulate economic development. In the telecommunications sector, western areas of China witnessed phenomenal growth in sales volume of mobile phones in 2013. The following chart shows the mobile phone sales volume and year-on-year growth by province in China for the time specified.

**Sales volume of mobile phones and growth by province in China in 2013**

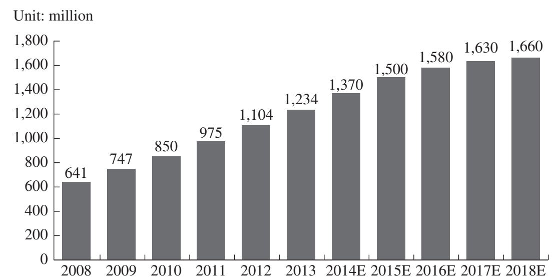

| Rank | Top Ten Provinces in Terms of Sales Volume | Annual Growth Rate from 2012-2013 |
|---|---|---|
| 1 | Guangdong | 22.7% |
| 2 | Jiangsu | 32.0% |
| 3 | Zhejiang | 40.9% |
| 4 | Sichuan | 22.4% |
| 5 | Henan | 43.0% |
| 6 | Shandong | 38.2% |
| 7 | Hebei | 42.6% |
| 8 | Hubei | 38.4% |
| 9 | Anhui | 32.0% |
| 10 | Shanghai | 23.1% |

*Source: SINO*

**Scale of China mobile phone users**

The number of China mobile phone users exceeded 1.2 billion in 2013 and is expected to reach 1.37 billion in 2014. It is estimated by SINO that the number of China mobile phone users will surpass national population size in 2016 and will reach 1.66 billion in 2018. The following chart shows the historical and forecasted of China mobile phone subscribers for the periods specified.

**Historical and forecasted number of China mobile phone subscribers from 2008-2018E**



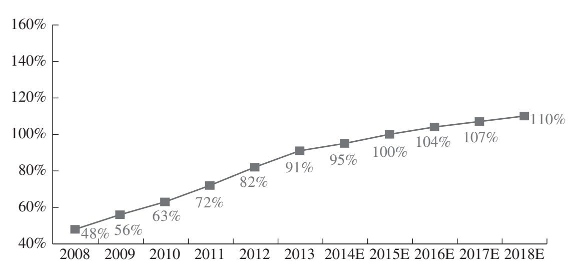

*Source: MIIT*

**Global and national mobile phone penetration rate**

According to the International Telecommunication Union ("**ITU**"), the United Nations specialized agency for information and communication technologies, the mobile phone market in developed countries has shown signs of saturation. Further growth of mobile phone market in developed countries requires new drivers such as 4G technology. On the other hand, the mobile phone market in developing countries is still in early stages of development and is expected to achieve faster growth rate compared to that of developed countries. Therefore, further opportunities for development of the global mobile phone market will come mainly from developing countries.

China's mobile phone penetration rate has almost reached the average rate seen in developing countries in 2013, and is expected to be close to the average global mobile phone penetration rate in 2017. The following chart shows the historical and forecasted mobile phone penetration rates in China for the periods specified.

**Historical and forecasted mobile phone penetration rates in China**



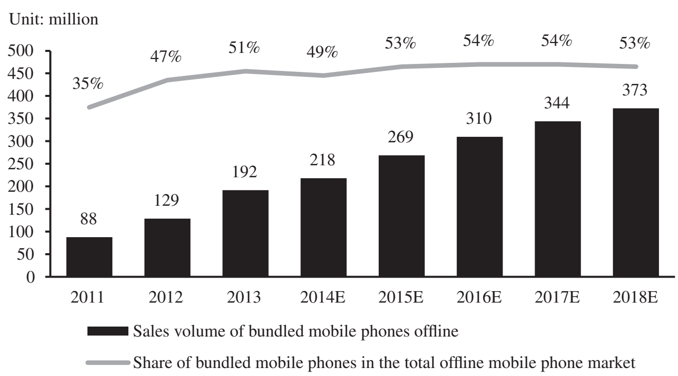

*Source: ITU*

**Bundled mobile phones market**

China's mobile carriers offer pre-formatted mobile phones bundled with call service subscriptions for specified periods of service ("**bundled mobile phones**") that customers can purchase from the mobile carriers and retailers. Retailers receive commissions for sales of such bundled mobile phones.

According to SINO, the sales volume of bundled mobile phones increased from 88 million in 2011 to 192 million in 2013, and is estimated by SINO to reach 373 million in 2018. The following chart shows the historical and estimated trend of sales volume of bundled mobile phones in China for the periods specified.

**Historical and forecasted offline sales volume of bundled mobile phones in China from 2011-2018E**

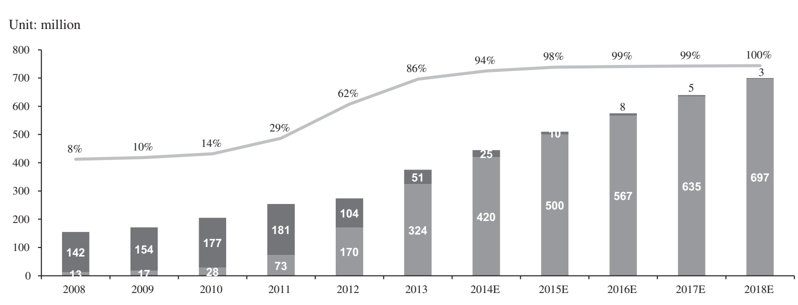



*Source: SINO*

## Smart phones in China

iPhone was first brought to the Chinese market in 2011. Since then sales of smart phones experienced significant growth, from a market share of approximately 29% in 2011 to approximately 62% in 2012. By the end of 2013, the market share of smart phones increased to approximately 86%, representing an increase of 24% from 2012, and the sales volume of smart phones reached 324 million handsets, representing an approximately 91% growth as compared with that in 2012. According to SINO, the market share of smart phones in China is expected to increase to approximately 94% and the sales volume is expected to reach 420 million handsets in 2014. The growth of smart phones is expected to slow down in 2014, due to the emergence of feature phones. Feature phones are characterized by durability as well as longer standby time and voice time, which are preferred by senior users and some businessmen. It is forecasted by SINO that the sales volume of smart phones in China will reach 697 million in 2018, accounting for approximately 100% of the total mobile phone market. The following chart shows the historical and forecasted smart phone sales volume in China for the periods specified.

**Historical and forecasted offline smart phone sales volume from 2008-2018E**




*Source: SINO*

## DRIVING FORCES AND TRENDS IN CHINA'S MOBILE PHONE MARKET

**Future development of mobile telecommunications.**

The mobile Internet combines mobile telecommunications applications with the Internet. Such convergence has transformed the way people communicate, work and lead their daily lives. In the foreseeable future, further convergence of telecommunications, the Internet and broadcasting, will bring people's entertainment and lifestyle experience to new levels. The mobile phone will become an all-in-one wireless portable device encompassing both telecommunications and Internet access functions. Smart phone users have already left their GPS devices, MP3 players and digital cameras increasingly under-utilized. It is expected by SINO that, in the foreseeable future, newly developed smart phone applications may take over some of the applications of the credit card or even the personal ID card.

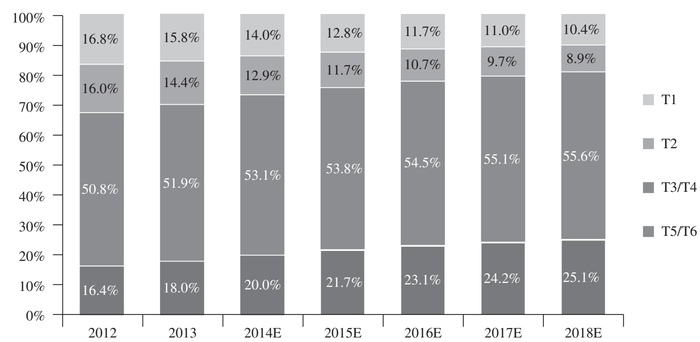
**4G technology is expected to bring extensive new developments in China's telecommunications market.**

The 4G mobile network, upgraded from the 3G mobile network, is expected to enhance the Internet surfing experience and drive the demand for a large number of new 4G devices. 3G mobile phones cannot be supported by the 4G network. All industry chain participants, ranging from mobile carriers, mobile phone manufacturers to chip makers, have embarked on different plans to prepare for the 4G era in China.

**Development of cities below third-tier is expected to lead to the fast growth of the mobile phone market in China.**

According to the annual report released by the NBSC, the population of China reached 1.35 billion in 2012, approximately 47.4% of which was rural population. On average, in every household in the rural areas, there are four members, two of which are in the labor force, and who may each have the ability to purchase one handset. The total market size of mobile phones in the rural areas in China is expected to reach 320 million handsets in 2014. In the fifth- and sixth-tier cities, around 30 million handsets are required to fill the vacancy in rural markets. According to SINO, the fifth- and sixth-tier cities were the fastest growing markets with a market share of approximately 18.0% in 2013, increased by approximately 1.6% from the previous year. It is estimated that the market share of the fifth- and sixth-tier cities will reach approximately 20.0% in 2014. The third- and fourth-tier cities were the largest mobile phone markets with a market share of over 50.0% and they continue to grow fast. The market share of the third- and fourth-tier cities in 2013 increased by approximately 0.9% compared with that in 2012. It is expected to reach approximately 53.1% of the total mobile phone market share in 2014. The following chart shows the historical and estimated market size of the China mobile phone market for the periods specified.

**Historical and forecasted market size of the China mobile phone market from 2012-2018E(1)**




*Source:* *SINO*

*Note:* (1) For the purpose of this section, cities are classified into tiers according to the following standards:

| Tiers | Classification Standards | Representative Cities | Total Number of Cities |
|---|---|---|---|
| T1 . . . . | Average monthly market size over 150,000 handsets | Shanghai, Beijing, Guangzhou, Shenzhen | 4 |
| T2 . . . . | Average monthly market size between 40,000 and 150,000 handsets | Wuhan, Nanjing, Xi'an, Chengdu, Chongqing, Dongguan, Hangzhou, Tianjin | 8 |
| T3/T4 . . | Average monthly market size between 20,000 and 40,000 handsets | Changsha, Dalian, Urumqi, Zhengzhou, Foshan, Jinan, Kunming, Nantong | 98 |
| T5/T6 . . | Average monthly market size less than 20,000 handsets | Lhasa, Fuyang, Sanya, Mudanjiang, Jingdezhen, Beihai, Tonghua, Xingtai | 79 |

**Mobile carriers are expected to promote bundled mobile phones through further cooperation with retailers.**

Mobile carriers are key participants in the mobile phone industry chain, providing mobile telecommunications services. The restructuring of mobile carriers in 2009 and the issuance of 3G licenses have led to more intense competition among the mobile carriers. In order to develop their customer base rapidly, all three mobile carriers in China have promoted customized 3G mobile phones to develop 3G customers and provide 3G services.

Mobile carriers will cooperate with retailers, especially large mobile telecommunications chain stores, to benefit from the retailers' in-depth understanding of customer behaviors and spending preferences. Through such cooperation, the customers will experience more professional, convenient and integrated customer services. Thus, large mobile telecommunications chain stores are expected to become the main sales channel for the mobile carriers for their bundled mobile phones.

**Customers are expected to focus on shopping experience and retailers are expected to converge into an integrated service platform.**

Customers focus is expected to gradually shift from the functions of mobile phones to the shopping experience when they purchase mobile phones. After the purchase of their mobile phones, customers will normally need related services such as synchronizing digital phone books, pre-installing software and functions to showcase videos or photos. Customers will also require retailers to provide function presentations, music and software downloads and other value-added services to make the best use of their mobile phones. In the 3G era, the convergence of mobile telecommunications and the Internet also led to rapid development of value-added business. The value-added business requires the retail channels to advance from a pure sales platform to an integrated service platform, which not only sells mobile phones and accessories, but also showcases and provides a series of value-added services and after-sales services.

**Development of mobile phone is expected to put pressure on personal computers.**

The development of smart phones and mobile Internet enables people to make full use of fragmented time and provides better user experience. Mobile phones are no longer just telecommunications equipment, but also Internet surfing devices. In 2012, there was an increasing number of PRC netizens accessing the Internet through mobile phones instead of through personal computers. According to an investigation by China Internet Network and Information Center (CNNIC), until the first half of 2013, the average time China's smart phone users spent on surfing the Internet reached 11.8 hours per week and 131 minutes per day, 79.9% of the smart phone users accessed the Internet through their mobile phones at least once a day and 22% of them spent more than 4 hours a day on the Internet.

Thousands of applications developed for smart phones have also brought to smart phone users new experiences and applications by covering almost every aspect of their lives. According to a China netizen report released by CNNIC, 35.6% of mobile phone users used PC less often than before because of the availability of mobile Internet on smart phones. The development of smart phones and smart phone applications is expected to significantly decrease customers' adherence to personal computers.

**The business of MVNO is expected to transform mobile phone retailers into retail service providers.**

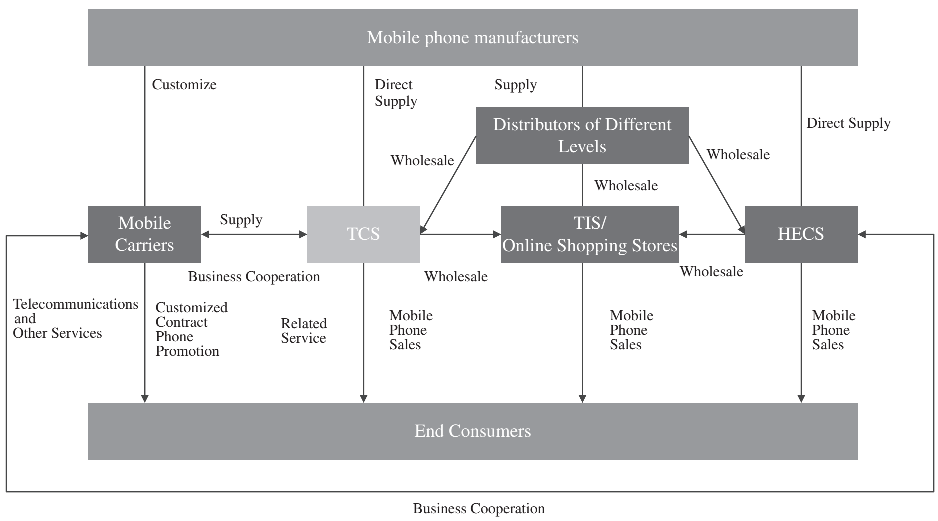
MVNO, meaning "mobile virtual network operator", refers to a wireless communications services provider that does not own the wireless network infrastructure but operates as a "virtual operator" by providing mobile services to its own customers through the network services purchased from the existing network operators. On December 26, 2013, the MIIT issued the MVNO licenses to five mobile phone retailers, including our affiliate, Dixintong Telecommunications Services, Telling (天音), FunTalk (樂語), Telephone World (話機世界), and Jingdong (京東). All the five retailers have obtained the licenses of both China Unicom and China Telecom networks. Among the five retailers, Dixintong Telecommunications Services and Telling have also entered into cooperation agreements with China Mobile in MVNO business. It is expected that the MVNO business will generate income for these MVNO licensees. Even though MVNO licensees have few advantages in network and technology as compared with the existing mobile carriers, the MVNO licensees can seek to develop more subscribers by creating a more comfortable user environment and offering better customer services.

## CHINA'S MOBILE PHONE RETAIL MARKET

### China mobile phone supply chain

The supply chain of the mobile phone industry involves mobile phone manufacturing, wholesale and retail. The main participants of the mobile phone industry include the mobile phone manufacturers, wholesalers, retailers and end users. The following chart shows the relationship of the participants in China's mobile phone industry.

**Relationship of the participants in the China mobile phone industry**




*Source: SINO*

### Classification of retailers in the China mobile phone market

In general, retailers in the China mobile phone market can be classified into the following six categories:

1. Telecommunications chain stores ("**TCS**") which have not less than three shop-front stores and only sell mobile phones and related services. Representative TCS include Dixintong (迪信通), FunTalk (樂語), Longyue (龍粵), Holpe (恒波), DADICOM (大地), Zhongyu (中域) and Telephone World (話機世界) etc.;

2. Telecommunications independent stores ("**TIS**") which only sell mobile phones and offer related telecommunications services with less than three outlets;

3. Home electronics chain stores ("**HECS**") which sell electronics products with more than three outlets. Representative HECS include Gome (國美) and Suning (蘇寧);

4. Operator sales halls ("**OSH**") which are either operated by mobile carriers or mobile phone retailers in cooperation with mobile carriers, and not only sell mobile phones but also offer telecommunications services;

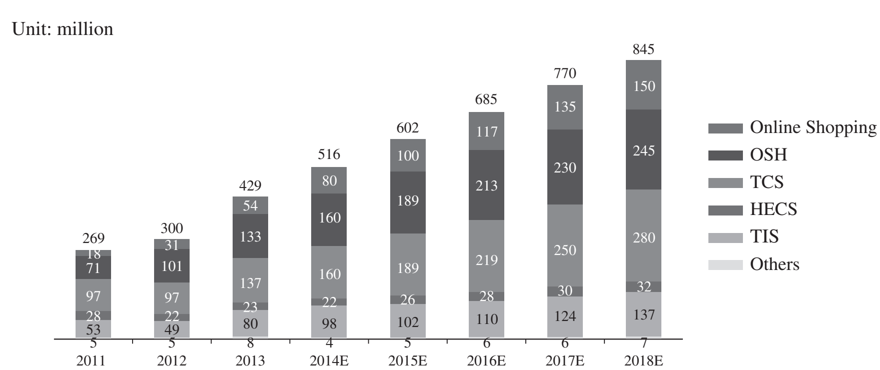
5. Online shopping stores which enable customers to buy authentic mobile phones from online shopping websites. Representative ones include JD.com (京東商城), Amazon.cn (亞馬遜中國), Tmall.com (天貓商城) and Suning.com (蘇寧易購).

6. Other retailers which include all other retailers selling mobile phones, such as retail chain department stores, independent department stores, exclusive brand stores and home electronics independent stores.

**Development status of different retail types in the China mobile phone market**

With the rapid growth of the mobile phone market, all types of mobile phone retailers have experienced rapid growth. In particular, sales volume of TCS experienced an increase from 97 million handsets in 2012 to 137 million handsets in 2013, sales volume of OSH increased from 101 million handsets in 2012 to 133 million handsets in 2013, and sales volume of online shopping stores increase from 31 million handsets in 2012 to 54 million handsets in 2013. SINO forecasts TCS will remain the largest mobile phone retailer until 2018 with a sales volume of 280 million handsets. The following chart shows the historical and estimated trend of sales volume of different retail types including online shopping in China mobile phone market for the periods specified.

**Historical and forecasted trend of sales volume of different retailers in the China mobile phone market from 2011-2018E(1)**




*Source:* *SINO*

*Notes:* (1) Statistics in this chart include sales volume through both online and offline channels. The sum of sales volume of each retail channels is greater than the total mobile phone sales volume because there is double count generated from the handsets of online channels procured by the offline channels.

As for revenue, the revenue of TCS is much higher than that of the other retail channels. According to the SINO Report, the revenue of TCS is expected to grow continually from RMB168 billion in 2013 to RMB364 billion in 2018. The revenue of online shopping stores is expected to increase from RMB79 billion in 2013 to RMB190 billion in 2018. The revenue of OSH is expected to increase from RMB164 billion in 2013 to RMB343 billion in 2018. The revenue of HECS remained comparatively stable in 2013 around RMB28 billion, and is expected to be RMB56 billion in 2018.

**Development and influence of online shopping**

With the development of the Internet, online shopping has witnessed a remarkable rise in China. Online shopping is characterized by its convenience, higher efficiency and lower price. According to the SINO Report, the sales of mobile phones via online channels in 2013 accounted for approximately 13% of the total sales of mobile phones in China, and approximately 16% of the customers would buy their next mobile phones through online channels. It is estimated that the mobile phone sales volume from online channels will reach 80 million handsets, representing approximately 15.5% of the total mobile phone market in 2014. It will continue to increase to hit 150 million handsets with approximately 17.8% of the market share in 2018.

With the exception of Suning, other main mobile phone retailers have opened online stores at main online platforms. Compared with offline channels, online shopping generally offers lower prices and allows for easier comparison of price and specifications through the Internet and completion of the transaction online, which in turn saves time and travel costs.

Dixintong is one of the pioneers in selling mobile phones over online platforms in China. It has not only started its own online website but also opened flagship stores in main B2C websites, which have brought convenience to online customers in purchasing mobile phones from various channels.

**Comparisons of presence of the main mobile phone retailers in the China online shopping market**

| | Suning | Gome | Dixintong | Zhongyu | FunTalk |
|---|---|---|---|---|---|
| Tmall.com | / | √ | √ | √ | √ |
| Yhd.com | / | / | √ | / | / |
| Amazon.cn | / | / | √ | / | √ |
| Self-owned online stores | √ | √ | √ | √ | √ |

*Source: SINO*

## COMPETITIVE LANDSCAPE OF RETAILERS IN CHINA'S MOBILE PHONE MARKET

**Top five telecommunications chain stores (TCS)**

TCS features lower operation costs, flexible locations and small retail areas compared with HECS. As TCS specializes in mobile phone sales, TCS usually impresses customers with its expertise in telecommunications devices. In addition, TCS usually has customer service centers, which provide after-sales services for customers. According to the SINO Report, the top five TCSs are Dixintong, Zhongyu, FunTalk, Holpe and DADICOM, respectively. Holpe and DADICOM are regional TCSs in Guangdong province.

**Top five TCSs in terms of annual mobile phone sales volume and their respective number of stores in 2013**

| Rank | Retailers | Monthly sales volume | Approximate number of stores | TCS market share in 2013 |
|---|---|---|---|---|
| | | (thousand) | | |
| 1 . . . . . . . . . . . . . . . . . . . | Dixintong | 625 | ~1,500 | 10.4% |
| 2 . . . . . . . . . . . . . . . . . . . | Zhongyu | 507 | ~1,450 | 8.4% |
| 3 . . . . . . . . . . . . . . . . . . . | FunTalk | 403 | ~1,100 | 6.7% |
| 4 . . . . . . . . . . . . . . . . . . . | Holpe | 131 | ~350 | 2.2% |
| 5 . . . . . . . . . . . . . . . . . . . | DADICOM | 103 | ~450 | 1.7% |

*Source: Historical SINO Census Data*

**Top five China mobile phone retailers**

According to the SINO Report, the top five retailers in China's mobile phone market in 2013 were Suning, Gome, Dixintong, Zhongyu and FunTalk, respectively. Suning and Gome are two giant national HECS. Dixintong and FunTalk are two national TCSs. Dixintong ranked the first in Beijing, Shanghai, Tianjin, and Anhui, Henan and Hunan provinces and ranked among the top three TCS in 12 provinces including Zhejiang, Sichuan, Shandong and Liaoning provinces in terms of sales volume in 2013. Zhongyu is a regional TCS in Guangdong Province. All top five retailers develop cooperative relationships with the mobile carriers and the level of cooperation varies with different mobile carriers.

**Top five China mobile phone retailers in terms of annual mobile phone sales volume and their respective number of stores in 2013**

| Rank | Retailers | Monthly sales volume | Approximate number of stores | Share of non-bundled mobile phone market in 2013 |
|---|---|---|---|---|
| | | (thousand) | | |
| 1 . . . . . . . . . . . . . . . . . . . | Suning | 804 | ~1,560 | 4.6% |
| 2 . . . . . . . . . . . . . . . . . . . | Gome | 693 | ~1,600 | 3.9% |
| 3 . . . . . . . . . . . . . . . . . . . | Dixintong | 625 | ~1,500 | 3.5% |
| 4 . . . . . . . . . . . . . . . . . . . | Zhongyu | 507 | ~1,450 | 2.9% |
| 5 . . . . . . . . . . . . . . . . . . . | FunTalk | 403 | ~1,100 | 2.3% |

*Source: Historical SINO Census Data*

**Entry barriers to become mobile phone retailers in China**

The entry barrier to become mobile phone retailers in China is mainly the requirement on capital investment. For example, in a city of third-tier or below, the initial investment amount to open a small independent telecommunications store is approximately RMB250,000, including the rental of the store, the interior decoration and in-store facilities costs, the costs of procuring telecommunications products and other utility and administration costs.

Furthermore, to become sizeable mobile phone retailers, there are seven other key entry barriers, which are set out below:

1. Brand and reputation – Brand awareness and reputation are built upon honest and ethical business conduct and relationships with customers over an extended period of time.

2. Channel barrier – It takes a long time for retailers to build reliable cooperative relationships with suppliers, and it is hard for retailers and suppliers to establish mutual trust and direct-supply relationships. In particular, large mobile phone manufacturers have rigorous standards for selecting retailers and tend to cooperate with large retailers, which already own an extensive sales network. Newcomers struggle to have stable and long-standing supplies and maintain continuous big orders and thus often find it difficult to build their market share.

3. Economies of scale – Economies of scale in the mobile phone retail industry tends to be significant. With extensive sales networks and long and stable cooperative relationships with suppliers, large retailers can obtain economies of scale through lower procurement costs and higher profit margins, which are not easy to obtain by new comers.

4. Network build-out – Newcomers to a market will experience difficulties in finding suitable areas in the target market due to the established and continuous local presence of the large retailers. In addition, sustainable operation of mobile phone retail stores is based on scientific and reasonable store layout, and successful layout of chain stores hinges on whether they can consistently apply the standardization strategies and the ability to develop a good understanding of the target market.

5. Management capabilities – Management capabilities ranging from logistics, storage management, pricing strategies to marketing are very important for mobile phone retail stores to ensure highly efficient operation.

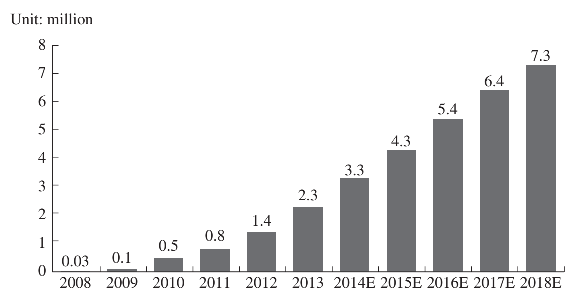
6. Highly qualified personnel – Professional personnel with extensive experience in the supply chain management and mobile phone retail management are important assets to the TCS. The experienced supply chain managers and sales staff are limited resources in the market. It is a time-consuming and costly process to train and build a professional management team. Every company in this industry is craving for experienced managers. Compared with the HECS, the TCS often have a more professional and knowledgeable team with in-depth understanding of the mobile phone industry and the mobile phone retail field.

7. Substantial investments – operating mobile phone chain stores require substantial investments in aspects including logistics facilities, store rent and information management system. The unit price of mobile phones is relatively high and TCS usually requires large amounts of mobile phone stock, which translate into greater financing requirements.

## MOBILE APPLICATIONS IN CHINA

Mobile applications have experienced robust growth in China. The number of applications in various mobile application stores or markets amounted to 2.3 million in 2013, increasing by approximately 64% from 2012. It is forecasted by SINO that the number of mobile applications will reach 3.3 million in 2014, representing a CAGR of approximately 43%.

**Historical and estimated trend of mobile applications number in China from 2008-2018E**




*Source: SINO*

## DEVELOPMENT STATUS OF O2O MODEL

A retailer's O2O model can enhance user stickiness by offering user experience which integrates traditional brick-and-mortar with online engagement. Offline-to-online strategy can increase the total addressable market by serving non-Internet-connected customers through traditional brick-and-mortar retail outlets while migrating their user experience and behavior to include online engagement over time.

O2O demonstrates a closed loop system that drives customers from online to offline and back to online. For example, when a customer makes a purchase through the O2O platform, the closed loop system of the O2O platform will track both online and offline behavior, especially monitoring offline experience, in order to establish customer information database and monitor customer loyalty.

The O2O model has become the new e-commerce business model. Since the introduction of group buying in 2010, the O2O model has experienced high growth with great market potential in China. By establishing both online and offline services, a retailer can avail itself of integrated statistics collected from both online and offline channels, so that it can achieve larger market shares and enhanced brand influence. Dixintong is one of the pioneers in establishing and developing an O2O platform among telecommunications retailers in China. Among the TCS and HECS which benefit from relatively larger economies of scale and hence are more well-positioned in developing an O2O platform, Dixintong, Suning, Gome, Hisap (宏圖三胞) and Holpe (恒波) were the first five retailers in the China mobile phone retail market that have developed an O2O platform in the PRC since 2013.

## DEVELOPMENT STATUS OF CHINESE MVNO

### Background of MVNO

MVNO, meaning "mobile virtual network operator", refers to a wireless communications services provider that does not own the wireless network infrastructure but operates as a "virtual operator" by providing mobile services to its own customers through the network services purchased from the existing network operators. The operations of MVNOs are common in developed countries such as the United States, the United Kingdom and Japan. In China, pursuant to the "Measures on Further Encouraging and Channeling Private Capital into Telecommunications Industry" (關於鼓勵和引導民間資本進一步進入電信業的實施意見) promulgated by the MIIT in June 2012, a MVNO needs to be licensed by the MIIT. See "Regulatory Overview – Mobile Telecommunications Resale." The mobile carriers which are the existing network operator (being China Mobile, Chine Unicom and China Telecom) and MVNOs can enter into a business agreement for selling access to the network services to the MVNOs in bulk at wholesale rates. Although the MVNO does not possess any network infrastructure, the MVNO can independently set the retail prices of the network services sold. Save for the network services arrangement with the mobile carriers, the MVNO essentially has to carry out its own business and operations like any mobile carrier in aspects such as employing its own marketing and sales personnel, running its own retail outlets as well as maintaining its own customer base, customer service capability and billing systems.

### History and prospects of MVNO business in China

On May 17, 2013, the MIIT announced the "Mobile Telecommunication Resale Service Pilot Scheme" (移動通信轉售業務試點方案) to encourage private investment in the telecommunications industry, which represented the official approval of the MVNO business. On December 26, 2013, the MIIT issued the MVNO licenses to the first group of 11 companies including Dixintong Telecommunications Services (an affiliate of Dixintong), Telling, FunTalk, Telephone World, and Jingdong. On January 29, 2014, the MIIT issued the MVNO licenses to another eight companies including Suning and Gome. Among the total 19 MVNO licensees, nine companies, including Dixintong Telecommunications Services, FunTalk, Jingdong, Suning and Gome, have obtained the licenses from both China Unicom and China Telecom. China Mobile also announced a list of 17 cooperative MVNO licensees, including Dixintong Telecommunications Services, Suning and Gome in May 2014.

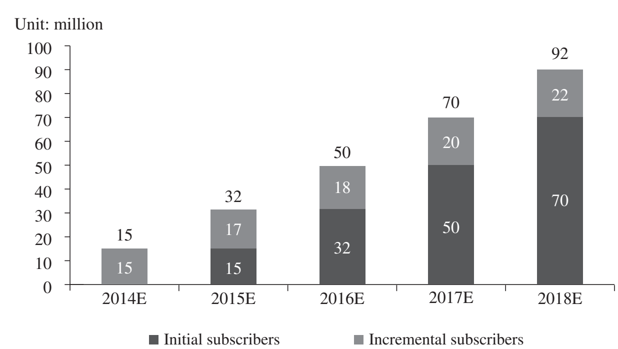
Among the total 19 companies that have obtained the MVNO licenses, Dixintong Telecommunications Services, Telling, FunTalk, Telephone World and Jingdong are mobile phone retailers, which can develop users by selling bundled mobile phones. It is estimated by SINO that in 2014, the users developed by these five mobile phone retailers (including Dixintong, Telling, FunTalk, Telephone World and Jingdong) will account for approximately 70% of the total MVNO users. The mobile phone retailers will allow customers to personally experience MVNO business and complete the subscription contracts at their stores and thus will gain more competitive strength in the early development of the MVNO business.

**Market size outlook**

The number of MVNO subscribers is expected to reach 15 million in 2014. The parameters that were considered in the market size forecast model adopted in the MVNO business include the estimated ratio of existing users who switch to MVNO network and the estimated new developed users. In the market size forecast, SINO also considered the following facts: not-fully developed awareness and knowledge on MVNO business among customers, the robust competition with mobile carriers, and obscured marketing strategies of MVNO business. SINO estimates that the incremental subscribers of MVNO will embrace 10% annual growth rate.

The subscriber scale of MVNO market is expected to be approximately 92 million in 2018. The following chart shows the estimated trend of MVNO subscriber in China for the periods specified.

**Forecasted trend of total number of MVNO subscribers from 2014E to 2018E(1)**




*Source:* *SINO*

*Note:* (1) Statistics are rounded.

## SOURCES OF INFORMATION

In connection with the Global Offering, we have engaged SINO, an independent third party, to conduct a study of China's mobile phone market in general, and China's mobile phone retail market in particular. SINO is an independent market research institute in the mobile telecommunications industry with its headquarters in Beijing. The SINO Report was prepared based on SINO's inhouse database, various government statistics, industry publications and other independent third-party sources. Where necessary, SINO surveys companies operating in the industry to gather and synthesize information about markets, prices and other relevant information. The information contained herein, including certain forward-looking information derived or sourced from SINO's database, has been obtained from sources believed by SINO to be reliable. For the purpose of this section, unless otherwise specified, all data and statistics do not include the sales volume of online sales market in the mobile phone industry. In addition, the following parameters were considered in the market size estimation model adopted in the SINO Report: revenues of the leading retailers in China's mobile phone industry, their respective market shares, prevailing market trends, and knowledge of the markets' underlying fundamentals. SINO made the following major assumptions about China's mobile phone market in the preparation of the SINO Report: (i) the macroeconomic environment in China is expected to remain stable from 2013 to 2018; (ii) disposable income per capita is expected to continue to grow from 2013 to 2018; and (iii) there is no dramatic change in mobile phone consumption pattern from 2013 to 2018. We have agreed to pay a total of approximately RMB240,000 in fees for the preparation of the SINO Report.

Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date on which we obtained the information from SINO which may qualify, contradict or have an impact on the information in this section.

## REGULATORY FRAMEWORK

We are a foreign-invested joint stock limited company engaged in the retail and wholesale of mobile telecommunications terminals and provision of relevant services through physical retail outlets and e-commerce platforms. We are subject to the relevant provisions set out in a series of laws, regulations, rules, regulatory documents and industrial policies in relation to foreign investment, retail chain operation and e-commerce in the PRC, which mainly include the "Catalogue for Guidance of Foreign Investment Industries" (《外商投資產業指導目錄》) (amended in 2011 and implemented on January 30, 2012), the "Administrative Measures for Commercial Investment by Foreign Investors" (《外商投資商業領域管理辦法》) (implemented on June 1, 2004), the "Administrative Measures for Promotional Activities by Retailers" (《零售商促銷行為管理辦法》) (implemented on October 15, 2006), the "Administrative Measures for Fair Transactions Between Retailers and Suppliers" (《零售商供應商公平交易管理辦法》) (implemented on October 15, 2006), the "Regulation on Administration of Commercial Franchise" (《商業特許經營管理條例》) (implemented on May 1, 2007), the "Administrative Measures for the Filing of Commercial Franchise" (《商業特許經營備案管理辦法》) (implemented on February 1, 2012), the "Administrative Measures for Information Disclosure of Commercial Franchise" (《商業特許經營信息披露管理辦法》) (implemented on April 1, 2012) and the "Requirements on the Liabilities for Repair, Replacement and Return of Mobile Phones" (《移動電話機商品修理更換退貨責任規定》) (implemented on November 15, 2001). Meanwhile, we are also regulated and restricted by the laws, regulations, rules, regulatory documents and policies in relation to personal information protection, anti-unjust competition, labor protection and so forth.

## PRINCIPAL ADMINISTRATIVE AUTHORITIES

### The Ministry of Industry and Information Technology (MIIT)

The Ministry of Industry and Information Technology is responsible for the management of the technical standards and network access certifications of our products. The main duties of the Ministry of Industry and Information Technology include but not limited to the following:

(1) to formulate development plans in relation to industry, telecommunications and information technology and organize the implementation thereof, and to promote the strategic adjustment, optimization and upgrading of industrial structure;

(2) to instruct drafting relevant laws and regulations, formulate rules, industrial technical specifications and standards and organize the implementation thereof, as well as to guide the quality management works in the industry;

(3) to propose the scales and directions in fixed assets investment in relation to industry, telecommunications and information technology (including the use of foreign investments and offshore investments), put forward opinions on the arrangement of construction fund allocated by the central government, and to examine and approve fixed assets investment projects within the planning and annually planned scales to the extent specified by the State Council; and

(4) to supervise and manage the markets of telecommunications and information service, formulate the tariff policies and standards for telecommunications services jointly with other relevant authorities and supervise the implementation thereof, be responsible for the allocation, management and international coordination in telecommunications resources, promote the universal services in telecommunications and guarantee emergency communication.

**Ministry of Commerce (MOFCOM)**

We are engaged in the commerce and trade industry, and the regulatory authorities of commerce and trade industry are the MOFCOM and its local commerce administrative departments. The main duties of the MOFCOM include but not limited to the following:

(1) to formulate development strategies, guidelines and policies of domestic and foreign trade and international economic cooperation, draft laws and regulations governing domestic and foreign trade, international economic cooperation and foreign investments, and formulate implementation rules and regulations;

(2) to formulate development plans of domestic and foreign trade, study and put forward opinions on reform of trading system, promote the development of both urban and rural markets, guide the reform of trading enterprises, guide the development of commerce, trade and service industry, promote the structural adjustment of trading enterprises, promote the development of advanced models of commerce and trade such as standardization and chain operation, commercial franchise, logistics and distribution and e-commerce;

(3) to undertake supervision and administration over the commercial sector for foreign investments and the operation activities in foreign-invested commercial enterprises; and

(4) to undertake supervision and administration over the franchise activities in the country.

**The General Administration of Quality Supervision, Inspection and Quarantine of the PRC (AQSIQ)**

The main duties of the AQSIQ include but not limited to the following:

(1) to carry out macro quality management and provide guidance for quality supervision at national level;

(2) to carry out quality supervision, inspection and quarantine, formulate and supervise the implementation of the development strategies and relevant policies for the enhancement of national quality standards;

(3) to draft laws and regulations relating to quality supervision, inspection and quarantine, to formulate and publish relevant regulations and rules;

(4) to supervise and manage quality inspection institutions in accordance with relevant laws;

(5) to supervise and control product quality and carry out mandatory inspection; and

(6) to supervise and manage the inspection and authentication in relation to the arbitration of product quality and safety.

**The State Administration for Industry and Commerce (SAIC)**

The main duties of the SAIC include but not limited to the following:

(1) to carry out market supervision and management as well as administration and execution, draft relevant laws and regulations, and formulate regulations and policies relating to the administration and management of industry and commerce;

(2) to supervise and manage market transactions, online commodity transactions and relevant services, supervise and manage the quality of commodity in the circulation sector, and organize and carry out consumer rights protection activities in relevant service sectors;

(3) to carry out anti-monopoly law enforcement works (other than price monopoly conducts) in respect of monopoly agreements, abuses of dominant positions in market and abuses of administrative power to eliminate or restrict competition, and carry out investigations for illegal economic acts such as unfair competition, commercial bribery and smuggling;

(4) to supervise and manage advertising activities; and

(5) to supervise and manage trademark registration.

**The National Development and Reform Commission (NDRC)**

The main duties of the NDRC include but not limited to the following:

(1) to carry out comprehensive research and formulate strategies relating to economic and social development, formulate medium to long term plans and annual plans, study important problems such as general equilibrium and put forward macro control policies and suggestions, guide, promote and coordinate the reform of economic system in a comprehensive manner;

(2) to draft laws and regulations relating to national economy, social development, reform of economic system and opening up, and formulate relevant departmental rules; and

(3) to supervise and investigate the implementation of price policies, formulate and adjust the prices of a few important commodities that are under the control of the nation, formulate and adjust important pricing standards, and investigate illegal pricing acts and price monopoly conducts.

### Self-Regulating Organizations for the Industry

The self-regulating organizations for our industry include China Chain Store & Franchise Association, China Commerce Association, etc. The main duties of these self-regulating organizations are to promote external economic cooperation, and coordinate the communication and exchange between members as well as between members and government authorities. Currently, we are a member of China Chain Store & Franchise Association, and a member and a council of China Electronic Chamber of Commerce.

## PRINCIPAL LAWS AND REGULATIONS

### Overall Industrial Plans and Guidelines

Currently in China, investment of private capital into the circulation sector, business mode combining directly-operated retail chains and franchise chains, or such new operation model as e-commerce, is encouraged by government policy.

The "Opinions of the State Council on Deepening the Reform of Circulation System to Speed Up the Development of Circulation Industry" (《國務院關於深化流通體制改革加快流通產業發展的意見》) was promulgated and implemented on August 3, 2012. It encourages the development of directly-operated retail chains and franchised operation, and supports enterprises in the circulation sector to expand their retail train networks across different regions. It also supports retail enterprises to change their sales and marketing models, so as to increase the percentage of revenue from self-owned operation. Furthermore, it supports enterprises in the circulation sector to construct advanced logistic centers, so as to proactively develop centralized distribution.

The "Several Opinions of the State Council on Encouraging and Guiding the Healthy Development of Private Investments" (《國務院關於鼓勵和引導民間投資健康發展的若干意見》) was promulgated and implemented on May 7, 2010. It encourages private capital to invest in wholesale, retail and logistics sectors, supports the development of private wholesale and retail enterprises, and encourages private capital to invest in new circulation sectors such as franchised operation and e-commerce.

The "Several Opinions of the General Office of the State Council on Accelerating the Development of Electronic Commerce" (《國務院辦公廳關於加快電子商務發展的若干意見》) was promulgated and implemented on January 8, 2005. It proposes relevant provisions in relation to accelerating and standardizing the development of e-commerce. The "Opinions of the Ministry of Commerce on Promoting the Implementation of E-Commerce Applications" (《商務部關於促進電子商務應用的實施意見》) was promulgated and implemented on October 31, 2013. It proposes relevant provisions in relation to further promoting the applications and development of e-commerce.

The "Twelfth Five-Year Plan for Development of Domestic Trade" (《國內貿易發展"十二五"規劃》), which was approved by the State Council and promulgated by the General Office of the State Council on September 1, 2012, encourages the transformation and upgrading of enterprises in the circulation sector through the application of e-commerce, proactively promotes the healthy and rapid development of online retail business, supports the development of new e-commerce models such as community e-commerce and mobile e-commerce, and encourages the development of directly-operated chains while standardizing the development of franchised operation.

The "Catalogue for the Guidance of Industrial Structure Adjustment" (《產業結構調整指導目錄》) was promulgated by the NDRC on March 27, 2011 and amended on February 16, 2013. The amended version was implemented on May 1, 2013. According to the catalogue, for commercial and trade enterprises, the "centralized distribution and construction of distribution network by commercial and trade enterprises" are under the category of encouraged industries.

**Foreign Investment**

As a foreign-invested enterprise, we are obliged to follow the guidance on investment direction, the business scope and the business model of a foreign-invested enterprise may involve and subject to regulations of the related policy.

The "Regulations on Guiding Foreign Investments" (《指導外商投資方向規定》), which was promulgated on February 11, 2002 and implemented on April 1, 2002, classifies foreign investments in Mainland China into four categories, namely encouraged, permitted, restricted and prohibited. Among which, the industries under the encouraged, restricted and prohibited categories are listed in the "Catalogue for the Guidance of Foreign Investment Industries" (《外商投資產業指導目錄》, the "**Catalogue**"), while the foreign investment projects under the permitted category are not listed in the Catalogue.

The "Catalogue for the Guidance of Foreign Investment Industries" (《外商投資產業指導目錄》) currently in force was jointly promulgated by the NDRC and the MOFCOM on December 14, 2011 and implemented on January 30, 2012. According to the Catalogue, online sales are under the Category of restricted industries for foreign investment, while wholesale and retail (rather than on-line sales) of telecommunications products are not listed in the Catalogue, therefore, these businesses are under the Category of permitted industries for foreign investment.

The "Administrative Measures for Commercial Investment by Foreign Investors" (《外商投資商業領域管理辦法》) was laid down by Ministry of Commerce of People's Republic of China on April 16, 2004 and implemented on June 1, 2004. It aims to expand the scale of opening up and improve the construction of market circulation system, and specifies the detailed conditions, procedures and administrative authority for examination and approval of the establishment and incorporation of commercial enterprises with foreign investment. Pursuant to the "Notice of the Ministry of Commerce on Entrusting Local Departments to Examine and Approve the Applications from Commercial Enterprises with Foreign

Investment" (《商務部關於委託地方部門審核外商投資商業企業的通知》), which was promulgated on December 9, 2005 and implemented on March 1, 2006, and the "Notice of the Ministry of Commerce on Delegation of Authority in Relation to the Examination and Approval of Applications from Commercial Enterprises with Foreign Investment" (《商務部關於下放外商投資商業企業審批事項的通知》), which was promulgated and implemented on September 12, 2008, part of the authority in relation to the examination and approval of applications from commercial enterprises with foreign investment were delegated to the competent authorities of commerce at the provincial level. The "Notice of the Ministry of Commerce on Doing a Good Job in the Examination, Approval and Filing of Commercial Enterprises with Foreign Investment" (Shang Zi Han [2008] No. 94) (《關於做好外商投資商業企業審批和備案工作的通知》(商資函[2008]94號)) was promulgated on January 14, 2009. It specifies the power to approve commercial enterprises with foreign investment may be decentralized to commerce departments at lower levels by the provincial commerce departments according to the actual situation. Under the "Notice of the Ministry of Commerce on Disclosure of Catalogue for the Current Administrative Approvals" (《商務部關於公開現有行政審批事項目錄的通知》) released on February 17, 2014, the existing administrative approvals of the Ministry of Commerce do not include the approval of the establishment and opening of any outlets by a commercial enterprise with foreign investment.

However, the above-mentioned measures do not impose legal liability to deeds that legal liability shall be borne by companies or stores invested by foreign-invested enterprise and have been registered after approval by the industrial and commercial administrative bureaus but not yet obtained approval from the competent department of commerce. After our transformation into a foreign-invested enterprise, we did not seek approval from the competent department of commerce when opening new companies or stores, because the industrial and commercial administrative bureaus have not asked us to do so. Considering no such regulations in place, we (including other newly-established enterprises and stores) have not been punished or investigated by the competent department of commerce for not obtaining approval from the competent department of commerce, and the normal running of our business was not affected so far.

As for the regulation on foreign-invested enterprises conducting online sales business, the "Notice of the General Office of the Ministry of Commerce on Examination, Approval and Management of Foreign Investments in Projects Involving Online Sales and Vending Machines" (《商務部辦公廳關於外商投資互聯網、自動售貨機方式銷售項目審批管理有關問題的通知》), which was promulgated and implemented on August 19, 2010, further specifies that commercial enterprises with foreign investment which are approved and registered in accordance with relevant laws can engage in online sales business directly, while foreign-invested enterprises that intend to use their self-owned online platforms to engage in the sales of commodities directly, are required to file with relevant telecommunications regulatory departments.

## ONLINE SALES

The "Electronic Signature Law of the PRC" (《中華人民共和國電子簽名法》) was promulgated on August 28, 2004, and implemented with effect from April 1, 2005. It aims to regulate electronic signatures and establish the legal effect of electronic signatures. Under the law, reliable electronic signatures and handwritten signatures or seals shall have the same legal effect, which helps lay the basis for online sales.

The "Consumer Protection Law" (《消費者權益保護法》), which was made in 1993, amended and promulgated on October 25, 2013 and implemented with effect from March 15, 2014, aims to protect consumers' right to purchase or use products or receive services. All operators providing the products they produce or sell or the services they offer shall comply with the law. It stipulates that operators offering products or services by Internet, television, telephone, mail order and other ways shall provide consumers with their operation address, methods of contact, quantity and quality of products or services, price or cost, period and ways of fulfillment, safety considerations and risk warning, after-sale services, civil liability and other information. If operators sell products by Internet, television, telephone, mail order and other ways, consumers are entitled to return such products within seven days from the date of receipt of such products without any justifications, except for the products made specially for customers, perishable products, the audio and video products which are downloaded online or are unpacked by consumers, digital products such as computer software, newspapers or periodicals in delivery and other products confirmed unreturnable by consumers at the time of purchase based on the nature of such products.

The "Guiding Opinions of the Ministry of Commerce on Online Transactions (Provisional)" (《商務部關於網上交易的指導意見(暫行)》) was promulgated and implemented on March 6, 2007. It aims to regulate online transactions, assist and encourage participants to carry out online transactions, alert and prevent transaction risks, and provide guiding requirements on the basic principles for online transactions, the entering into of contracts by participants of online transactions, and the use of electronic signatures, online payments and advertising. It requires that the parties signing contracts by electronic signature shall abide by the laws and regulations on electronic signatures, use reliable electronic signature, and select the legally established electronic certification service providers to provide certification service.

The "Administrative Measures for Online Commodity Transactions and Related Services (Provisional)" (《網絡商品交易及有關服務行為管理暫行辦法》) was promulgated on May 31, 2010 and implemented with effect from July 1, 2010. It aims to regulate online commodity transactions and related services to protect the legitimate rights and interests of consumers and operators. According to the measures, the legal persons, other economic organizations or individual industrial and commercial households registered with the administrative department for industry and commerce and granted with a business license, if carrying out commodity transactions and related services by Internet, shall disclose the information on their business licenses or the hyperlinks to their business licenses on the home page of their websites or the conspicuous place of the webpage used for business operations.

On February 17, 2014, the SAIC promulgated the "Administrative Measures for On-line Trading" (《網絡交易管理辦法》) with effect from March 15, 2014 to replace the "Administrative Measures for Online Commodity Transactions and Related Services (Provisional)" (《網絡商品交易及有關服務行為管理暫行辦法》). Based on the latest amendments to the "Consumer Protection Law" (《消費者權益保護法》), the "Administrative Measures for On-line Trading" (《網絡交易管理辦法》) further specifies the relevant measures for protecting on-line consumers' rights, especially with regard to after-sale service, privacy protection and standard contract management, diversifies the types of unjust competitions conducted by an operator through network or certain media, and clarifies the regulatory and administrative responsibilities of the industry and commerce administration bureaus at different levels.

## NETWORK ACCESS PERMIT FOR TELECOMMUNICATIONS EQUIPMENT

The mobile telecommunications terminals we sell are equipment being used to connect to public telecommunication network, wireless telecommunication equipment and those telecommunication equipment in relation to network interconnection. Pursuant to the "Network Access Permit for Telecommunications Equipment" (《電信設備進網管理辦法》) promulgated and implemented on June 1, 2001, the Chinese government has implemented the network access licensing system in respect of the connection of telecommunications terminal equipment, radio communication equipment and the telecommunications equipment for interconnection with public telecommunications network. The telecommunications equipment being subject to the network access licensing system shall obtain the network access permit from the Ministry of Industry and Information Technology. Those not obtaining the network access license shall not be connected to public telecommunications network and sold in the country. The network access license is valid for three years, manufacturers wanting to continue to produce and sell their telecommunications equipment for which the network access license has been obtained shall renew their network access license within three months prior to their expiry. Enterprises illegally selling their telecommunications terminal equipment for which the network access license has not been obtained may be ordered to make corrections and imposed a fine of more than RMB10,000 to less than RMB100,000 by the communication regulatory authorities at the level of provinces, autonomous regions or municipalities directly under the State Council.

Prior to offering our mobile telecommunication terminal equipment for sale, we will make sure the network access permit of these equipment are available so as to ensure that we do not violate any above-mentioned regulations.

## PRODUCT QUALITY AND PRODUCT LIABILITY

According to Chinese law, producers should take responsibility for the quality of the goods that they sold to customers.

The "Product Quality Law of the People's Republic of China" (《中華人民共和國產品質量法》) was promulgated on July 8, 2000, and implemented with effect from September 1, 2000. It aims to regulate the behaviors of producers and sellers and strengthen the control of product quality and the protection of consumers' rights. Under the law, sellers shall establish and implement a system for inspection and acceptance of received products, verify the product quality certificates and other certificates, and take measures to maintain the quality of products on sale.

The "Consumer Protection Law" (《消費者權益保護法》) stipulates that sellers offering the following products shall be responsible for repair, replacement and return of their products, and compensate their consumers for the loss caused to them in the following circumstances, including but not limited to: (1) the products do not have the functions which are supposed to have and such facts are not made aware to consumers when making sales to them; (2) the products fail to meet the specifications shown on them or their packaging; and (3) the products are not up to the quality level indicated by product descriptions, physical samples or other ways. After sellers repair, replace products, accept returned products or compensate consumers for the losses caused to them in accordance with the foregoing provisions, they are entitled to claim for compensation against the producer or other seller providing such products when they are held liable.

The "Requirements on the Liabilities for Repair, Replacement and Return of Mobile Phones" (《移動電話機商品修理更換退貨責任規定》), which was jointly promulgated by the State Administration on Quality Supervision, Inspection and Quarantine, the State Administration for Industry and Commerce and the former Ministry of Information Industry on September 17, 2001 and implemented on November 15, 2001, further clarifies the responsibilities of sellers, repairers and producers on repair, replacement and return of mobile phones (namely the "Three Guarantees on Mobile Phones" policy). Pursuant to the requirements, the "Three Guarantees on Mobile Phones" policy adopts the principle of sellers taking responsibility for what they sell. The warranty period for the handsets of mobile phones shall be one year, and three months, six months or one year for accessories of mobile phones depending on their types, which are all calculated from the date of issuance of invoices, after deducting the time of repair or delay due to lack of parts. The warranty period for replaced products shall be calculated from the date of replacement. If the handset of mobile phones have any functional failures stated in the "Mobile Phone Performance Failures Table", consumers may choose to return, replace or repair their mobile phones within 7 days from the date of sale, and replace or repair their mobile phones within 8 to 15 days from the date of sale.

The "Consumer Protection Law" stipulates that, if operators come to know any defects in their products or services which may cause human injuries and property damages, they shall immediately report to relevant regulatory authorities and inform their consumers, suspend the sale, issue warnings, recall the products, conduct harmless treatment on them, destroy them and suspend the production or services. Operators recalling their products shall bear all the necessary costs incurred by consumers due to the recall of their products.

Pursuant to the "Product Quality Law of the PRC", the products failing to meet the national and industrial standards which protect human health and safety and property safety are prohibited for sale, the products on illegal sale shall be confiscated and the relevant sellers shall be imposed by the product quality regulatory department a fine of being equal to but less than three times the total value of the products involving illegal sale (including those sold and unsold products, same as below). All illegal income shall be confiscated, the business licenses shall be revoked in serious cases, and the relevant sellers shall be investigated for criminal liability according to the law if their acts constitute a crime.

Pursuant to the "Consumer Protection Law", consumers may seek to claim compensation against sellers if their legitimate rights and interests are prejudiced on the purchase or use of products. After a seller compensates consumers for the losses caused to them, he is entitled to claim for compensation against the producer or other seller providing such products if they are held liable. Consumers or other victims may seek to claim compensation against a seller or producer if they suffer from human injuries or property damages due to defective products. After a seller compensates consumers for the losses caused to them, he is entitled to claim compensation against the producer who is held liable. After a producer compensates consumers for the losses caused to them, he is also entitled to claim compensation against the seller who is held liable.

Pursuant to the "Tort Liability Law of the PRC" (《中華人民共和國侵權責任法》) promulgated on December 26, 2009 and implemented on July 1, 2010, the infringed persons are entitled to claim appropriate punitive compensation against sellers if the later are aware of the defects in their products when making sale to consumers and the defective products cause death or severe personal injury to consumers.

## PROTECTION OF CONSUMERS' PERSONAL INFORMATION

As required by the current PRC laws and regulations, business operators shall keep privacy for customers' personal data they collected in the course of their operation.

Pursuant to the "Consumer Protection Law", operators shall adhere to the principles of legitimacy, appropriateness and necessity when collecting and using consumers' personal information, indicate the purpose, methods and scope of collecting or using consumers' information and obtain prior consent from consumers. Operators shall disclose their principles for collection and use of consumers' personal information, and shall not violate relevant laws, regulations and the agreed terms of both parties when collecting or using consumers' personal information. Operators and their staff shall keep consumers' information strictly confidential, and shall not disclose, sell or provide those information to others illegally. Operators shall take technical and other necessary measures to ensure information security and prevent leakage or loss of consumers' personal information. Operators shall immediately take remedial measures when the leakage or lost of information has occurred or is likely to occur. Operators shall not send commercial information to consumers before obtaining their consent or request or when being explicitly rejected by them.

Pursuant to the "Decision of the National People's Congress on Strengthening Network Information Protection" (《全國人大常委會關於加強網絡信息保護的決定》) promulgated and implemented on December 28, 2012, the network service providers in breach of the obligation to protect network information are subject to warnings, fines, confiscation of illegal income or revocation of permits, or shall be deregistered, ordered to close their websites or prohibited to engage in network services. Such offences may also be entered into the social credit record and disclosed to the public. In addition, they may also be subject to public security administration punishment and civil or criminal liabilities in accordance with relevant requirements.

## COMMERCIAL FRANCHISE

The "Regulations on Administration of Commercial Franchise" (《商業特許經營管理條例》), which was promulgated on February 6, 2007 and implemented on May 1, 2007, aims to regulate commercial franchise activities by specifying the main contents of commercial franchise contracts and the obligations of franchisors in filing with commerce administrative authorities and information disclosure. Pursuant to the "Administrative Measures for the Filing of Commercial Franchise" (《商業特許經營備案管理辦法》), which was amended on December 12, 2011 and implemented on February 1, 2012, the Ministry of Commerce of the PRC and the commerce administrative authorities at the level of provinces, autonomous regions and municipal cities directly under the State Council are the competent authorities for filing commercial franchise. Commercial franchise is filed on a national network basis. Franchisors complying with the provisions of the "Administrative Measures for the Filing of Commercial Franchise" shall proceed with filing through the commercial franchise information management system established by the Ministry of Commerce of the PRC in accordance with the measures. The "Administrative Measures for Information Disclosure of Commercial Franchise" (《商業特許經營信息披露管理辦法》), which was amended and promulgated on February 23, 2012 and implemented on April 1, 2012, further clarifies the scope of information disclosure by franchisors.

The filing of commercial franchise for the Company was completed on January 2008.

## PRICING MANAGEMENT

The "Price Law of the PRC" (《中華人民共和國價格法》) was promulgated on December 29, 1997 and implemented on May 1, 1998. Pursuant to the law, the products and services may adopt either of the following pricing methods: government-guided prices, government-set prices and market-regulated prices. The market-regulated prices are set by operators in accordance with the then market conditions and relevant laws and regulations. Operators shall explicitly price the products and services they sell, purchase or offer in accordance with the provisions of relevant government pricing departments, and specify the name, origin, specifications, grade, denomination currency and charging items, scope of services, pricing standards and other relevant information. Operators shall not sell products at a price higher than the standard price and charge any fees not indicated.

## RETAIL PROMOTIONS

The "Administrative Measures for Promotional Activities of Retailers" (《零售商促銷行為管理辦法》), which was promulgated on July 13, 2006 and implemented on October 15, 2006, aims to regulate the promotional activities of retailers, safeguard the legitimate rights and interests of consumers, and maintain fair competition and public interests. It requires that retailers shall explicitly indicate promotional contents in conspicuous place in the premise when carrying out promotional activities, including the reasons, methods, rules and period of promotion, the range of promotional products and related restrictive conditions, and shall not lower the quality and after-sale service level of promotional products (including those sold as prizes and gifts) and use substandard products as prizes and gifts.

## TRANSACTIONS BETWEEN RETAILERS AND SUPPLIERS

The transactions between retailers and suppliers are subject to the "Administrative Measures for Fair Transactions between Retailers and Suppliers" (《零售商供應商公平交易管理辦法》) which was promulgated on July 13, 2006 and implemented on November 15, 2006. The measures requires that retailers shall not abuse their dominant position to conduct unfair transactions and take any actions to impede fair competition. It also specifies the circumstances in which fees shall not be charged either explicitly or implicitly, and imposes limitations on the return of products from retailers to suppliers, the collection of promotional service fees and the payment of loans.

## ANTI-UNJUST COMPETITION

The "Anti-unjust Competition Law of the People's Republic of China" (《中華人民共和國反不正當競爭法》) was promulgated on September 2, 1993 and implemented from December 1, 1993. Pursuant to the law, unjust competition behaviors such as unlawful use of trademarks or authentications of other companies, making false or misleading publicity of goods or services, infringing trade secrets, marketing goods with the incentives of improper prizes may result in penalty such as liability for compensation and confiscation of illegal earnings. Those who are accused of illegally using the trademarks or authentications of other companies may have their business licenses revoked or be liable for criminal offence.

## MOBILE TELECOMMUNICATIONS RESALE

In order to direct private capital into the telecommunications industry, the MIIT promulgated the *"Measures on Further Encouraging and Channeling Private Capital into Telecommunications Industry"* (關於鼓勵和引導民間資本進一步進入電信業的實施意見) in June 2012 which lay down the legal landscape for the MVNOs. The Measures prompt private capital owners to conduct businesses in eight areas of the telecommunications sector, including a mobile communication business resale pilot program.

As required by the *"Notice on Launching the Mobile Communication Business Resale Pilot Program"* and the attached "Mobile Telecommunication Resale Service Pilot Scheme" which were promulgated on May 17, 2013 and came into effect the same date, qualified enterprises can apply to purchase mobile telecommunication services from elementary telecommunications service providers who own mobile network, and then re-organize these services and sell them to end-users.

Eligible applicants shall meet these requirements: (1) the applicant shall be a legally established enterprise at least 50% owned by private capital shareholders and its single largest shareholder shall be a private owned company (excluding companies invested by foreigners or residents from Taiwan, Hong Kong and Macau; as for a private company listed on overseas stock market, its shares held by foreigners shall be less than 10% and its single largest shareholder shall be Chinese investors); (2) applicants have competent staff to run newly-added telecommunications business; (3) applicants must be able to provide long-time services for customers; (4) applicants must have proper premises and equipment to conduct business; and (5) applicants are capable of securing network and information; (6) applicants shall sign official contract in relation to Mobile Communication Business Resale with elementary telecommunications service providers (i.e. the current three mobile carriers in China, being China Unicom, China Mobile and China Telecom).

As of the Latest Practicable Date, the MIIT had granted approval in relation to Mobile Communication Business Resale Pilot to 19 private companies in two batches who are regarded as MVNOs, and some companies (including Dixintong Telecommunications Services) had put such business into operation since May 2014.

With the development of mobile telecommunication resale business, our future cooperation partners in respect of the sale of mobile telecommunications plans and services may include the MVNOs Licensee (including Dixintong Telecommunications Services, an affiliate of our Company) that are conducting mobile telecommunications resale business. See "Connected Transaction – Non-exempt Continuing Connected Transaction – MVNO Strategic Cooperation Agreement."

**LABOR PROTECTION**

Pursuant to the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》), which was promulgated by the NPC Standing Committee on July 5, 1994 and became effective from January 1, 1995, employers must establish a comprehensive labor management system to protect the rights of their employees, including a system governing occupational health and safety and a vacation system, so as to provide employees with occupational training, social insurance and welfare.

The "Labor Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》) was promulgated by the NPC Standing Committee on July 29, 2007 and became effective from January 1, 2008. This law was subsequently amended by the NPC Standing Committee on December 28, 2012, and such amendments were implemented on July 1, 2013. This law applies to the establishment of employment relationships between employers and employees, and the execution, performance, revocation, termination of employment contracts. Compared to the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》), the "Labor Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》) provides additional protection to employees by requiring written labor employment contracts, limiting the scope of the circumstances under which employees could be required to pay penalties for breach of employment contracts and imposing stricter legal liabilities on employers who fail to pay remuneration or social security contributions for their employees, and limiting the labor dispatch arrangements made by employers.

## OVERVIEW

Our Company was converted from a then foreign-invested limited liability company (established in 2001 as Dixintong Investment), into a foreign-invested joint stock limited liability company under PRC Company Law on December 28, 2009. We are the largest mobile telecommunications chain store as well as the third largest mobile phone retailer in terms of sales volume in China in 2013, according to the SINO Report.

As of the Latest Practicable Date, we were owned as to 64.04% by our Controlling Shareholders, namely, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei, Ms. Liu Wencui and three investment holding companies (namely Feng Yong Tai, Di Er Tong and Rong Feng Tai). For further details of our corporate structure immediately before the Global Offering, please see "– Corporate Structure." Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui are siblings.

The following table sets forth major events and milestones in the development of our business:

| Year | Event |
|---|---|
| 1998 and 2000. . . . . | Established our subsidiaries Beijing Dphone Electronic Communication Technology Co., Ltd. and Shanghai Dixin Electronic Communication Technology Co., Ltd., respectively |
| 2003 . . . . . . . . . . . . | Entered into an agreement with Han Consulting Ltd. (漢普管理諮詢(中國)有限公司) to implement our ERP system |
| 2006 . . . . . . . . . . . . | Entered into a strategic cooperation agreement with Carrefour to officially establish our presence in Carrefour in the PRC |
| 2007 . . . . . . . . . . . . | Entered into a strategic cooperation agreement with China Mobile to become its national partner in the PRC |
| 2009 . . . . . . . . . . . . | Authorized by Motorola to manufacture and sell pre-formatted mobile phones under its brand for a term of one year |
| 2010 . . . . . . . . . . . . | Established a cooperative relationship with Hollard Insurance Group, a South African insurance company, to launch the first property insurance product for mobile phones |
| 2011 . . . . . . . . . . . . | Entered into a strategic cooperation agreement with Wal-Mart in the PRC |

| Year | Event |
|---|---|
| 2011 . . . . . . . . . . . . | Top ten China Enterprise in Providing After Sales Services (全國售後服務行業十佳企業) by Chinese General Chamber of Commerce (中國商業聯合會), China Consumer Protection Association (中國保護消費者協會) and National Committee for Evaluating After Sales Services (全國商品售後服務評價委員會) |
| 2012 . . . . . . . . . . . . | Entered into a strategic cooperation agreement with China Unicom to become a mutual core strategic partner |
| 2012 and 2013. . . . . | Top Brand in Telecom and Mobile Brands in China (專業通信流通品牌第一名) awarded by Professional Committee of Safety Production and Information Technology, China Electronic Commerce Association (中國電子商務協會安全生產信息技術專業委員會) and China Brand Strategy Research Institute (中華品牌戰略研究院) |

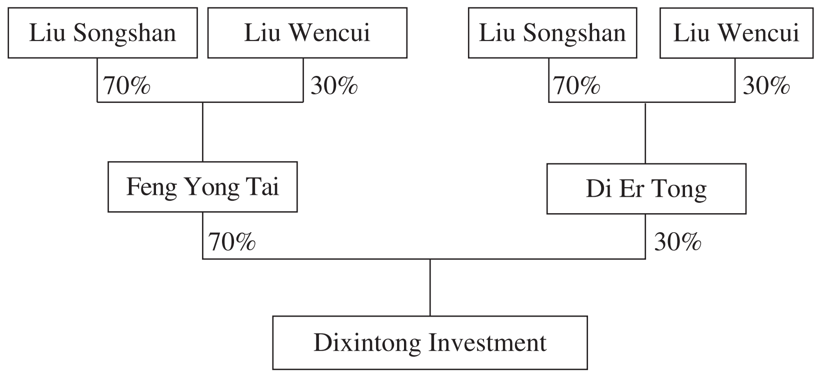
## HISTORY AND DEVELOPMENT

### Background

Our Founders have started the retailing business of telecommunication mobile devices since 1993 and gained rich experience in the relevant industry. By establishing Beijing Dphone Electronic Communication Technology Co., Ltd. in 1998 and Shanghai Dixin Electronic Communication Technology Co., Ltd. in 2000, Mr. Liu Songshan and Ms. Liu Wencui expanded their businesses and successfully began to capitalize on their experience, which formed solid financial grounds for the establishment of Dixintong Investment at a later stage.

Our history can be traced back to 2001, when Mr. Liu Songshan and Ms. Liu Wencui, two of our Founders, established Dixintong Investment, the predecessor of our Company, as a limited liability company in the PRC with a registered capital of RMB20 million. Upon its establishment, 70% of the equity interest was held by Mr. Liu Songshan and 30% was held by Ms. Liu Wencui, respectively.

In May 2005, Mr. Liu Songshan and Ms. Liu Wencui established Feng Yong Tai and Di Er Tong as investment vehicles as part of the reorganization in preparation for a listing in Hong Kong at the time. Mr. Liu Songshan and Ms. Liu Wencui held 70% and 30% equity interest in each of Feng Yong Tai and Di Er Tong, respectively, upon their establishment. Mr. Liu Songshan and Ms. Liu Wencui subsequently transferred their respective shareholding in our Company to Feng Yong Tai and Di Er Tong at a consideration of RMB14 million and RMB6 million, respectively with reference to the registered capital of our Company at the time. After the transfer, 70% of the equity interest of our Company was held by Feng Yong Tai and 30% was held by Di Er Tong, respectively. Upon completion of such equity transfer, our shareholding structure was as follows:



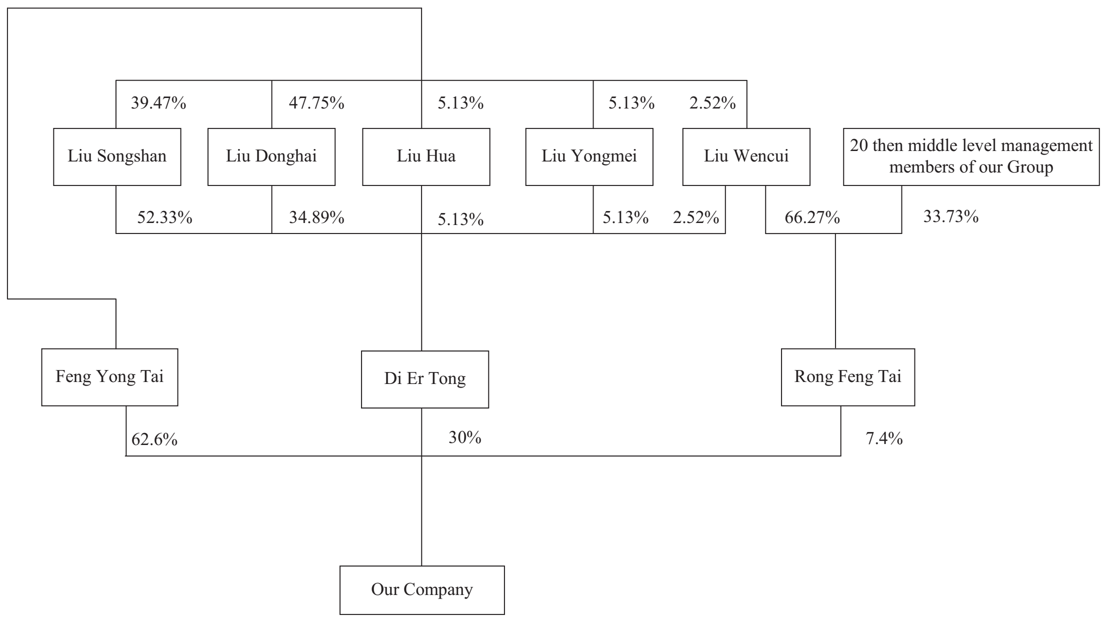

In June 2007, Feng Yong Tai transferred 7.4% of its equity interest in our Company to Rong Feng Tai with a total consideration of RMB1.48 million which was fully paid up. After such transfer, our Company was owned by Feng Yong Tai (62.6%), Di Er Tong (30.0%) and Rong Feng Tai (7.4%), respectively.

Rong Feng Tai is a company established on June 11, 2007 owned by Ms. Liu Wencui (90%) and Mr. Qi Feng (10%), an independent third party. On August 24, 2011, subsequent to a capital increase of RMB81,786, Rong Feng Tai began to be owned by Ms. Liu Wencui with 66.27% shareholding and the remaining 33.73% by 20 then middle level management members of our Group.

In September 2009, Mr. Liu Songshan and Ms. Liu Wencui transferred 17.67% and 27.49%, respectively, of their shareholdings in each of Feng Yong Tai and Di Er Tong to other Founders (namely Mr. Liu Donghai, Ms. Liu Hua and Ms. Liu Yongmei) at a total consideration of approximately RMB2.5 million and RMB1.6 million, respectively, with reference to the registered capital of Feng Yong Tai and Di Er Tong at the time. After the transfer, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui held 52.33%, 34.89%, 5.13%, 5.13% and 2.52% equity interest, respectively, in each of Feng Yong Tai and Di Er Tong.

On August 4, 2013, the registered capital of Feng Yong Tai was further increased from RMB10,000 to RMB10,000,000 pursuant to a new round of capital contribution by Mr. Liu Songshan with approximately RMB3,895,000, Mr. Liu Donghai with approximately RMB4,740,000, Ms. Liu Hua with approximately RMB507,900, Ms. Liu Yongmei with approximately RMB507,900 and Ms. Liu Wencui with approximately RMB248,900. Subsequent to the capital increase, the equity of Feng Yong Tai was owned by Mr. Liu Songshan with 39.47%, Mr. Liu Donghai with 47.75%, Ms. Liu Hua with 5.13%, Ms. Liu Yongmei with 5.13% and Ms. Liu Wencui with 2.52%.

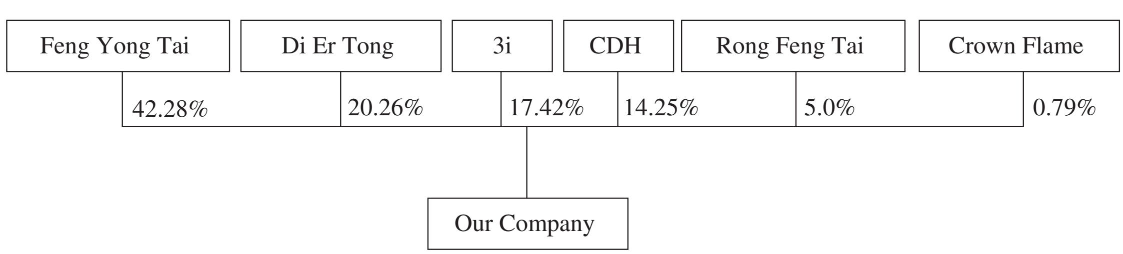
After the transfers and capital increase above, our shareholding structure was as follows:




**Arrangements in relation to a listing in the PRC**

On June 25, 2007, in preparation for an A-share offering, the then shareholders of our Company (i.e. Feng Yong Tai, Di Er Tong and Rong Feng Tai) entered into a capital subscription agreement and a joint venture agreement (the "**Financial Investment Agreements**") with 3i, CDH and Crown Flame, pursuant to which, 3i, CDH and Crown Flame agreed to subscribe for a total of 32.46% of the share capital of the Company at a total consideration of RMB200 million ("**Capital Subscription**"). For further details of Financial Investment Agreements, see "– Financial Investment". After the Capital Subscription, the registered capital of our Company was increased from RMB20 million to RMB220 million.

Immediately after the Capital Subscription stated above, our shareholding structure was as follows:




On December 28, 2009, our Company was converted from a foreign-invested limited liability company into a foreign-invested joint stock limited liability company under the PRC laws. In September 2011, we submitted an application to CSRC for the proposed listing of A shares of our Company on the Shenzhen Stock Exchange. Our application was accepted and we received from the CSRC a first set of comments and questions shortly after. In 2012, the CSRC had a significant backlog of applications for listing on the A-share market and we expected the vetting and approval process for the listing of our Company in the PRC to be lengthy as well as uncertain. Accordingly, we withdrew our A-share listing application from the CSRC in June 2013 and started planning the Listing in 2013. At all material times, our application was valid and had not been rejected or returned by CSRC.

In order to motivate our senior management members and provide incentives for their contributions to our Company, on February 28, 2011, Rong Feng Tai transferred 3.5% of its equity interest in our Company to Chang Qing Investment, a PRC limited partnership established in February 2011 and owned by 43 then senior management members of our Group, at a consideration of RMB1.036 million which was fully paid up. The consideration was determined with reference to the registered capital of the Company at the time.

## FINANCIAL INVESTMENT

### Investment by the Financial Investors

In order to develop further the growth of our business, enhance our corporate governance structure and leverage further expertise on international financial services, we invited three financial investors, namely 3i, CDH and Crown Flame, to invest a total of RMB200 million. Consequently, on June 25, 2007, the then shareholders of the Company (i.e. Feng Yong Tai, Di Er Tong and Rong Feng Tai), 3i, CDH and Crown Flame entered into the Financial Investment Agreements, pursuant to which, each of 3i, CDH and Crown Flame subscribed for 17.42%, 14.25% and 0.79% equity interests in our Company, respectively, at respective considerations of RMB107,317,073, RMB87,804,878 and RMB4,878,049. The Capital Subscription was completed in January 2008. The consideration was determined based on arm's length negotiation with reference to the net asset value of the Company as of December 31, 2006. On these bases, the financial investments are in compliance with the Interim Guidance on Pre-IPO investments announced by the Listing Committee on October 13, 2010 and reproduced on January 16, 2012.

Our PRC legal advisers have confirmed that the Capital Subscription has obtained the relevant PRC approvals and the relevant filing procedures has been duly completed and such subscription was legal, effective and valid under the relevant PRC laws and regulations.

The table below sets forth details in relation to the Capital Subscription:

| Financial investors | Percentage of equity interest acquired in our Company | Consideration | Date of payment of the consideration | Subscription price | Discount to the Offer Price (Note) |
|---|---|---|---|---|---|
| 3i | 17.42% | RMB107,317,073.0 | January 24, 2008 | RMB1.23 | 75.0% |
| CDH | 14.25% | RMB87,804,878.0 | January 24, 2008 | RMB1.23 | 75.0% |
| Crown Flame | 0.79% | RMB4,878,049.0 | January 24, 2008 | RMB1.23 | 75.0% |

*Note:* Based on the mid-point of the Offer Price range stated in this Prospectus, for illustration purpose only and using an exchange rate of HK$1.00 to RMB0.7934. The discount was not a guaranteed discount.

As of the Latest Practicable Date, the proceeds of such financial investment have been fully utilized during the Company's ordinary operation.

**Financial Investors**

3i was established on May 2, 2007 in Hong Kong with an authorized share capital of US$20 million and an issued share capital of US$15.23 million. The existing shareholders include 3i Group plc (31.25%), 3i Nominees Limited (43.75%) and 3i APTech Nominees Limited (25.00%) as of the Latest Practicable Date. Given that the capital subscription of 3i Nominees Limited was entrusted by 3i Asia Pacific 2004-06 LP, whereas that of 3i APTech Nominees Limited was entrusted by 3i Asia Pacific Technology LP, the 43.75% equity interest held by 3i Nominees Limited and the 25.00% held by 3i APTech Nominees Limited was under control of 3i Asia Pacific 2004-06 LP and 3i Asia Pacific Technology LP, respectively. As a limited partnership established in England on September 14, 2004, 3i Asia Pacific 2004-06 LP was owned by 3i Investment GP Limited as a general partner and 3i Group plc and 3i Asia Pacific 2004-06 Limited as limited partners, with the ultimate beneficial owner being 3i Group plc. As a limited partnership established in England on February 1, 2000, 3i Asia Pacific Technology LP was owned by 3i APTech GP Limited as a general partner and 3i Group plc and TIF Asia Pte Limited as limited partners. 3i is an independent third party other than its shareholding in our Company.

CDH was established on April 26, 2007 in Hong Kong with a registered capital of HK$10,000. The authorized share capital of CDH is HK$10,000, while the issued share capital is HK$1.0 through the issue of one share, which is owned by CDH Mobile Limited. The sole shareholder of CDH is CDH Mobile Limited, which was established in BVI on November 22, 2005 with CDH China Growth Capital Fund II, L.P. owning its entire equity. CDH China Growth Capital Fund II, L.P. was established in Cayman Islands as a limited partnership on March 17, 2005, which is owned by CDH China Growth Capital Holdings Company Limited as its general partner and 34 institutional investors with worldwide fame as its limited partners. CDH China Growth Capital Holdings Company Limited was established in Cayman Islands on March 14, 2005 with 18.0% of its equity interest owned by Prowell Ventures Pte Ltd, 12.5% owned by CZI II GP Holdings L.P. and the remaining 69.5% owned by China Diamond Holdings III Limited. CDH is an independent third party other than its shareholding in our Company.

Crown Flame was established on April 12, 2007 in Hong Kong with a registered capital of HK$10,000. Both the authorized and issued share capital of Crown Flame is HK$10,000, 50% of which is owned by Elufar Limited and 50% by Li Lai Holdings Limited. Elufar Limited was established in BVI on January 11, 1999 with Fardin Limited as its sole shareholder. Fardin Limited was established in BVI on January 7, 1999 with Mr. Cao Der-Hwa and Mr. Cao De-Fang being its shareholders. Li Lai was established in BVI on January 4, 1999 with Mr. Chen Cheng-Yu being its sole shareholder. As a result, the beneficial owner of Crown Flame are Mr. Chen Cheng-Yu, Mr. Cao Der-Hwa and Mr. Cao De-Fang. Crown Flame is an independent third party other than its shareholding in our Company.

The special rights granted to the financial investors under the Financial Investment Agreements include the right of first refusal and tag-along rights, information rights, director nomination rights and veto rights (the "**Special Rights**"). However, such Special Rights were terminated upon the Financial Investment Agreements having been superseded by a subsequent promoters agreement dated October 28, 2009 among Feng Yong Tai, Di Er Tong, Rong Feng Tai, 3i, CDH and Crown Flame. Pursuant to the promoters agreement, it was agreed to convert the Company from a foreign-invested limited liability company into a foreign-invested joint stock limited liability company.

As confirmed by our PRC legal advisers, Zhong Lun Law Firm, the financial investors would be subject to a lock-up period of one year under PRC law after the Listing. Pursuant to PRC Company Law, the shares which have been issued before we publicly issue Shares are prevented from being transferred within one year from the date of listing on a stock exchange.

The Shares held by 3i and CDH will not be considered as part of the public float upon Listing as both of them are Substantial Shareholders of our Company under the Listing Rules. The Shares held by Crown Flame will be considered as part of the public float upon Listing as (i) it is not a connected person of our Company; (ii) the acquisition of its equity interest in our Company was not financed directly or indirectly by our Company or any connected person of our Company and; (iii) it is not accustomed to take instructions from the Company or any connected person of our Company in relation to the acquisition, disposal, voting or other disposition of securities of our Company registered in its name or otherwise held by it.

## REORGANIZATION

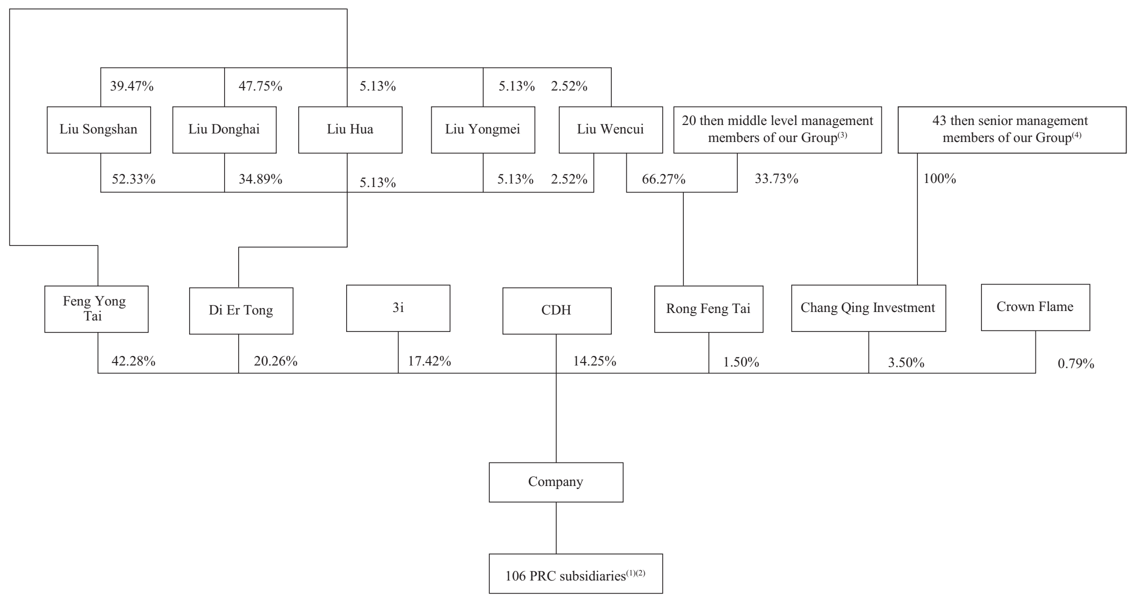
Our Company entered into the Dphone website transfer agreement (《迪風網站轉讓協議》) (**"Dphone Website Transfer Agreement"**) with Feng Yong Tai on February 14, 2014, pursuant to which our Company transferred relevant intellectual property assets pertaining to "Dphone market" (迪風市場) to Feng Yong Tai (one of the Controlling Shareholders) at the consideration of RMB500,000 which was paid up on March 21, 2014. After such transfer, pursuant to the transfer agreement, our Company will provide mobile phone software program marketing services to Feng Yong Tai to support the operation of the "Dphone market". See "Connected Transactions – Exempt Continuing Connected Transactions – (2) Marketing Services."

The transfer of "Dphone market" business from our Company to Feng Yong Tai was initiated with the intention of correcting an incident of non-compliance of our Company with applicable PRC laws and regulations during the Track Record Period. Our Directors are of the view that this incident of non-compliance will not have a material operational or financial impact on us, and we will disclose the progress of rectification in our interim or annual reports to be published after Listing as necessary. For details, see "Business – Legal and Administrative Proceedings and Compliance."

As confirmed by our PRC legal advisers, the transfer has been properly and legally completed.

## CORPORATE STRUCTURE

The following chart sets out the corporate structure of our Group immediately before the Global Offering:




*Notes:*

(1) As of the Latest Practicable Date, 101 PRC subsidiaries are wholly owned by our Company while five other PRC subsidiaries are not wholly owned by our Company. The shareholding of these five non-wholly-owned PRC subsidiaries is set out below:

(i) 60% of the equity interest of Henan Digital Trading Company Limited is held by us and the remaining 40% is held by Mr. Gao Chunlin, who is an independent third party.

(ii) 52% of the equity interest of Sichuan Soujizhijia Electronics Technology Company Limited is held by us and the remaining 48% is held by Shanghai Wangci Digital Technology Company Limited with 40% and Mr. Yaobo with 8%, which are independent third parties.

(iii) 55% of the equity interest of Beijing Yihaotong Orient Information Technology Company Limited is held by us and the remaining 45% is held by Ms. Chen Jinling, who is an independent third party.

(iv) 65.76% of the equity interests of Beijing China Intellect Unit Telecommunications and Technology Company Limited is held by us, with the remaining 34.24% held by 18 entities which are all independent third parties.

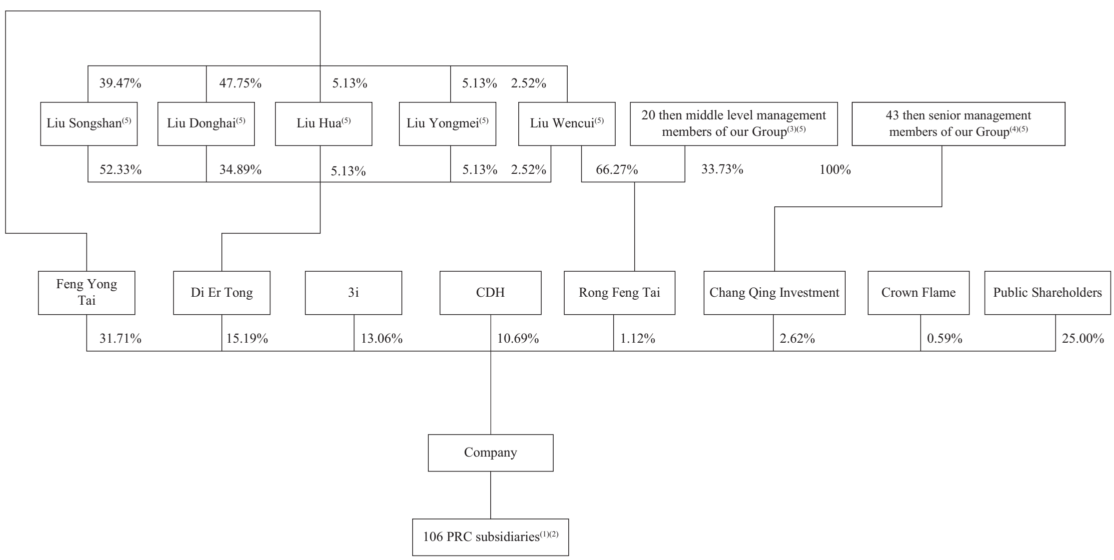
(v) 70% of the equity interests of Yunnan Jiyue Telecommunications Technology Company Limited is held by us and the remaining 30% was held by Mr. Luo Jianjun, who holds 3.33% equity interests of Rong Feng Tai as of the Latest Practicable Date.

(2) As one of the largest physical retail store networks in the PRC mobile telecommunications sector, we maintain our leading position by conducting our business through 106 subsidiaries spreading across four municipal cities and 21 provinces. These subsidiaries are mainly to operate individual standalone outlets and liaise with local wholesalers.

(3) The 20 then middle level management members of our Group include Zhang Wenkai (16.00%), Luo Jianjun (3.33%), Cao Qin (1.33%), Hu Ping (1.33%), Zhang Hui (1.33%), Zhao Shuang (1.33%), Hou Qinghong (0.93%), Huang Qiuli (0.82%), Jiang Shan (0.82%), Jiang Xuefu (0.82%), Li Jing (0.82%), Li Yunping (0.82%), Li Xuehua (0.64%), Qi Qin (0.64%), Zhang Shuangping (0.64%), Hu Minghua (0.53%), Li Dong (0.53%), Tian Hong (0.53%), Dong Shaorong (0.40%) and Pei Qidi (0.13%). Among them, Hu Ping, Zhang Wenkai, Zhang Hui, Li Jing and Li Dong have ceased to assume any role in the management team of our Company as of the Latest Practicable Date.

(4) The 43 then senior management members of our Group include Jin Xin (17.14%), Zhou Qing (9.71%), Qi Feng (9.15%), Zhang Tianyu (6.86%), Bai Ren (5.83%), Liu Yajun (4.57%), Yang Xiaomei (3.17%), Huang Jianhui (2.86%), Xu Guliang (2.86%), Ding Zhijun (2.69%), Li Xuerong (2.00%), Tang Zhiqiang (2.00%), Guo Weijuan (1.94%), Li Kai (1.94%), He Lingli (1.89%), Zhong Dalin (1.89%), Zhang Ning (1.71%), Chen Lin (1.43%), Li Dongmei (3.71%), Li Wanqing (1.37%), Sun Chengdong (1.31%), Zhang Jun (1.23%), Feng Lei (1.14%), Ji Li (0.97%), Wang Zhifeng (0.86%), Jing Shulin (0.57%), Pang Hong (0.57%), Sun Gang (0.57%), Wang Zhenfeng (0.57%), Pei Qidi (0.57%), Qiao Junjie (0.51%), Zhao Bin (0.49%), Chen Hong (0.29%), He Junchao (0.29%), Peng Qiyi (0.29%), Yang Jianguo (0.27%), Cao Wenying (0.29%), Fang Hongbao (0.17%), He Zhiwei (0.17%), Pang Hongqiang (0.17%), Yao Guangyuan (0.11%), Leng Jianchuang (2.86%) and Xiao Chunmei (1.03%). Liu Yajun is an executive Director of our Company and Jin Xin is a senior management of our Company. Among them, Feng Lei and Pang Hong have ceased to assume any role in the management team of our Company as of the Latest Practicable Date.

The following chart sets out the corporate structure of our Group immediately after the Global Offering assuming the Over-allotment Option is not exercised:




*Notes:*

(1) As of the Latest Practicable Date, 101 PRC subsidiaries are wholly owned by our Company while five other PRC subsidiaries are not wholly owned by our Company. The shareholding of these five non-wholly-owned PRC subsidiaries is set out below:

(i) 60% of the equity interest of Henan Digital Trading Company Limited is held by us and the remaining 40% is held by Mr. Gao Chunlin, who is an independent third party.

(ii) 52% of the equity interest of Sichuan Soujizhijia Electronics Technology Company Limited is held by us and the remaining 48% is held by Shanghai Wangci Digital Technology Company Limited with 40% and Mr. Yaobo with 8%, which are independent third parties.

(iii) 55% of the equity interest of Beijing Yihaotong Orient Information Technology Company Limited is held by us and the remaining 45% is held by Ms. Chen Jinling, who is an independent third party.

(iv) 65.76% of the equity interests of Beijing China Intellect Unit Telecommunications and Technology Company Limited is held by us, with the remaining 34.24% held by 18 entities which are all independent third parties.

(v) 70% of the equity interests of Yunnan Jiyue Telecommunications Technology Company Limited is held by us and the remaining 30% was held by Mr. Luo Jianjun, who holds 3.33% equity interests of Rong Feng Tai as of the Latest Practicable Date.

(2) As one of the largest physical retail store networks in the PRC mobile telecommunications sector, we maintain our leading position by conducting our business through 106 subsidiaries spreading across four municipal cities and 21 provinces. These subsidiaries are mainly to operate individual standalone outlets and liaise with local wholesalers.

(3) The 20 then middle level management members of our Group include Zhang Wenkai (16.00%), Luo Jianjun (3.33%), Cao Qin (1.33%), Hu Ping (1.33%), Zhang Hui (1.33%), Zhao Shuang (1.33%), Hou Qinghong (0.93%), Huang Qiuli (0.82%), Jiang Shan (0.82%), Jiang Xuefu (0.82%), Li Jing (0.82%), Li Yunping (0.82%), Li Xuehua (0.64%), Qi Qin (0.64%), Zhang Shuangping (0.64%), Hu Minghua (0.53%), Li Dong (0.53%), Tian Hong (0.53%), Dong Shaorong (0.40%) and Pei Qidi (0.13%). Among them, Hu Ping, Zhang Wenkai, Zhang Hui, Li Jing and Li Dong have ceased to assume any role in the management team of our Company as of the Latest Practicable Date.

(4) The 43 then senior management members of our Group include Jin Xin (17.14%), Zhou Qing (9.71%), Qi Feng (9.15%), Zhang Tianyu (6.86%), Bai Ren (5.83%), Liu Yajun (4.57%), Yang Xiaomei (3.17%), Huang Jianhui (2.86%), Xu Guliang (2.86%), Ding Zhijun (2.69%), Li Xuerong (2.00%), Tang Zhiqiang (2.00%), Guo Weijuan (1.94%), Li Kai (1.94%), He Lingli (1.89%), Zhong Dalin (1.89%), Zhang Ning (1.71%), Chen Lin (1.43%), Li Dongmei (3.71%), Li Wanqing (1.37%), Sun Chengdong (1.31%), Zhang Jun (1.23%), Feng Lei (1.14%), Ji Li (0.97%), Wang Zhifeng (0.86%), Jing Shulin (0.57%), Pang Hong (0.57%), Sun Gang (0.57%), Wang Zhenfeng (0.57%), Pei Qidi (0.57%), Qiao Junjie (0.51%), Zhao Bin (0.49%), Chen Hong (0.29%), He Junchao (0.29%), Peng Qiyi (0.29%), Yang Jianguo (0.27%), Cao Wenying (0.29%), Fang Hongbao (0.17%), He Zhiwei (0.17%), Pang Hongqiang (0.17%), Yao Guangyuan (0.11%), Leng Jianchuang (2.86%) and Xiao Chunmei (1.03%). Liu Yajun is an executive Director of our Company and Jin Xin is a senior management of our Company. Among them, Feng Lei and Pang Hong have ceased to assume any role in the management team of our Company as of the Latest Practicable Date.

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

## PRINCIPAL OPERATING SUBSIDIARIES

As of the Latest Practicable Date, we had 106 subsidiaries in the PRC.

Beijing Dphone Electronic Communication Technology Co., Ltd. (“**Beijing Dphone**”) was established on January 16, 1998 in the PRC with a registered capital of RMB10 million. During the Track Record Period, the entire equity interests of Beijing Dphone was held by our Company.

Beijing Dphone is primarily engaged in service providing, developing, consulting, transferring of technologies related to computer and cyber engineering, telecommunication commerce and the wholesales and maintenance of telecommunication devices.

Shanghai Dixin Electronic Communication Technology Co., Ltd. (“**Shanghai Dixin**”) was established on September 5, 2000 in the PRC with a registered capital of RMB20 million. During the Track Record Period, the entire equity interests of Shanghai Dixin was held by our Company.

Shanghai Dixin is primarily engaged in engaged in service providing, developing, consulting, transferring of computer and cyber engineering technology, telecommunication commerce and the wholesales and maintenance of telecommunication devices.

Zhengzhou Dphone Electronic Communication Technology Co., Ltd. ("**Zhengzhou Dphone**") was established on October 25, 2001 in the PRC with a registered capital of RMB13 million. During the Track Record Period, the entire equity interests of Zhengzhou Dphone was held by our Company.

Zhengzhou Dphone is primarily engaged in the wholesales and maintenance of telecommunication devices.

Henan Dphone Electronic Communication Technology Co., Ltd. ("**Henan Dphone**") was established on July 30, 2007 in the PRC with a registered capital of RMB20 million. During the Track Record Period, the entire equity interests of Henan Dphone was held by our Company.

Henan Dphone is primarily engaged in the sales and maintenance of telecommunications devices.

## OVERVIEW

We are the largest mobile telecommunications chain store and the third largest mobile phone retailer, both in terms of sales volume in China in 2013, according to the SINO Report. We maintain our leading position in the PRC mobile telecommunications devices industry by selling and distributing mobile telecommunications devices and accessories and providing value-added services. We benefit from our long-established and strategic collaborations with China's mobile carriers, namely China Mobile, China Unicom and China Telecom, through commissions derived from the development of a significant customer base for each of them over the years. We currently offer our customers a broad selection of more than 2,000 mobile phone models of different specifications (such as colors and formatting systems) and brands from international brands and domestic brands. Our value-added services are offered on a personalized basis and include mainly software and mobile application packages and mobile phone configuration services.

Our significant sales are generated through an O2O platform, which comprises (i) offline channels mainly including our physical retail and distribution network, and (ii) online channels mainly including e-commerce sales platforms and other virtual platforms. We have the largest physical retail and distribution network among China's mobile telecommunications chain stores in terms of number of retail outlets, according to the SINO Report. As of April 30, 2014, our offline channels comprised (i) a physical retail and distribution network of 1,512 outlets, including 956 independently operated outlets and 556 franchised outlets, spreading across 21 provinces and four municipal cities in China, both under the brand of D.Phone, and (ii) a wholesale distribution network which supplies mobile devices and accessories in bulk to the mobile carriers and other third-party retailers. Our franchised outlets are operated by third-party franchisees pursuant to their franchise agreements with us. In addition, in 2013, we promoted the sales of mobile products and services in over 1,500 outlets of the three mobile carriers in China (駐廳銷售). Our online channels comprise various e-commerce platforms, including our own Internet-based platform, *www.dixintong.com*, and third-party Internet-based platforms, such as Tmall, Amazon.cn and Yhd.com. Our virtual platforms also include television sales channels and credit card online stores. Benefiting from our extensive physical network of retail stores and developed virtual platforms, our O2O platform has allowed us to offer various mobile devices and value-added services and provide smart communications solutions, thereby providing our customers with access to the mobile Internet.

We provide our customers with superior shopping experience delivered through a variety of services offered by our highly trained sales staff. We cater for our customers' preferences and needs and provide a broad product offering of mobile telecommunications devices, accessories, software downloads and other value-added services. We believe our focus on customers' preferences and needs is the key strategy that differentiates us from our competitors and enhances our brand recognition for reliability, credibility and value.

Benefiting from our extensive network and high-standard services, we are the key national strategic partner of, and one of the few partners that collaborate on a nationwide basis with all three mobile carriers in China. We have developed successful partnerships with China Mobile, China Unicom and China Telecom for over 12 years, six years and four years, respectively, through collaboration in several areas, including developing a customer base for them, procuring products for them, jointly establishing outlets and operating their outlets. We were the largest retailer selling China Mobile's products in terms of sales volume, and developed the largest customer base as compared to other large retailers for China Telecom in 2013. We also maintain long-standing relationships with domestic and foreign mobile device manufacturers, such as Samsung, Nokia and Lenovo. According to the SINO Report, among all mobile phone retailers in China we ranked the first for Lenovo, Coolpad and Huawei and the second for Samsung, Nokia and HTC in terms of sales from non-bundled mobile phone market in 2013, and we are among the few retailers in China that sourced products directly from Samsung, Nokia and HTC. In addition, we started to cooperate directly with Apple in March 2012 and, as of April 30, 2014, we had iOS Apple authorized counters in 102 outlets throughout the PRC.

According to the SINO Report, we were one of the first mobile telecommunications product retailers that developed and used the integrated ERP system, to manage our procurement, inventory, sales, logistics and financial reporting functions and to reduce our management costs. Our ERP system delivers detailed and real-time information on our sales, enabling us to adjust merchandise allocation and pricing in response to rapidly changing market demand. Leveraging our ERP system, we have implemented a standardized management system for each of our independently operated outlets and some of our franchised outlets, which enables us to build a scalable and replicable business model.

We have experienced significant growth during the Track Record Period. For the years ended December 31, 2011, 2012 and 2013, out total revenue was RMB6,513.5 million, RMB8,802.7 million and RMB12,812.0 million, respectively, representing a CAGR of 40.2% over the periods. For the same periods, revenue derived from our sales of mobile telecommunications devices and accessories was RMB6,162.8 million, RMB8,406.2 million and RMB12,186.4 million, representing 94.6%, 95.5% and 95.1% of our total revenue, respectively. Revenue derived from our service income from mobile carriers was RMB257.2 million, RMB329.2 million and RMB496.2 million, representing 4.0%, 3.7% and 3.9% of our total revenue, respectively. Revenue derived from other service income was RMB93.5 million, RMB67.3 million and RMB129.4 million, representing 1.4%, 0.8% and 1.0% of our total revenue, respectively. For the same periods, our profit for the year and total comprehensive income were RMB221.5 million, RMB249.8 million and RMB274.2 million, respectively, representing a CAGR of 11.3% over the periods.

## OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed and will continue to contribute to our success in the mobile telecommunications industry:

### The largest mobile telecommunications chain store in the PRC with an O2O platform

We are the largest mobile telecommunications chain store as well as the third largest mobile phone retailer in terms of sales volume in China in 2013 with an average monthly retail sales volume of approximately 625,000 handsets, accounting for approximately 10.4% of market share of all telecommunications chain stores, according to the SINO Report. We maintain our leading position in the mobile telecommunications devices industry by selling and distributing mobile telecommunications devices and accessories and providing customized services through our physical retail stores and online sales and distribution channels.

We are one of the pioneers in establishing and developing an O2O platform comprising both offline and online channels among telecommunications retailers in China, according to the SINO Report. We have the largest physical retail network among China's mobile telecommunications chain stores in terms of number of retail outlets, according to the SINO Report. As of April 30, 2014, we had 1,512 outlets spreading across 21 provinces and four municipal cities in China. We have also developed and maintained a virtual platform that comprises a multitude of online sales and distribution channels to complement our physical retail stores. We provide a direct-to-consumer sales channel through our own e-commerce platform. In addition, we market and sell mobile phones and accessories over various third-party e-commerce platforms, such as Tmall, Amazon.cn and Yhd.com. Our e-commerce platform provides customers with our latest product offerings, promotions and access to customer services, complementing our physical retail operations and increasing the scope of our marketing and branding efforts to the immense Internet consumer population. Our virtual platform also includes television sales channels and credit card online stores.

Benefiting from an extensive physical network of retail stores and developed virtual platforms, our O2O platform has allowed us to increase our sales and revenues by attracting online customers and directing them to our physical stores, or vice versa. Customers who have gained familiarity with our brand and quality of services at our physical stores have greater confidence in our products offered through our virtual platforms, and customers from our virtual platforms are exposed to information about our products and services and are encouraged to visit our physical stores. Our O2O platform has achieved the synergy of offline and online channels, and thus has allowed us to further expand our customer base, continuously grow our revenues and maintain our leading market position.

**Superior customer experience through offering one-stop shop and customized services**

According to the SINO Report, over the years, our well-established brand, D.Phone, has helped us gain customer loyalty and attract repeat customers. We cater for our customers' preferences and needs and provide superior shopping experience through offering one-stop shop and customized services based on our specialized knowledge of different brands and models of mobile devices as well as their functions and features. We believe our focus on customers' preferences and needs is a key strategy that differentiates us from our competitors, including the home electronics chain stores, and enhances our brand recognition for reliability, credibility and value.

To enable our sales representatives to provide services that cater to the needs of the customers, we periodically train our sales staff so that they utilize a consultative and informative approach to assist our customers with their selection, purchase and use of our products and services. Our sales staff are knowledgeable and trained to provide advice and services to customers of different income levels, needs and spending preferences. Our sales representative serves a customer throughout the entire purchase process from the moment of initial contact, providing integrated pre-sale, on-sale and after-sales services (首問負責制). We provide phone configuration services through our phone set-up counters at our retail outlets. Such services include configuring phones to customers' specifications, installing software and Internet service applications and transferring customers' digital phone books and other data from one phone to another.

We also offer value-added services including (i) services that enrich the smart features of the mobile devices such as software and mobile Internet service application packages, (ii) a cloud platform for virtual data storage that are specifically instrumental to smart office solutions, and (iii) other location-based services that offer digital content and services on entertainment and lifestyle through end-users' mobile phones based on their geographical location free-of-charge. Focusing on customers' needs, we constantly update our value-added services in response to their changing lifestyles and demands.

As part of our one-stop shop services, we provide our customers with comprehensive after-sales services. We provide nationwide warranty (全國聯保) for the mobile phones that our customers purchased from us, which allows our customers to visit any of our stores throughout the PRC to return or exchange their mobile phones or for mobile phone repair and maintenance services. As of April 30, 2014, we established over 260 repair and maintenance counters in our outlets throughout the PRC. Our high-standard services to our customers were recognized as we were awarded the "National Customer Satisfaction Enterprise" by China General Chamber of Commerce (中國商業聯合會) in 2009, and the "Top Ten Enterprises in After-sales Services in China" by China General Chamber of Commerce (中國商業聯合會), China Foundation of Consumer Protection (中國保護消費者基金會) and National Evaluation Committee of After-sales Services of Goods (全國商品售後服務評價委員會) in 2011.

**Extensive network of physical stores covering a majority of the provinces across the PRC through favorable scalability**

We have the largest physical retail and distribution network among China's telecommunications retailers in terms of number of retail outlets, according to the SINO Report. As of April 30, 2014, we had 956 independently operated outlets and 556 franchised outlets, spreading across 21 provinces and four municipal cities in the PRC. In addition, in 2013, we promoted the sales of mobile products and services in over 1,500 outlets of the three mobile carriers in China (駐廳銷售). Over the Track Record Period, the number of our independently operated outlets and franchised outlets increased from 645 and 422 as of January 1, 2011, to 936 and 529 as of December 31, 2013, respectively. The number of our independently operated outlets and franchised outlets further increased to 956 and 556 as of April 30, 2014. We also operate a wholesale distribution business through our subsidiaries. According to the SINO Report, we ranked the first among all retailers of mobile phones in Beijing, Shanghai, Tianjin, and Anhui, Henan and Hunan provinces, and ranked among the top three mobile phone chain stores in 12 provinces such as Zhejiang, Sichuan, Shandong and Liaoning provinces in terms of sales volume in 2013.

We have accumulated significant experience over 16 years of operation in identifying suitable locations with potential for future growth and have a strong track record of selecting and renting stores that were previously unprofitable, and turning them into profitable stores. We conduct in-depth studies on potential store locations before selecting a location to acquire or rent, considering factors such as market size, household income levels, customer spending preferences and competition in the relevant region.

We enjoy deep market penetration of our outlets in all first- and second-tier cities in the PRC. As of April 30, 2014, we had approximately 800 outlets in the first- and second-tier cities in the PRC, and all of our outlets are situated within commercial districts and areas with high concentration of electronics and mobile phone stores, where our customers can easily access and experience our products and services. We have also increased the number of our franchised outlets in the third- and fourth-tier cities in the PRC to enhance our brand presence and awareness at these locations and to capture first-mover advantage. In addition, we have built strategic partnerships with nationwide supermarket chains in the PRC, including Vanguard, Wal-Mart and Carrefour, and leveraged these partnerships to further expand our nationwide footprint by establishing sales counters in these supermarkets in prime locations.

**Strong and strategic relationships with China's mobile carriers**

We serve as the key national strategic partner of, and one of the few retailers and wholesale distributors of mobile telecommunications products and services collaborating on a nationwide basis with all three mobile carriers in China. We have collaborated with China Mobile, China Unicom and China Telecom for over 12 years, six years and four years, respectively. We have developed strategic partnerships with the mobile carriers through developing a customer base for them, procuring products for them, jointly establishing outlets and operating their outlets. We promote and sell pre-formatted mobile phones bundled with call service subscriptions offered by the mobile carriers, and receive commissions for sales of such call service subscriptions, which are calculated based on the value of such subscriptions and a portion of the recurring fees paid by customers over the term of the subscriptions. Such commissions provide us with a significant revenue stream. We also generate revenue from service of staff that we send to the outlets established by the mobile carriers and operated by us. In addition, we procure and sell the mobile carriers' pre-formatted mobile devices and serve as their retail and distribution channels. For the years ended December 31, 2011, 2012 and 2013, our gross profit from service income from China's mobile carriers was RMB214.4 million, RMB275.5 million and RMB420.1 million, accounting for 17.6%, 18.8% and 24.2% of our total gross profit, respectively. We helped develop a total of approximately 1.0 million, 2.3 million, 5.7 million and 2.5 million customers for China's mobile carriers in 2011, 2012 and 2013 and in the four months ended April 30, 2014, respectively.

We were the largest retailer selling China Mobile's products in terms of sales volume, and developed the largest customer base as compared to other large retailers for China Telecom in 2013. We received the "Annual Top Ten Chain Channel Award (年度十佳連鎖渠道獎)" by China Telecom in 2012 and 2013, and the "Best Open Channel Market Performance Golden Award (開放渠道最佳市場表現金獎)" by China Telecom and the "Best Value Award (最佳價值獎)" by China Unicom in 2013.

In an environment where mobile carriers have significant influence over the mobile telecommunications industry, we believe our strong relationships with all three mobile carriers in China not only reflect our leading market position and high quality of services, but also provide us with an advantage over our competitors and a strong foundation for our rapid and sustainable growth, and will open up greater avenues for our further cooperation with them.

**Strong and long-standing relationships with major mobile device manufacturers and robust supply and inventory management system**

We maintain long-standing relationships with domestic and foreign mobile device manufacturers, such as Samsung, Nokia and Lenovo. According to the SINO Report, we ranked the first among all retailers in China for Lenovo, Coolpad and Huawei and ranked the second among all retailers for Samsung, Nokia and HTC in terms of sales from non-bundled mobile phone market in 2013, and we are among the few retailers in China that have sourced products directly from Samsung, Nokia and HTC. In addition, we started to cooperate directly with Apple since March 2012, and set up iOS Apple authorized counters in our stores. As of April 30, 2014, we had iOS Apple authorized counters in 102 outlets throughout the PRC. We believe we enjoy greater cooperation opportunities with these mobile device manufacturers and are able to enjoy more favorable arrangements as compared to our competitors. We received the "Strategic Cooperation Award (戰略合作獎)" from Samsung in 2013, the "Best Open Channel Cooperation Award (公開渠道最佳合作獎)" from Huawei in 2013, and the "Outstanding Mobile Phone Cooperation Partner Award (手機優秀合作夥伴獎)" from Lenovo in 2011.

Leveraging our robust supply and inventory management system, we enjoy competitive advantages in maintaining long-standing cooperative relationships with mobile device manufacturers, as we can respond quickly to changes in market trends. According to the SINO Report, we were one of the first mobile telecommunications product retailers that developed and used the integrated ERP system to manage our procurement, inventory, sales, logistics and financial reporting functions and to reduce our management costs. Our ERP system delivers detailed and real-time information on our sales, enabling us to adjust merchandise allocation and pricing in response to rapidly changing market demand. We use this information to actively manage our inventory and enhance profit margins by reducing mark downs for aging inventory.

**Dedicated and experienced management team and strong retail operation management capability**

We have a highly experienced and motivated senior management team with proven execution capability and vision. Our management team comprises both members we internally promoted and experts with significant experience in the mobile telecommunications devices industry we hired from outside. A majority of our senior management team are the founding members of our Company. Our senior management members have an average of over 13 years of industry experience. In particular, Mr. Liu Donghai, our Chairman and executive Director, has more than 20 years of experience in the mobile telecommunications industry, serves as the Vice President of China Electronic Chamber of Commerce (中國電子商會) and was awarded the "Top Ten Public Figures in the News in Telecommunications Industry in China" (2012年度中國通信行業十大新聞人物) by China Telecommunications Industry Association (中國通信行業協會) in 2012. Mr. Jin Xin, our General Manager, has strong operational experience in the mobile telecommunications industry and is responsible for our daily operation. Mr. Wu Huan, our Vice General Manager and Chief Information Officer ("CIO"), has significant experience in telecommunications and information technology and was awarded the "2012 China Excellent CIO" (2012年度中國優秀CIO) by IT Manager World (IT經理世界) magazine in 2013.

Our senior management team has profound industry knowledge and strong retail operation management capability, which have enabled us to capture market opportunities and develop and execute our strategies for further growth. For example, our senior management team has spearheaded our efforts to identify opportunities in new localities in the PRC, and their expertise has allowed us to assess multiple opportunities simultaneously and enter those markets quickly and effectively. Under the direction of our senior management team, we were one of the first mobile telecommunications product retailers to adopt the ERP system, which has allowed us to effectively monitor various aspects of our business operations and improved our financial performance. Benefiting from our ERP system, we have implemented a standardized management system for each of our independently operated outlets and some of our franchised outlets, which enables us to build a scalable and replicable business model. Furthermore, our senior management team has led the development of our virtual platform, which has allowed us to further develop our O2O strategy and achieve the synergy of our offline and online channels. Leveraging our strong retail operation management capability, we have maintained long-standing cooperative relationships with all three mobile carriers in China and major mobile device manufacturers.

## OUR STRATEGIES

We aim to strengthen our leading position as a large telecommunications chain store and ultimately to expand the scope of our business to include provision of smart living solutions in the PRC through the following strategies:

### Improve our O2O platform and further develop our mobile Internet services

We plan to further upgrade and enhance our O2O platform and integrate our online and offline businesses. To that end, we plan to implement the following:

- *Further improve our online platforms.* We intend to use our official website, *www.dixintong.com*, as our main online sales platform for marketing and advertising our mobile devices, applications and software packages available for sale at our stores. We believe our official website will attract and direct more online customers to visit and purchase mobile phones and accessories from our physical retail stores. We also plan to further cooperate with third-party e-commerce platforms, such as Tmall, Amazon.cn and Yhd.com, through providing a more comprehensive suite of services, including pick-up-at-store services, store-to-door deliveries and face-to-face communications with our online customers from these e-commerce platforms. For customers purchasing mobile phones and accessories through our official website or our cooperative third-party e-commerce platforms, we aim to complement their online purchase experience by providing additional after-sales and ancillary services at our physical stores delivered by our highly trained and knowledgeable sales staff, who will be able to recommend and sell a range of products or services, such as SIM cards, data plans, accessories, tablet computers and other service packages. We believe these services will enhance the confidence of our online customers and thus further consolidate our customer base and increase our sales and revenue from these online customers.

- *Upgrade our physical outlets*. We plan to showcase application-based services, such as mobile security services, repair and maintenance services and mobile payment services, in our physical stores. We will provide free Wi-Fi access to customers visiting and passing by each of our physical retail stores, in order to attract more customers to personally experience our in-store services and to download the mobile applications and software. Customers who use our Wi-Fi services will gain more information and familiarity of our product offerings through our virtual platforms which we believe will generate interest in frequenting our physical stores and experiencing our in-store services.

- *Enrich our smart communications profile*. In order to promote our various smart solutions, we intend to enhance our smart communications profile and strengthen our customer relationship through publishing our marketing information on our official website, other third-party internet platforms, and modern social media channels including WeChat (微信) and Weibo (微博). We intend to not only satisfy our online customers' consumption needs, but also direct them to our physical stores to experience our face-to-face and interactive sales and services.

We plan to implement a series of multi-functional mobile Internet projects, which include, but are not limited to, the following:

- *Enhance our sales and services management systems*. We plan to upgrade the Pad Store Sales System (門店Pad銷售系統), which allows our customers to compare and select mobile devices and accessories as well as call service subscription packages, and place orders through the use of tablet computers. We believe that the Pad Store Sales System can satisfy customer needs and achieve cost-efficiency for us. We also plan to establish a value-added service management system to better organize and manage mobile applications installation and mobile devices configuration for our customers. Through these management systems, we plan to collect and analyze the available customer data with a view to improving our customized services.

- *Continue to develop our mobile customer service platform*. We plan to further develop the Pocket Dixintong (口袋迪信通), which offers our customers information regarding services provided at nearby stores through location-based service technology, including nearest store pick-up for their online orders. Our customers can also use the Pocket Dixintong application to access our online customer services for free, such as introduction of our products, information on promotions, store inquiry services, online communication with mobile phone experts and other after-sale services. Through the Pocket Dixintong application, our customers will be able to access our services with the use of e-invoices and e-warranty cards. We also intend to gradually provide more location-based service applications to diversify our services and create more revenue-generating sources.

**Increase our market share by extending our retail and distribution network to other geographical locations in the PRC**

We plan to continue to expand our retail and distribution network both organically and through selective acquisitions to further strengthen our position as the largest mobile telecommunications chain store in the PRC. We seek to expand our retail network through (i) organic growth by setting up new outlets in new locations, including increasing the number of store-in-store outlets in supermarket chains, shopping centers and department stores, and (ii) identifying and acquiring suitable retail outlets in order to gain immediate entry into target markets. We also seek to establish more franchised outlets in the third- and fourth-tier cities to further enhance our brand presence and awareness at these locations. We believe that our expansion of network will broaden our revenue base and enhance our competitiveness.

In evaluating potential locations for new retail outlets, we will consider, among other factors, market size, household income levels, customer spending preferences and competition in the relevant region. In addition, we plan to strategically acquire partial or whole interests in selected local retail outlets and chains. See the section headed "Future Plans and Use of Proceeds." In selecting acquisition targets, we focus on the local retail outlets and chains that may increase and complement our customer base, provide expertise to our retail business, strengthen our relationships with mobile carriers and expand the geographic coverage of our retail network. We plan to target retailers in selected regions, such as Heilongjiang, Gansu and Jilin provinces and Ningxia Hui autonomous region where our retail network currently does not have full coverage. We believe that our penetration to these regions will complement our existing coverage and will increase our market share at these locations.

**Strengthen and continue to leverage existing partnerships with mobile carriers and mobile device manufacturers**

We plan to strengthen and continue to leverage our existing relationships with China's mobile carriers and mobile device manufacturers, and further develop relationships with our suppliers of value-added services, such as providers of software and applications.

We are increasingly focused on further cooperation with each of China's mobile carriers. We have strategic partnerships with them to develop customer base, operate outlets, and jointly establish outlets. As competition for subscribers among the mobile carriers intensifies due to the restructuring in the mobile telecommunications industry in China, we believe the mobile carriers will continue to work with us to benefit from our in-depth industry knowledge and management expertise. We will be able to efficiently operate their retail outlets and provide services to their customers, and, in return, we receive commissions for sales of contracted call service subscriptions. We intend to strengthen our cooperation with China's mobile carriers by entering into more operative agreements with the provincial subsidiaries of the mobile carriers, pursuant to our framework strategic cooperation agreements with them. Through such cooperation, we believe we will enjoy more favorable credit limits and payment terms, which in turn will further reduce our credit risk and enhance our liquidity. We will also continue to develop a customer base for the mobile carriers through selling products bundled with their call service subscriptions and aim to become their biggest retail and distribution channel in the PRC.

We will continue to cooperate with mobile device and accessory manufacturers. We plan to enhance our sales of their customized products and services, in order to cater to the needs and preferences of our customers. We also plan to strengthen our cooperation with the manufacturers of high-end mobile telecommunications products in order to gain a deeper understanding of their product portfolios and make adjustment to our procurement plans in the future.

**Increase sales volume and revenue by enhancing our customer services**

We aim to increase our sales volume and revenue by enhancing our customer services at our outlets and attracting more new customers and repeat customers. We intend to (i) expand our product offerings particularly through increasing our selection of innovative smart devices; (ii) provide further training to our sales staff so that they will provide higher level of services to our customers; (iii) renovate our existing stores to provide our customers with a more comfortable and attractive shopping environment; and (iv) establish more composite experience stores with large store area and specialty products for commercial, office and residential uses.

We intend to increase our revenue and profit by offering more products and services which command higher profit margins, including (i) mobile phone accessories such as ear phones, chargers, protective films and cases, and smart healthcare and wearable devices, such as smart watches, fitness and health bands smart bracelets and smart glasses; (ii) membership services; (iii) value-added services, such as mobile application packages, and (iv) contracted call service subscriptions offered in cooperation with mobile carriers.

We also intend to upgrade after-sales services, such as extending the warranty period and providing insurance for accidental damage of mobile phones. We plan to establish mobile phone repair and maintenance service counters in more of our retail outlets. We also plan to upgrade our nationwide unified after-sales service hotline and extend the range of our mobile phone insurance services. We believe that enhancing our customer experience at our outlets and the level of our after-sales services would allow us to strengthen customer loyalty and attract more new customers, and thus maintain our competitiveness against other retailers and further increase our sales and revenue.

**Expand the range of the smart solutions we offer and become a smart living solutions provider**

Leveraging our in-depth knowledge and long-standing supply chain of the mobile telecommunications devices and accessories, we plan to further expand the range of our smart solutions offerings to include smart home and smart office solutions that are becoming more prevalent in the mobile telecommunications industry through our O2O platform. To that end, we plan to implement the following:

- *Continue to exploit the smart wearables market.* We plan to further cooperate with manufacturers of smart wearables ranging from fitness and health bands to smart glasses that record video, smart watches that answer phone calls, and eventually other smart wearables that connect and manage other appliances and devices through the mobile devices.

- *Continue to build on smart office solutions.* Smart office solutions provide improved, efficient and lightweight mobile devices to replace bulky computers and traditional office appliances in order to make mobile office feasible. We intend to further enhance our cloud storage platform, Di Cloud, to achieve online cloud synchronization and cloud share. We also intend to provide more comprehensive smart office solution packages to our customers to meet their needs.

- *Introduce smart home solutions.* Smart home solutions utilize the residential environment as a platform in providing integrated home living facilities, providing home safety, and achieving convenience and comfort with the aid of mobile devices integrated with wiring technology, network communications technology, security system design technology, automation control technology and audiovisual technology. We plan to showcase and promote such smart home solutions to our customers as they become more prevalent.

**Develop cooperative partnership with MVNOs**

We believe that the opening of the MVNO market in China will present to us enormous business opportunities. An MVNO can enter into agreements with the mobile carriers to obtain bulk access to network services at wholesale rates and will enjoy autonomy in setting retail prices. According to the SINO Report, the number of users of bundled mobile phones in the MVNO market is expected to reach 15 million in 2014 and 92 million in 2018. Our affiliate, Dixintong Telecommunications Services, was among the first group of MVNOs that obtained official approval from the MIIT in December 2013. Dixintong Telecommunications Services has obtained the MVNO licenses from China Unicom and China Telecom and entered into an cooperation agreement with China Mobile in MVNO business, and will operate the MVNO business through our retail platforms.

We intend to establish a cooperative partnership with our affiliate, Dixintong Telecommunications Services, to develop the MVNO market, including developing customers for it through selling call service subscriptions or mobile phones that are bundled with call service subscriptions. Leveraging our extensive retail network for telecommunications devices, we will earn commissions from providing products and customized services in cooperation with our affiliate, which are calculated based on the value of such subscriptions and a portion of the recurring fees paid by customers over the terms of subscriptions. We expect that our sales volume of mobile telecommunications devices will experience strong growth through such cooperation. In addition, entering into the MVNO market through cooperation with our affiliate will greatly enhance our brand image and customer recognition in China's mobile telecommunications industry.

## OUR BUSINESS

According to the SINO Report, we are the largest mobile telecommunications chain store as well as the third largest mobile phone retailer in terms of sales volume in China in 2013, with an average monthly retail sales volume of approximately 625,000 handsets. We maintain our leading position in the PRC mobile telecommunications devices industry by selling and distributing mobile telecommunications devices and accessories and providing customized services. We are also one of the pioneers in establishing and developing an O2O platform among the mobile telecommunications retailers in China, according to the SINO Report. We currently offer our customers a broad selection of more than 2,000 mobile phone models of different specifications (such as colors and formatting systems) and brands from international brands, such as Samsung, Apple, Nokia, HTC and Sony, to domestic brands, such as Lenovo, Huawei, ZTE, Coolpad, Xiaomi and Vivo. We also sell mobile phone accessories and smart devices including smart wearable devices, smart phone peripherals, smart phone protection and security accessories, and smart application peripherals. In addition, our value-added services are offered on a personalized basis and include mainly software and mobile application packages and mobile phone configuration services. Benefiting from our extensive physical network of retail stores and developed virtual platforms, our O2O platform has allowed us to offer various mobile devices and value-added services and provide smart communications solutions, thereby providing our customers with access to the mobile Internet.

**Our business model**

Our business is organized into three parts, including (i) sales of mobile telecommunications devices and accessories; (ii) provision of services to China's mobile carriers; and (iii) provision of repair, maintenance and value-added services to our customers. Our sales of mobile telecommunications devices and accessories include (i) our retail business through our independently operated outlets and online channels; (ii) our franchise business; and (iii) our wholesale business.

Our retail business involves the sale of mobile phones, mobile phone accessories, smart devices and other products through our independently operated outlets and outlets in cooperation with China's mobile carriers, and our own online platform and other e-commerce platforms.

Our franchise business involves the sale of mobile telecommunications devices and accessories to third-party franchisees pursuant to their franchise agreements with us.

Our wholesale business involves the distribution of mobile telecommunications devices and accessories to wholesale customers who purchase from us in bulk. We deliver the products directly to our wholesale customers from our warehouses in various cities in the PRC.

We also provide services to China's mobile carriers from which we derive service income. Such services mainly include promoting and selling mobile phones that are bundled with contracted call service subscriptions offered by the mobile carriers, and sending staff to the outlets established by the mobile carriers and operated by us. In return for our services, we receive commissions from sales of new contracted call service subscriptions, as well as a portion of the recurring fees paid by customers of the mobile carriers over the terms of the subscriptions. We also receive service income for the staff we send to the outlets established by the mobile carriers and operated by us.

In addition, we provide mobile phone repair and maintenance services at many of our retail outlets, and offer a range of value-added services and personalized solutions for mobile devices, which include sale of software and mobile application packages, mobile phone configuration services, provision of a cloud platform, and location based services that offer entertainment and lifestyle services through customers' mobile phones by taking into account their mobile phones' geographical location.

**Sales of mobile telecommunications devices and accessories**

***Our retail business***

In our retail business, we currently offer our customers a broad selection of more than 2,000 mobile phone models of different specifications (such as colors and formatting systems) and brands from international brands such as Samsung, Apple, Nokia, HTC and Sony, to domestic brands such as Lenovo, Huawei, ZTE, Coolpad, Xiaomi and Vivo. We also sell a wide range of mobile phone accessories and other smart devices. Mobile phone accessories which we offer include (i) protection accessories such as protective films and cases, (ii) charging accessories such as chargers and battery packs, (iii) storage accessories such as SIM cards, (iv) audio accessories such as ear phones, and (v) other accessories. Smart devices which we offer include smart wearable devices, smart phone peripherals, smart phone protection and security accessories and smart application peripherals.

We are the key retail partner of many of the leading mobile device manufacturers in China. According to the SINO Report, we ranked the first among all retailers for Lenovo, Coolpad and Huawei, and ranked the second among all retailers for Samsung, Nokia and HTC in terms of sales from non-bundled mobile phone market in 2013, and we are one of the few retailers that have sourced products directly from Samsung, Nokia and HTC. In addition, we started to cooperate directly with Apple since March 2012 and set up iOS Apple authorized counters in our stores. As of April 30, 2014, we had iOS Apple authorized counters in 102 outlets throughout the PRC.

We focus on providing our customers with a superior shopping experience delivered through a variety of one-stop shop services offered by our highly trained sales staff. We periodically train our sales staff so that they utilize a consultative and informative approach to assist our customers with their selection, purchase and use of our products and services. Our sales representative serves a customer throughout the entire purchase process from the moment of initial contact, providing integrated pre-sale, on-sale and after-sales services to that customer (首問負責制), thus increasing our customer satisfaction. We provide phone customization services through our phone set-up counters at our retail outlets. Such services include configuring phones to customers' specifications, installing software and Internet service applications and transferring customers' digital phone books and other data from their one phone to another.

We conduct our retail business through our O2O platform comprising online and offline channels. We have an extensive network of independently operated outlets, which comprise both standalone outlets and store-in-store outlets within supermarket chains, shopping centers and department stores. Our standalone outlets comprise four categories of stores, including flagship stores, major stores, standard stores and community stores. See "– Our retail network – Independently operated outlets – Standalone outlets." We select locations of our stores based on factors including market size and household income levels, to ensure our customers can easily access and experience our products and services. The layout, facilities and decoration of our stores are aimed to cater to customers' shopping habits and spending preferences. In addition, we use the Internet and other evolving sales channels, such as online sales platforms, television sales channels and credit card online stores, to market and sell mobile telecommunications devices, mobile phone accessories and smart devices. See "– Our retail network – Online stores and other evolving retail channels."

We maintain a direct-to-consumer sales channel through our own e-commerce platform, *www.dixintong.com*, which provides consumers with our latest product offerings, promotions and access to customer services, complementing our physical retail operations and increasing the scope of our marketing and branding efforts to the immense internet consumer population.

We also sell our products on third-party Internet-based platforms, such as Tmall, Amazon.cn and Yhd.com. In addition, we market and offer our mobile telecommunications products on television channels and credit card online stores. See "– Our retail and distribution network – Online stores and other evolving retail channels."

Benefiting from an extensive physical network of retail stores and developed virtual platforms, our O2O platform has allowed us to increase our sales and revenues by attracting online customers and directing them to our physical stores, or vice versa, thereby creating a synergy between the offline and online channels. Customers who have gained familiarity with our brand and quality of services at our physical stores have greater confidence in our products offered through our virtual platforms, and customers from our virtual platforms are exposed to information about our products and services and are attracted to visit our physical stores to experience the physical products and gain more information from our knowledgeable sales staff.

For the years ended December 31, 2011, 2012 and 2013, revenue derived from our retail business was RMB4,261.3 million, RMB5,693.8 million and RMB6,862.9 million, respectively, representing 65.4%, 64.7% and 53.6% of our total revenue, respectively.

***Our franchise business***

We operate our franchise business through our franchised outlets, whereby third-party franchisees operate outlets under our brand and operations model pursuant to their framework franchise agreements with us. To the knowledge of our Directors, all our franchisees are independent third parties. According to the SINO Report, the cooperation with franchisees to operate franchised outlets is normal practice in the mobile telecommunications industry.

We have a franchise business management team dedicated to the oversight of the franchise business of our Group. Before signing any definitive franchise agreements, we discuss with the potential franchisees the investment budget of the relevant franchised outlets, and conduct due diligence on the business background and financial condition of such potential franchisees. Our personnel responsible for regional franchise business will review and assess sales and operation proposals with the potential franchisees based in their respective regions.

We generally have no requirements on minimum purchase amount or sales or expansion targets for our franchisees or any minimum investment amount for the franchised outlets they operate. Franchisees who are committed to purchase more than 40% of their product offerings from us are not required to pay us any franchise fee as an incentive based on their transaction volume with us. Alternatively, franchisees who are not committed to the minimum purchase of 40% of their product offerings are required to pay us RMB20,000 as the annual franchise fee.

*Framework franchise agreements*

The framework franchise agreements entered into between us and franchisees normally have a term of five years. The franchisees can apply to renew the franchise agreements with us upon their expiration.

Pursuant to the framework franchise agreements, our franchisees purchase mobile telecommunications devices and accessories from us and sell the products and provide services to customers at their franchised outlets using our logo. Our framework franchise agreements and franchise handbook (加盟手冊) normally include the following key terms:

- the franchisees should obtain and maintain all approvals, permits or licenses required by law or contract during the terms of such agreements;
- we provide training to the franchisees on a quarterly basis in respect of sales and operation, business management and human resources; the franchisees are obliged to undertake mandatory training provided by us and they bear their costs for attending such training; if the franchisees do not complete the mandatory training to our satisfaction or on schedule, we have the right to unilaterally terminate the franchise agreements and the franchisees will not be entitled to any compensation;
- we have the right to perform periodic and unscheduled reviews and pay visits to the franchised outlets to ensure compliance by our franchisees with the required standards and requirements, including the performance of the employees of the franchisees, routine operations and the decoration and fittings of the franchised outlets; we shall also conduct annual reviews of the overall performance of the franchisees;
- the franchisees are obliged to abide by our business and operations model and the pricing and minimum price standard set by our regional subsidiaries in the relevant region;
- the franchisees who are committed to purchasing more than 40% of their product offerings from us are required to adopt our ERP system;
- we assist our franchisees with locating the site for the franchised outlets, design of the franchised outlets and provide them with our advertising materials and operational guidelines;
- we permit our franchisees to use our brand and logo for their operation of the relevant franchised outlets;
- the franchisees shall use their best efforts to hire and train qualified employees and operate their franchised outlets;
- the franchisees agree to procure employee uniforms and price labels bearing our brand from our designated suppliers;
- we agree not to open another franchised outlet within a radius of 500 meters; and

- the franchisees are not permitted to (i) use our brand other than for the purpose of operating the relevant franchised outlets, (ii) publish any advertisements without our consent, (iii) engage in similar business activities to sell products and provide services that are not within the scope of the franchise agreements, (iv) provide financial assistance to or invest in our competitor's businesses, which may impact our business operations, or (v) disclose our commercial secrets to any of our competitors.

We grant credit periods of 30 to 90 days to our franchisees who adopt our ERP system based on their relationship with us and their respective sales volume. For those franchisees who adopt our ERP system, we also assist them in managing their sales and inventory through the ERP system. If the franchisee's annual purchase amount is over RMB2.0 million, we offer a rebate of 1-3% of its annual purchase amount for the relevant year.

Our franchisees can choose to purchase products either from us or from any other suppliers. They procure products from us through purchase orders and normally place their order on a monthly basis. After purchase of the products from us, our franchisees assume the liabilities relating to the products and at the same time we recognize the revenue from such sales. As the relationship between us and the franchisees is one between the seller and the purchaser, we do not have any arrangements with our franchisees for obsolete or unsold stock. Except for defective or damaged products, we are not contractually obliged to accept returning of products sold to our franchisees. During the Track Record Period, none of our franchisees returned any products to us after their purchase. As such, our Directors are of the view that there is no direct correlation between the increase in the Group's turnover during the Track Record Period and any accumulation of inventory by our franchisees.

There is no exclusivity clause in our framework franchise agreements. Pursuant to our franchise agreements, if our franchisees cooperate with other parties or act as other parties' employees, to operate similar business, or provide financial assistance to or invest in our competitors' business, we are entitled to an indemnity of no less than RMB20,000. Our franchisees refurbish their franchised outlets at their own cost.

Our franchise business management team is responsible for overseeing any incidents of noncompliance of the franchisees. Should any incidents of non-compliance be identified, our responsible personnel will report to the managers in charge of the franchise business in their respective regions. The managers will report the incident of non-compliance to our franchise business management team, and the team will then report the same to the Board. Our Board will, if necessary, seek legal advice and review the non-compliance situation to determine whether the relevant franchise agreement should be terminated in accordance with its terms.

For the years ended December 31, 2011, 2012 and 2013, revenue derived from our franchise business was RMB1,061.9 million, RMB1,340.3 million and RMB1,976.8 million, respectively, representing approximately 16.3%, 15.2% and 15.4%, respectively, of our total revenue during the same periods.

***Our wholesale business***

We operate our wholesale business through our subsidiaries, and offer a range of products to wholesale customers who purchase mobile telecommunications devices and accessories from us in bulk. Our wholesale distribution network comprises wholesale customers including China's mobile carriers, large online stores such as JD.com, regional distributors and retailers and small or mid-sized independently operated telecommunications stores. As of April 30, 2014, we had a wholesale distribution network of approximately 400 wholesale customers spreading across 18 provinces and three municipal cities. Through our extensive network of wholesale customers, our wholesale distribution business allows us to increase our sales volume and strengthen our bargaining power for procurement from our suppliers, provides us with a stable and recurring source of revenue and complements our retail and franchise operations.

We cooperate with the mobile carriers to distribute mobile phones of international and local brands designated by the mobile carriers. We also act as a wholesale supplier to the mobile carriers, by procuring mobile phones from manufacturers that have been customized with the mobile carriers' formatting requirements. Through such cooperation, we are able to generate revenue from the wholesale distribution to the mobile carriers and other regional distributors and retailers, and at the same time consolidate our relationship with the mobile carriers.

We typically enter into distribution agreements with a term of one year with our wholesale customers, and pursuant to these agreements, our wholesale customers will enter into specific purchase orders with us for their purchases. Our wholesale distribution agreements typically include the following key terms:

- mobile devices and accessories are sold in compliance with national quality standards and in accordance with any customization requirements specified in the purchase orders;

- the customers assume the costs for road and rail transportation of the freight and insurance unless we designate other modes of transportation;

- the customers shall perform inspection of the products upon delivery and accept delivery on a timely basis; and

- the customers are not entitled to return any products unless the products are defective or do not meet the customization requirements.

Unlike our franchise agreements, our wholesale customers are not entitled to use or operate under our brand nor would we be obligated to provide any kind of sales support to them. During the Track Record Period, none of our wholesale customers returned any products to us after their purchase.

We may extend credit to certain wholesale customers for periods ranging from 30 to 90 days based on their creditworthiness, the size of their order and their prior relationship with us. See "– Internal Control – Centralized finance management system" for our policy on assessing credit risks of our customers, including our wholesale customers.

For the years ended December 31, 2011, 2012 and 2013, revenue derived from our wholesale distribution business was RMB839.6 million, RMB1,372.1 million and RMB3,346.7 million, respectively, representing approximately 12.9%, 15.6% and 26.1%, respectively, of our total revenue during the same periods.

***Our provision of services to China's mobile carriers***

Benefiting from our extensive network and high-standard services, we are the key national strategic partner of, and one of the few partners that collaborate on a nationwide basis with all three mobile carriers in China, namely China Mobile, China Unicom and China Telecom. We have developed successful partnerships with all three of them through developing a customer base for them, procuring products for them, jointly establishing outlets with them and operating their outlets.

We provide services to China's mobile carriers from which we derive service income. Such services include promoting and selling call service subscriptions offered by the mobile carriers, and placing staff at the outlets established by the mobile carriers and operated by us. In return for our services, we receive commissions for sales of new contracted call service subscriptions as well as a portion of the recurring fees paid by the customers of the mobile carriers over the terms of the subscriptions. We also receive service income for the staff we place at the outlets established by the mobile carriers and operated by us. See "– Cooperation with China's Mobile Carriers."

For the years ended December 31, 2011, 2012 and 2013, we derived service income from China's mobile carriers in the amount of RMB257.2 million, RMB329.2 million and RMB496.2 million, respectively, representing approximately 4.0%, 3.7% and 3.9%, respectively, of our total revenue during the same periods.

***Our provision of repair, maintenance and value-added services***

We provide mobile phone repair and maintenance services at over 260 repair and maintenance counters in our outlets throughout the PRC. We provide nationwide warranty for the mobile phones that our customers purchased from us, which allows our customers to visit any of our stores throughout the PRC to return or exchange their mobile phones or for mobile repair and maintenance services. See "– After-sales Services."

We also offer value-added services including (i) services that enrich the smart features of the mobile devices such as software and mobile Internet service application packages, (ii) a cloud storage service platform, Di Cloud, for virtual data storage that are specifically instrumental to smart office solutions, and (iii) other location-based services that offer digital content and services on entertainment and lifestyle through end-users' mobile phones based on their geographical location free-of-charge.

We are attentive to the needs of our customers, constantly varying and updating the software in our software packages in response to changing lifestyle demands of our customers. For example, we periodically update the softwares in the software packages we sell to ensure that they remain up to date and relevant to our customers. We offer value-added services at all of the stores we operate and encourage our customers to purchase and utilize such services when they purchase other products from us by having our highly trained and knowledgeable sales staff to recommend and explain how relevant value-added services can be used with their purchases, allowing customers to personally experience these value-added services before making a purchase decision.

For the years ended December 31, 2011, 2012 and 2013, revenue derived from our provision of repair, maintenance and value-added services was RMB93.5 million, RMB67.3 million and RMB129.4 million, respectively, representing approximately 1.4%, 0.8% and 1.0%, respectively, of our total revenue during the same periods.

The following table sets out our revenue derived from different parts during the Track Record Period.

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue |
| Sales of mobile telecommunications devices and accessories | 6,162,814 | 94.6% | 8,406,194 | 95.5% | 12,186,395 | 95.1% |
| – Retail of mobile telecommunications devices and accessories | 4,261,320 | 65.4% | 5,693,802 | 64.7% | 6,862,902 | 53.6% |
| – Sales of telecommunications devices and accessories to franchisees | 1,061,939 | 16.3% | 1,340,285 | 15.2% | 1,976,843 | 15.4% |
| – Wholesale of mobile telecommunications devices and accessories | 839,555 | 12.9% | 1,372,107 | 15.6% | 3,346,650 | 26.1% |
| Service income from mobile carriers | 257,227 | 4.0% | 329,208 | 3.7% | 496,205 | 3.9% |
| Other service fee income | 93,460 | 1.4% | 67,287 | 0.8% | 129,424 | 1.0% |
| **Total** | 6,513,501 | 100.0% | 8,802,689 | 100.0% | 12,812,024 | 100.0% |

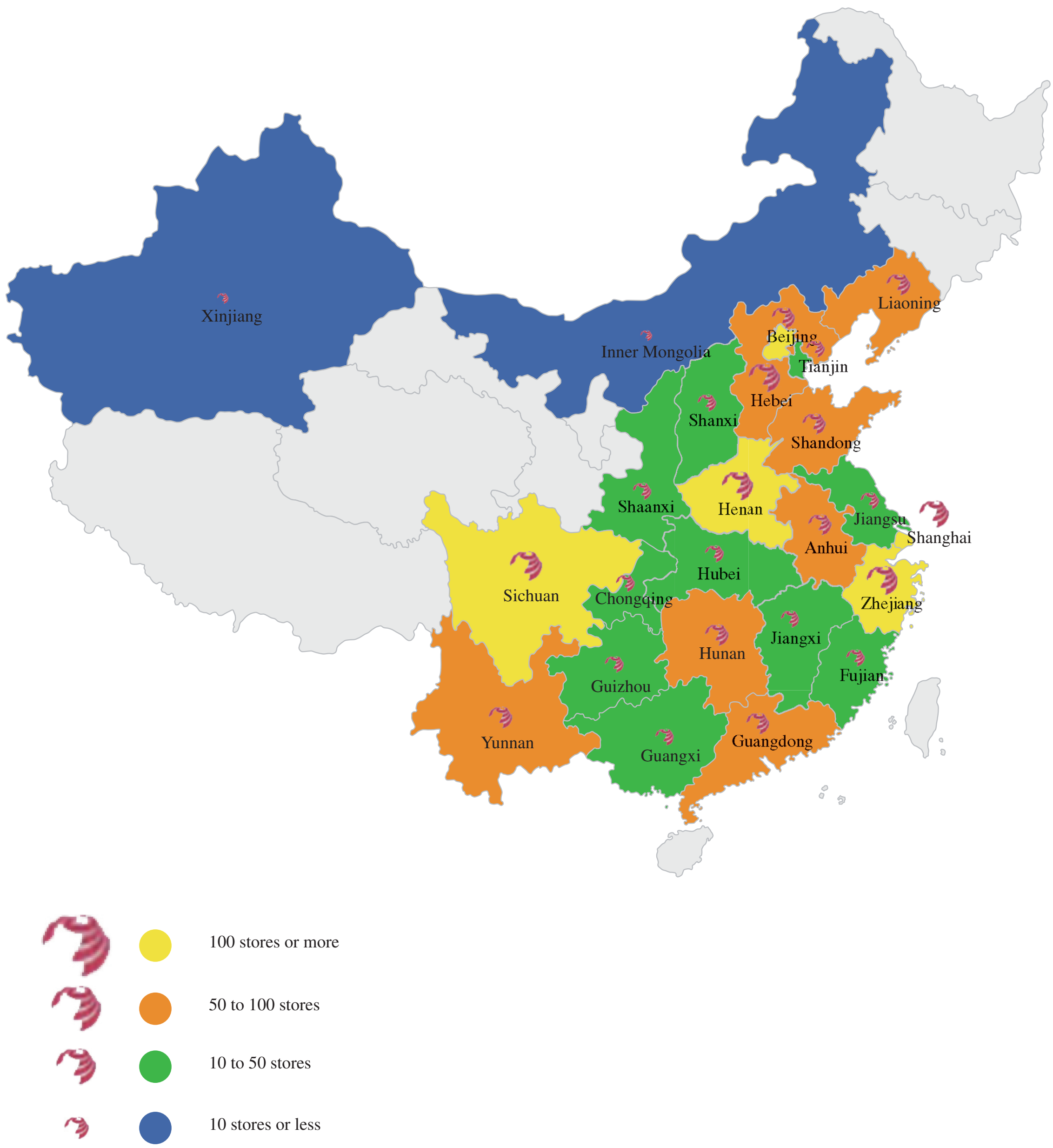
**Our retail and distribution network**

We maintain an extensive retail and distribution network that consists of our independently operated outlets, which comprise both standalone outlets that we own and operate, and store-in-store outlets within supermarket chains, shopping centers and department stores, our franchised outlets that third-party franchisees operate pursuant to their franchise agreements with us, outlets in cooperation with China's mobile carriers, and our online stores and other evolving retail channels. Our standalone outlets, store-in-store outlets and our franchised outlets are operated under our brand, D.Phone. We have cooperated with all three mobile carriers in China in several areas, including developing a customer base for them, procuring products for them, jointly establishing outlets and operating their outlets. Our retail network also includes online and other evolving sales channels, such as e-commerce platforms, television sales channels and credit card online stores.

As of April 30, 2014, we operated a retail and distribution network with a total of 1,512 independently operated outlets and franchised outlets in 21 provinces and four municipal cities. In addition, in 2013, we promoted the sales of mobile products and services in over 1,500 outlets of China's mobile carriers. We will continue to expand the number and geographical coverage of our independently operated outlets in the PRC through acquisitions, as well as opening new retail outlets. In evaluating potential locations for opening new retail outlets, we consider, among other factors, market size, household income level, consumer spending preferences and competition in the relevant region. We also intend to establish more franchise outlets in third- and fourth-tier cities in the PRC to complement our strong network of independently operated outlets in the first- and second-tier cities and to extend our brand presence and awareness to other parts of the PRC.

Our wholesale distribution network comprises various wholesale customers including China's mobile carriers, large online stores such as JD.com, regional distributors and retailers and small or mid-sized independently operated telecommunications stores. As of April 30, 2014, we had a wholesale distribution network of approximately 400 wholesale customers spreading across 18 provinces and three municipal cities.

The following map illustrates the geographic locations of our retail outlets and the approximate number of outlets we had in each province in the PRC as of April 30, 2014.



The following table sets out a breakdown of the number of (i) our independently operated outlets, including both standalone outlets and store-in-store outlets, and (ii) our franchised outlets, in the various provinces/municipal cities in the PRC, as of April 30, 2014.

| | | Independently operated outlets | | | | |
|---|---|---|---|---|---|---|
| No. | Provinces/Cities | Standalone outlets | Store-in-store outlets | Sub-total | Franchised outlets | Total |
| 1 | Anhui | 15 | 2 | 17 | 56 | 73 |
| 2 | Beijing | 107 | 59 | 166 | 1 | 167 |
| 3 | Chongqing | 0 | 6 | 6 | 6 | 12 |
| 4 | Fujian | 1 | 16 | 17 | 6 | 23 |
| 5 | Gansu | 8 | 5 | 13 | 0 | 13 |
| 6 | Guangdong | 3 | 63 | 66 | 10 | 76 |
| 7 | Guangxi | 13 | 8 | 21 | 13 | 34 |
| 8 | Guizhou | 0 | 0 | 0 | 28 | 28 |
| 9 | Hebei | 5 | 19 | 24 | 40 | 64 |
| 10 | Henan | 82 | 55 | 137 | 95 | 232 |
| 11 | Hubei | 1 | 7 | 8 | 4 | 12 |
| 12 | Hunan | 16 | 2 | 18 | 50 | 68 |
| 13 | Inner Mongolia | 0 | 2 | 2 | 6 | 8 |
| 14 | Jiangsu | 8 | 7 | 15 | 7 | 22 |
| 15 | Jiangxi | 7 | 0 | 7 | 9 | 16 |
| 16 | Liaoning | 14 | 53 | 67 | 17 | 84 |
| 17 | Shaanxi | 5 | 14 | 19 | 11 | 30 |
| 18 | Shandong | 14 | 33 | 47 | 29 | 76 |
| 19 | Shanghai | 64 | 50 | 114 | 0 | 114 |
| 20 | Shanxi | 6 | 4 | 10 | 13 | 23 |
| 21 | Sichuan | 36 | 31 | 67 | 61 | 128 |
| 22 | Tianjin | 1 | 10 | 11 | 5 | 16 |
| 23 | Xinjiang | 3 | 5 | 8 | 1 | 9 |
| 24 | Yunnan | 12 | 41 | 53 | 20 | 73 |
| 25 | Zhejiang | 17 | 26 | 43 | 68 | 111 |
| Total | | 438 | 518 | 956 | 556 | 1,512 |

In addition, in 2013, we promoted the sales of mobile products and services in over 1,500 outlets of the three mobile carriers in China (駐廳銷售). See "– Cooperation with China's Mobile Carriers."

The following table sets out the number of our standalone outlets, store-in-store outlets and franchised outlets that were opened and closed during the periods indicated, and the number of each type of such outlets we had as of the dates indicated:

| | Year ended December 31, | | | | | | | | | Four months ended April 30, | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | | 2014 | | |
| | Opened | Closed | As of December 31, 2011 | Opened | Closed | As of December 31, 2012 | Opened | Closed | As of December 31, 2013 | Opened | Closed | As of April 30, 2014 |
| Standalone outlets . . . | 77 | 37 | 351 | 71 | 49 | 373 | 131 | 77 | 427 | 12 | 1 | 438 |
| Store-in-store outlets . . . | 238 | 63 | 509 | 162 | 110 | 561 | 91 | 143 | 509 | 15 | 6 | 518 |
| Franchised outlets . . . | 206 | 104 | 524 | 143 | 130 | 537 | 162 | 170 | 529 | 27 | 0 | 556 |

During the Track Record Period, our decisions regarding the closure of standalone outlets and store-in-store outlets were made generally pursuant to our strategic planning and to changes to the geographic configuration of our retail network. During this period, there were also closures driven by urban planning or other government-sponsored construction projects. The closures of franchised outlets were mostly a result of our decision not to renew the relevant franchise agreements, given our business or strategic considerations from time to time, or a result of our franchisees' decision to relocate their outlets. Our Directors believe that the turnover rate of our independently operated outlets and franchised outlets during the Track Record Period was no higher than that typically encountered by a business similar to ours, taking into account the growth of our retail business and the market conditions.

## Our retail network

Our retail network comprises (i) our independently operated outlets, which comprises both standalone outlets that we own and operate and store-in-store outlets within supermarket chains, shopping centers and department stores, and (ii) our online stores and other evolving retail channels.

### *Independently operated outlets*

As of April 30, 2014, we operated a total of 956 independently operated outlets, comprising 438 standalone outlets and 518 store-in-store outlets within third-party premises including supermarket chains, shopping centers and department stores. These independently operated outlets are strategically located in first- and second-tier cities in the PRC, within commercial districts and areas that have a high concentration of electronics and mobile phone stores.

*Standalone outlets*

As of April 30, 2014, we operated 438 standalone outlets, for which we either own the properties or lease the properties from third parties. Our standalone outlets normally have a retail space ranging from approximately 80 square meters to approximately 1,000 square meters. We select locations of our standalone outlets based on factors including market size, household income levels, customer spending preferences and competition in the relevant region. The general lease term of our standalone outlets is from three to five years. Some of our standalone outlets are jointly established by China's mobile carriers and us. See "– Cooperation with China's Mobile Carriers – We cooperate with mobile carriers through procuring and selling telecommunications devices and accessories in their outlets and establishing retail outlets with them." Our standalone outlets are divided into four categories, including:

- Flagship stores (旗艦店) are our largest and highest level stores which promote our brand image and sell a complete variety of mobile telecommunications products. Flagship stores normally have retail spaces of over 500 square meters and are mainly located in central commercial districts in the first- and second-tier cities;

- Major stores (主力店) are our second level stores which promote our brand image and sell a complete variety of mobile telecommunications products. Major stores normally have retail spaces of between 200 and 500 square meters and are mainly located in key commercial districts;

- Standard stores (標準店) are stores which sell core brands and categories of mobile telecommunications products. Standard stores normally have retail spaces of between 80 and 200 square meters and are mainly located in surrounding areas of flagship stores or key commercial districts; and

- Community stores (社區店) are stores which sell basic brands and categories of mobile telecommunications products. Community stores normally have retails spaces of approximately 80 square meters and are mainly located in non-central commercial districts.

For the years ended December 31, 2011, 2012 and 2013, revenue derived from our standalone outlets was RMB2,922.6 million, RMB3,202.7 million and RMB3,977.3 million, respectively, representing approximately 44.9%, 36.4% and 31.0%, respectively, of our total revenue during the same periods.

*Store-in-store outlets*

As of April 30, 2014, we operated 518 store-in-store outlets in supermarket chains, shopping centers and department stores, with a focus on nationwide supermarkets such as Carrefour, Wal-Mart and Vanguard, and regional shopping centers such as Shanghai Bailian (上海百聯), Beijing Hualian (北京華聯) and Beijing New World (北京新世界) that had high customer traffic. The providers of such premises allow us to set up our store-in-store outlets within their premises and to assign our own sales staff to promote and sell our product offerings.

Our store-in-store outlets in supermarkets are generally located in the home appliances sales areas which are normally near the entrance of these supermarkets. In addition to promoting and selling diversified brands and products, we also set up separate zones for products of mobile carriers and mobile device manufacturers such as Samsung, within these store-in-store outlets. The supermarkets implement unified management of our sales staff in our store-in-store outlets at their premises, including working hours and dress code. The supermarkets also invoice our customers for their purchases at our store-in-store outlets in these supermarkets. Our store-in-store outlets pay these supermarkets either a fixed rent, or a portion of the sales as rent on a monthly basis, and we keep the remaining sales amounts.

We also lease areas in shopping centers and department stores to establish and operate our store-in-store outlets, so that we can benefit from the high customer traffic to promote and sell our products. The decoration and sales models of these store-in-store outlets are the same as in our standalone outlets. The customers who purchase products from our store-in-store outlets are invoiced by cashiers of the shopping centers and department stores. We pay a portion of sales of our store-in-store outlets as rent to the shopping centers and department stores if our customers are invoiced by their cashiers. The working hours of our sales staff follow the requirements of the shopping centers and department stores.

For the years ended December 31, 2011, 2012 and 2013, revenue derived from our store-in-store outlets was RMB895.3 million, RMB1,158.5 million and RMB1,326.5 million, respectively, representing approximately 13.7%, 13.2% and 10.4%, respectively, of our total revenue during the same periods.

We refurbish our independently operated outlets every three to five years on average, which is generally in line with the lease term of our outlets. Our refurbishment plans typically involve reconditioning and/or upgrading the decoration and fittings and software programs and systems of our outlets. The average refurbishment cost per square meter for our standalone outlets and our store-in-store outlets is approximately RMB1,100 and RMB450, respectively. Typically we either close a portion of the standalone outlet or temporarily close the entire outlet for refurbishment. To the extent refurbishment is conducted under full closure of the outlet, the temporary closure lasts for 15 days on average. We typically do not close our store-in-store outlets for refurbishment as the refurbishment process for such outlets is relatively simpler. For the standalone outlets, we close or partially close the outlets for refurbishment during the period which is considered to be "low season" for our industry or immediately after we renew the lease for the outlets where the landlords offer "rent-free" period to the lessees for refurbishment. In addition, we have been able to attract higher flow of customer traffic and increase our customer satisfaction after refurbishment. Being a nationwide mobile telecommunications retailer, keeping our outlets in good condition and offering great shopping experience is a critical part of our business. Given the minimal interruption to the operations of the standalone outlets and the enhancement to the overall physical conditions of these retail outlets resulting from the refurbishment, our Directors are of the view that our upgrade plans will not have any material negative impact on us from an operational or financial perspective.

In order to meet our business development needs, after Listing, we plan to upgrade approximately 150 of our standalone outlets and 120 of our store-in-store outlets, respectively, accounting for approximately one-third of our total standalone outlets and one-fourth of our total store-in-store outlets, respectively, as of April 30, 2014. Our total budget for these refurbishment plans is approximately RMB35.0 million. We expect to fund these refurbishment plans in part from the revenue generated from our operations and in part from the net proceeds from the Global Offering. See "Future Plans and Use of Proceeds – Use of Proceeds." Such refurbishment is expected to be completed by the end of 2016. As of the Latest Practicable Date, we had not commenced any such refurbishment plan.

***Online stores and other evolving retail channels***

We also have online channels to market and sell mobile telecommunications devices, mobile phone accessories and smart devices over various e-commerce platforms, including our own Internet-based platform, *www.dixintong.com*, and third-party Internet-based platforms, such as Tmall, Amazon.cn and Yhd.com. According to the SINO Report, while the use of O2O platform by mobile telecommunications retailers in the PRC is still in its development stage, we are one of the pioneers in establishing and developing an O2O platform for our mobile telecommunications retail business in China. As part of our O2O platform, our e-commerce platform provides information on our latest product offerings, promotions and access to customer services such as after-sales support, complementing our physical retail operations, developing and maintaining customer relationship and broadening the reach of our marketing and branding efforts to address to the Internet consumer population. Our virtual platforms also include television sales channels, and credit card online stores.

For the years ended December 31, 2011. 2012 and 2013, revenue derived from our online stores and other evolving retail channels was RMB126.1 million, RMB670.6 million and RMB884.7 million, respectively, representing approximately 1.9%, 7.6% and 6.9%, respectively, of our total revenue during the same periods.

**Our franchise network**

As of April 30, 2014, we had a nationwide network of 556 franchised outlets, whereby independent third-party franchisees operate outlets under our brand and operations model pursuant to their framework franchise agreements with us. We focus on establishing more franchised outlets in the third- and fourth-tier cities in the PRC to complement our strong network of independently operated outlets in the first-and second-tier cities and to extend our brand presence and awareness to other parts of the PRC.

We select our third-party franchisees mainly based on criteria including: (i) the location in which they operate, while we prefer that they operate within commercial districts or mobile phone retail centers; (ii) whether the franchisee owns its own premises or the length of the remaining lease term if the franchisee leases the premises; (iii) the franchisee's business and financial condition; and (iv) the franchisee's reputation in the local business community.

In rolling out our franchised outlets, we have given due considerations to possible undesired internal competition between our franchised outlets and our standalone outlets. Our strategic planning regarding location of our retail network generally favors the establishment of standalone outlets in first- and second-tier cities. For growth and expansion plans in third- and forth-tier cities or locations where we have limited experience, our planning strategies favor the use of franchised outlets. Where we decide in favor of opening new franchised outlets in locations where we already have standalone outlets, such franchised outlets will likely be located in commercial centres or areas that are not adequately covered by the reach of our standalone outlets. Under the terms of our franchise agreements, our franchisees will need to seek our consent prior to the opening or establishment of any franchised outlets. Our consent will be given only if we are satisfied that the opening of such outlets would not lead to any material undesirable competition with our existing standalone outlets.

**Our wholesale network**

Our wholesale distribution network comprises wholesale customers including China's mobile carriers, large online stores such as JD.com, regional distributors and retailers, and small or mid-sized independently operated telecommunications stores. As of April 30, 2014, we had a wholesale distribution network of approximately 400 wholesale customers spreading across 18 provinces and three municipal cities.

**Cooperation with China's Mobile Carriers**

We serve as the key national strategic partner of, and are one of the few retailers and wholesale distributors of mobile telecommunications products and services collaborating on a nationwide basis with all three mobile carriers in China, namely China Mobile, China Unicom and China Telecom. In partnering with the mobile carriers, we provide mobile telecommunications products and services to the mobile carriers through the following channels:

- developing a customer base for them by selling their pre-formatted mobile devices, contracted call service subscriptions and pre-paid SIM cards;

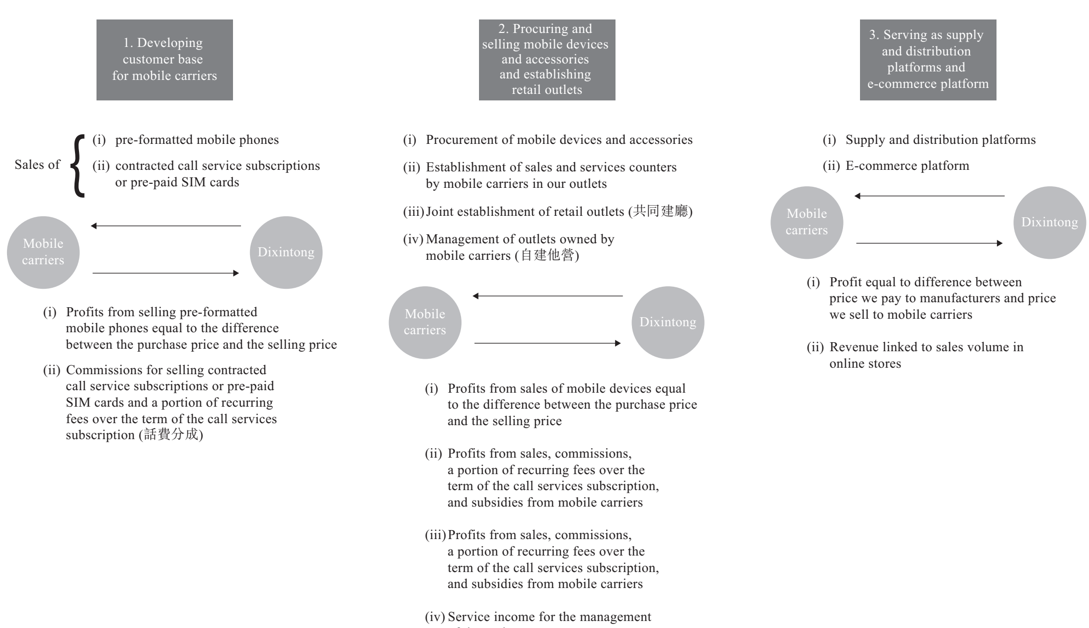
- procuring and selling telecommunications devices and accessories in their retail outlets and establishing retail outlets with them; and
- serving as their supply and distribution platforms for mobile devices and an e-commerce platform for them.

In return for our provision of mobile telecommunications products and services, we have derived revenue from the mobile carriers in the following ways:

- profits from the sales of mobile devices;
- commissions for selling contracted call services subscriptions or pre-paid SIM cards and a portion of recurring fees over the term of the call services subscriptions (話費分成);
- service income for placement of sales staff to outlets that are owned by mobile carriers and managed by us; and
- subsidies from the mobile carriers for rental, renovation and salaries of sales personnel under certain contractual arrangements.

For information regarding service income from the three mobile carriers, including commissions received from them in connection with selling contracted call services subscriptions, see “Financial Information – Certain Income Statement Items – Revenue.” The remuneration basis with the mobile carriers differs from region to region and is determined on a case-by-case basis in accordance with terms in the specific agreements for different localities, taking into account different local governmental policies and market needs.

The following flow chart summarizes the services and products we provide to the mobile carriers and the types of revenues we receive from them in return:



***We develop a customer base for the mobile carriers by selling their pre-formatted mobile devices, contracted call service subscriptions and pre-paid SIM cards***

We develop our own customer base and, at the same time, also develop one for the mobile carriers through the sale of mobile phones and contracted call service subscriptions offered by the mobile carriers in our own retail outlets and at the sales counters we established in outlets owned by the mobile carriers. The call service subscriptions of the mobile carriers that we sell primarily include the following:

- We sell pre-formatted mobile phones for the mobile carriers, including pre-formatted mobile phones that are sold in connection with a customer's commitment to certain contracted call service subscriptions, such as "talk time" or data packages. In addition, a customer may also choose to buy only a pre-formatted mobile phone and receive certain gifts offered by the mobile carriers. We derive revenue from the sales of such pre-formatted mobile phones in the form of (i) profits received from the sale of mobile handsets equal to the difference between the purchase price and the selling price, which are accounted as revenue from sales of mobile telecommunications devices and accessories, (ii) commissions from mobile carriers for the sale of new contracted call service subscriptions, and (iii) a portion of the recurring fees paid by customers of the mobile carriers over the term of the subscriptions (話費分成).

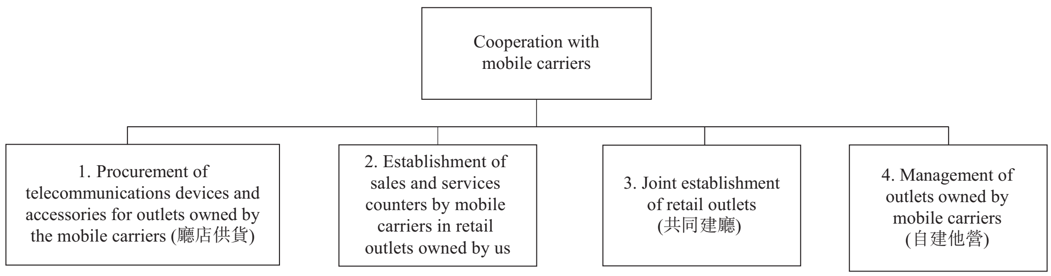
- We also sell pre-paid SIM cards (預存話費) for the mobile carriers. When purchasing such pre-paid SIM cards from us, customers receive free handsets and "talk time" offered by the mobile carriers. Talk time refers to the credits on the SIM cards which can be used for placing and receiving phone calls. We derive revenue from the sale of such pre-paid SIM cards in the form of commissions from the mobile carriers.

By utilizing our nationwide retail network, we believe we have helped mobile carriers build a significant proportion of their current customer base. The following table sets forth the approximate numbers of the total customers we developed for China's mobile carriers during the periods indicated.

| | Year ended December 31, | | | Four months ended April 30, |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | ('000) | ('000) | ('000) | ('000) |
| China Mobile | ~590 | ~1,230 | ~3,770 | ~1,350 |
| China Unicom | ~350 | ~700 | ~1,200 | ~670 |
| China Telecom | ~90 | ~320 | ~720 | ~510 |

***We cooperate with mobile carriers through procuring and selling telecommunications devices and accessories in their outlets and establishing retail outlets with them***

The following diagram sets forth the primary means that we cooperate with the mobile carriers:




*1. Procurement of telecommunications devices and accessories for outlets owned by the mobile carriers (廳店供貨)*

We procure and deliver mobile telecommunications devices and accessories to the outlets owned by the mobile carriers at the instruction of the relevant mobile carriers (商品供貨). Under this type of arrangement, we act as a supplier to the relevant mobile carriers by procuring products that are customized with their formatting requirements and make profits from the sale of such products.

In some circumstances, we also send our sales personnel to the retail outlets owned by the mobile carriers to assist them in selling the relevant telecommunications devices and accessories (駐廳銷售). In 2013, we promoted the sales of mobile products and services in over 1,500 outlets of the three mobile carriers in China. Our sales personnel are required to comply with mobile carriers' standard store management policies and wear the same uniforms of the mobile carriers' sales representatives in the outlets. Under this type of arrangement, we receive subsidies from the mobile carriers to cover the salary costs for sales personnel we assign to their outlets. We may also receive commissions from the mobile carriers for the sales we make on behalf of them, although we usually are required to meet certain specific sales targets in order to receive the commissions.

*2. Establishment of sales and services counters by mobile carriers in our retail outlets*

We designate sales areas for the mobile carriers to establish their sales and services counters in our retail outlets. In some instances, we may be required to renovate the designated sales areas and the counters based on the requirements and preferences of the relevant mobile carriers. We generally assign our own sales personnel to such sales and services counters, who will promote and sell the mobile carriers' pre-formatted mobile devices and call service subscriptions and provide other ancillary services, such as fee collection, opening of accounts and processing reports of loss of mobile phones or SIM cards.

We derive revenue from such arrangement from various sources, including (i) profits received from the sales of mobile devices equal to the difference between the purchase price and the selling price, which are accounted as revenue from sales of mobile telecommunications devices and accessories, (ii) commissions from the sales of pre-paid SIM cards; (iii) commissions from mobile carriers for the sales of new contracted call services subscriptions, (iv) a portion of the recurring fees paid by customers of the mobile carriers over the term of the subscriptions (話費分成), and (v) subsidies from the mobile carriers, such as those in respect of renovation expenses, rental of the outlets, and salaries of sales personnel assigned to the sales and services counters.

*3. Joint establishment of retail outlets (共同建廳)*

We enter into cooperation agreements with the mobile carriers to jointly establish outlets. While specific scope of cooperation varies with different mobile carriers in different regions and with different market conditions, our typical arrangement with the mobile carriers in respect of the jointly established outlets generally includes the following key features:

- The term of the cooperation arrangement varies from one year to three years;
- The jointly established outlet may be co-branded or independently branded;
- The leases for the jointly established outlet may be entered into by us or by the mobile carriers with the landlord; to the extent the lease is entered into by us, the jointly established outlet is counted as our standalone outlet and part of our retail network;
- We exclusively promote the mobile telecommunications devices and services as well as the brand image of the mobile carrier in the jointly established outlet, and we undertake not to cooperate with the other two mobile carriers to jointly establish outlets in a predetermined geographical district (collectively the "**Exclusivity Provisions**");
- We undertake to indemnify the mobile carrier in the event of our breach of the Exclusivity Provisions;
- We are responsible for procuring the products to be sold at the jointly established outlet and have no right to return any unsold products to the mobile carrier;

- The relevant mobile carrier may provide certain subsidies or incentives to us through any or a combination of any of the following manners: (i) commissions based on predetermined sales targets of pre-formatted mobile phones and/or new contracted call service subscriptions, (ii) operational subsidies to support our operation of the relevant jointly established outlet, or (iii) rental subsidies based on predetermined sales targets of mobile phones (including pre-formatted mobile phones and call services subscriptions) sold in the jointly established outlet as properly recorded in the point of sales terminal of the outlet and the sales record system of the mobile carrier;

- The mobile carrier provides certain renovation subsidies based on actual renovation costs incurred by us for the jointly established outlet and properly audited by the mobile carrier. We should pre-agree with the mobile carrier in respect of our renovation plans of the outlet and ensure the renovation is designed and conducted in accordance with the mobile carrier's standards and requirements;

- The mobile carrier provides subsidies for our marketing and promotional activities which use the logo of the relevant mobile carrier and correspond to the key marketing strategies of the relevant mobile carrier. The scope of the marketing and promotional activities includes placing advertisements on newspapers and other media, producing leaflets, billboards and other advertising materials as well as hosting marketing events and sales promotions;

- The mobile carrier may provide necessary training to our sales representatives and technical support for our operation of the jointly established outlets; and

- We provide advance notice to the mobile carrier of our opening, relocating and closing of our own standalone outlets in the same regions with the relevant jointly established outlet.

Save for the above, we have autonomy in operating these jointly established outlets and are responsible for the profits and losses that may be generated from these outlets. These outlets are not subject to the annual or periodic inspection by the relevant mobile carriers.

We derive revenue from such arrangement from various sources, including (i) profits received from the sales of mobile devices equal to the difference between the purchase price and the selling price, which are accounted as revenue from sales of mobile telecommunications devices and accessories; (ii) commissions from the sales of pre-paid cards; (iii) commissions from mobile carriers for the sales of new contracted call services subscriptions; (iv) a portion of the recurring fees paid by customers of the mobile carriers over the term of the subscriptions (話費分成), and (v) subsidies from the mobile carriers in respect of renovation expenses, rental of the outlets and other operational expenses.

4. *Management of outlets owned by mobile carriers (自建他營)*

We operate and manage the outlets owned by the mobile carriers. Under this type of arrangement, the mobile carriers are responsible for paying the purchase price or rental of the properties that are used to establish their own outlets. We are required to meet predetermined sales targets, which are determined based on the estimate and expectation of the mobile carriers. The mobile carriers may formulate their own outlet management policies for us to abide by and will assess our sales and management activities periodically. If we fail to meet the predetermined sales targets, we will be required to make certain deficiency payments to the mobile carriers. Failure to meet the sales targets for an extended period of time may result in the termination of such arrangement with the mobile carriers.

We derive revenue from such arrangement primarily from service income received for the management of the outlets.

***We serve as supply and distribution platforms for mobile devices and an e-commerce platform for mobile carriers***

We have collaborated with the mobile carriers to distribute mobile devices of other international and local brands designated by the mobile carriers. The mobile carriers designate us to distribute mobile phones customized for them by the manufacturers, and the mobile carriers set the retail prices for those mobile phones. At the same time, we also act as a wholesale supplier to the mobile carriers by procuring mobile devices from manufacturers that have been customized with the mobile carriers' formatting requirements. For example, when a corporate customer of the relevant mobile carrier has requested that mobile carrier to provide large volume of mobile devices that are customized with its formatting, such mobile carrier may turn to us to handle the procurement process on its behalf. We receive profit from the sales of mobile devices to the mobile carrier in the amount that is equal to the difference between the price we pay to the manufacturer and the price we sell to the mobile carriers.

Additionally, we act as an e-commerce platform for the mobile carriers. For example, in 2013, China Mobile Guangdong branch has authorized us to operate and manage their online stores with Yhd.com and Tmall. The main focus of these online stores is for the relevant mobile carriers to carry out their sales activities and official marketing campaigns online and we have made profits in participating in such activities, including assist the relevant mobile carriers in the operation of the online stores, planning and implementation of sales promotion, management of products and inventory and provision of customer services and after sales assistance. We also assist the relevant mobile carriers to promote sales through Weibo and WeChat. We derive revenue from such an arrangement primarily from service fees received for management of the online stores. Our revenue from such an arrangement is also linked to the sales volume we achieved by operating these online stores.

***Contractual terms with the mobile carriers***

We have established nationwide strategic relationships with China Mobile, and China Unicom and China Telecom by entering into nationwide strategic cooperation agreements with them in December 2012, February 2012 and March 2014, respectively. These strategic cooperation agreements provide a framework under which we and the mobile carriers collaborate in promoting mobile telecommunications devices and services and provide the basis for further operative agreements to be entered into. By providing such a framework, these strategic cooperation agreements allow the mobile carriers and us to formulate implementation plans for specific arrangements in different localities, taking into account different local governmental policies applicable to different kinds of arrangements and local market needs. According to our PRC legal adviser, Zhong Lun Law Firm, these strategic cooperation agreements are valid and binding upon us and the mobile carriers.

*China Mobile*

We entered into a strategic cooperation agreement with China Mobile in December 2012. Pursuant to this strategic cooperation agreement, we agreed to cooperate with China Mobile in the following areas:

(i) Sale of pre-formatted mobile devices – We agreed to sell China Mobile's pre-formatted mobile devices in all of our retail outlets and to meet certain predetermined sales targets. In order to facilitate such sales, China Mobile agreed to offer us nationwide uniform marketing support and subsidies, as well as preferential policies for the sale of its pre-formatted mobile devices, supply of products and payment settlement. We also cooperate in providing after-sales services for China Mobile's pre-formatted mobile devices sold by us.

(ii) Operation of retail outlets – We agreed to promote China Mobile's brand in our retail outlets and to allow China Mobile to establish rent-free sales counters in our independently operated outlets. China Mobile agreed to be responsible for the renovation and purchase of furniture and equipment needed to establish its sales counters in our outlets.

(iii) Development of contracted customers – We agreed to develop and maintain a customer base for China Mobile and China Mobile agreed to provide us with SIM cards for sale, and resources for sales promotions and other marketing activities.

(iv) Joint development of new business opportunities – We and China Mobile agreed to jointly develop new types of mobile telecommunications business through cooperation in the areas of conducting research and development, providing resources for customers' experiences and marketing of new business.

(v) Large-scale joint marketing activities and sales promotions – We and China Mobile agreed to cooperate in carrying out large-scale marketing activities and sales promotions. China Mobile agreed to treat us as a strategic partner when carrying out large-scale marketing activities to promote China Mobile's products and services; and

(vi) Support of new and customized services – We agreed to support China Mobile in providing the following in our retail outlets: (a) new services and products and relevant marketing activities, (b) mobile phone software applications, and (c) customized mobile devices.

To facilitate the cooperation between us and China Mobile, China Mobile agreed to support and work with us on terms that are no less favorable than those given to any of its other partners, in areas such as payment of commissions, promotion and marketing of mobile devices and telecommunications services. China Mobile also agreed to provide training for our employees and provide us with technical support. The term of the strategic cooperation agreement is three years.

*China Unicom*

We entered into a strategic cooperation agreement with China Unicom in February 2012. Pursuant to this strategic cooperation agreement, we agreed to cooperate with China Unicom in the following areas:

(i) Retail channels – We agreed to promote China Unicom's brand by allowing China Unicom to establish their sales counters in our independently operated outlets throughout the PRC. In exchange, we are authorized by China Unicom to offer its 3G-related products and services and receive the benefits of its marketing policies and incentives;

(ii) Fee arrangement for retail channel expansion – China Unicom agreed to pay us service fees for channel expansion, the amount of which is linked to the volume of sales we achieve.

Furthermore, we agreed to have a sufficient number of sales counters for China Unicom's business in our independently operated outlets for the promotion of its 3G mobile devices and related services. We and China Unicom intend to negotiate annual sales targets for the sale of 3G mobile phones to be met by us. The term of the strategic cooperation agreement is three years. China Unicom has the right to terminate the agreement in the event of serious default in the following areas: (i) when we sell illegal or counterfeit products; (ii) when we transfer the rights and obligations to a third party without China Unicom's prior written consent; (iii) when we unilaterally suspend ordinary business operation in areas designated for China Unicom to carry out its telecommunications service or strategic sales; and (iv) when we violate China Unicom's sales and business policies that have caused significant customer complaints or negative media coverage. We may enter into a new agreement upon expiration of the initial term.

*China Telecom*

We entered into a business cooperation agreement with China Telecom in March 2014. Pursuant to this business cooperation agreement, we agreed to cooperate with China Telecom in the following areas:

(i) Retail channels – China Telecom allowed us to enter into their retail outlets to sell telecommunications devices and we agreed to allow China Telecom to establish their sales areas in our independently operated outlets. China Telecom agreed to be responsible for the design, renovation and provision of equipment needed to establish their sales areas in our outlets, and we agreed to place our sales personnel at their sales areas to assist with sales.

(ii) Provision of telecommunications services – We agreed to act as China Telecom's agent in our retail stores to provide certain telecommunications services on behalf of China Telecom, including grant of access to China Telecom's network for customers, sale of various types of top-up cards (充值卡), collection of customers' bill payments and development of new contracted customers.

(iii) Supply and sale of mobile devices – China Telecom agreed to supply their pre-formatted mobile devices to us and we agreed to sell their pre-formatted mobile devices throughout our retail network. China Telecom agreed to offer us more favorable terms than those offered to other retailers for the sale of their pre-formatted mobile devices.

(iv) Provision of telecommunications and information services – We agreed to select China Telecom as the main provider in providing certain telecommunications and information services to us, under the circumstances that the terms offered to us by China Telecom to provide such services are similar as offered by other services providers. These services include services related to network maintenance and safety, information integration of our retail outlets and information services outsourcing.

(v) Joint marketing activities and sales promotions – We and China Telecom agreed to jointly formulate sales and marketing policies and share marketing resources. We and China Telecom also agreed to cooperate to carry out marketing activities and sales promotions; and

(vi) Preferential treatment to each other's customers – We and China Telecom agreed to select each other's products and services when offering promotions or awards to each other's loyal customers. In addition, those who are customers of both China Telecom and us are entitled to enjoy preferential sales policies offered by both of us.

The term of the business cooperation agreement is three years. China Telecom has the right to terminate the agreement in the event of certain defaults by us, including (i) failure to cure when we breach the terms of the agreement, (ii) damage to China Telecom's image and reputation, and (iii) the close down of our headquarters for no reason. We and China Telecom may choose to renew the business cooperation agreement or enter into a new agreement upon its expiration.

## PROCUREMENT

We have implemented a nationwide centralized system for the procurement of mobile telecommunications devices and accessories from China's mobile carriers and mobile device manufacturers to (i) reduce procurement costs, (ii) optimize inventory management, (iii) obtain better marketing support, and (iv) obtain favorable retailer arrangements.

Our procurement plans are integrated with our sales and marketing plans to ensure that the products we purchase meet the demands of customers. We conduct market research to understand the market demand and supply situation in different regions. We also perform financial and pricing analysis and compare procurement prices from different manufacturers, aiming to control our purchase prices nationwide, optimize our purchase product mix and reduce our procurement costs. Based on our sales plans and analyses performed through our ERP system, we set our procurement targets of products for our subsidiaries.

We have managed our procurement process efficiently through our ERP system. We also use this system to track the inventory of various products and manage our logistics to ensure that the products are delivered to our subsidiaries' warehouses or retail outlets in a timely manner. Inventory turnover level is a key factor in assessing our procurement plans. We require our procurement department supervisors to closely monitor the purchase, sales and inventory of various products and make timely adjustments to our procurement plans in response to changes in inventory levels.

Our procurement process can be summarized as follows:

- We set an annual sales and revenue target for each subsidiary for the next financial year, based on market demand analysis and the business performance of each subsidiary in the previous financial year;

- We then consolidate sales and revenue targets of all the subsidiaries and negotiate with mobile device manufacturers to sign annual purchase agreements which include key clauses such as product price guarantees and rebates for certain quantity of purchase orders;

- Our subsidiaries decide their own weekly procurement plans subject to the sales targets set by us, and report to us for review and approval;

- We collect all the procurement plans from our subsidiaries and compare the sales terms provided by different suppliers, and then order products from the supplier who provides the most favorable terms. As the market demand for mobile phones changes rapidly, our ERP system withdraws orders which have not been accepted within 72 hours and we request the relevant suppliers to reconfirm the order terms and prices;

- Our suppliers deliver products directly to our subsidiaries' warehouses and each subsidiary then distributes products to our retail outlets and wholesale customers; and

- We work with our suppliers to introduce new merchandise in our retail outlets on an ongoing basis. Our product mix is based on the evolving preferences and needs of customers based on customer feedback and sales information collected from our retail outlets.

We have established long-standing cooperative relationships with China's mobile carriers and key mobile device manufacturers, such as Samsung, Lenovo, ZTE and Coolpad. See "– Our Business – Cooperation with China's Mobile Carriers" and "– Suppliers." We enjoy favorable price arrangements from these manufacturers. We also obtain marketing and promotion supports in our sales of new product models and clearing of our remaining stock. In addition, some suppliers offer favorable credit terms and product price guarantees, which in turn enable us to reduce our capital risk and further enhance our inventory turnover.

Leveraging favorable arrangements we obtain from the three of China's mobile carriers, we will continue to cooperate with them to enhance our procurement and sales of pre-formatted mobile phones bundled with contracted call service subscriptions offered by the mobile carriers. We will also focus on offering more products and services which command higher profit margins to further reduce our procurement costs and increase our profits and revenue, including (i) mobile phone accessories such as ear phones, chargers and protective films and cases, (ii) smart devices including smart wearable devices such as smart watches, fitness and health bands and smart glasses, (iii) membership services, (iv) value-added services, such as mobile application packages.

## INVENTORY, DISTRIBUTION AND LOGISTICS

### Inventory management

We have developed an advanced inventory management system to monitor the delivery and storage of millions of mobile phones and accessories. Our inventory management system is integrated with our ERP system and designed to minimize handling and administrative costs and ensure that we order products promptly and our products arrive timely. We have a company-wide online inventory management system that links our branch offices, service centers, warehouses and retail outlets with certain manufacturers. This allows us to not only receive real-time updates on sales of each specific stock-keeping unit, closely monitor inventory levels, fine-tune merchandise allocation and price in response to demand, but also track the location of products from the time they leave factories to the time they enter into our inventory system.

We generally maintain approximately 30 to 60 days of inventory supplies for our retail and wholesale business. Once an inventory has been stocked for more than 45 days, our ERP system will automatically send out an overstock inventory alert. Any inventory that has been stocked for more than 60 days is considered as obsolete stock. To dispose of obsolete stock, we usually (i) organize special promotions for such products at specific retail outlets; (ii) negotiate with suppliers to exchange such products for new products; and (iii) where permitted under our purchase agreements with manufacturers, return such products to the manufacturers.

### Distribution and Logistics

Our distribution and logistics management system is also integrated with our ERP system, which administers our procurement, inventory, sales, logistics and financial reporting functions. We also enter into agreements with third parties to outsource our warehouses and logistics services, and we renew such agreements with these providers annually. We maintain good relationships with these third-party warehouses and logistics service providers. In cities where we have more retail outlets, we set up our own distribution and logistics facilities. Based on the procurement plans submitted by our subsidiaries, we allocate products delivered to our regional warehouses, which then distribute the products to retail outlets.

## ERP SYSTEM

According to the SINO Report, we were one of the first mobile telecommunications product retailers that developed and used the ERP system. In 2003, we established our ERP system using the Oracle system to enhance our operational efficiency. This system allows us to effectively monitor various aspects of our business operations and administer our procurement, inventory, sales, logistics and financial reporting functions and links our branch offices, service centers, warehouses and retail outlets.

Our ERP system delivers detailed and real-time updates on our general ledger, assets, payables and receivables, enabling us to fine-tune merchandise allocation and price in response to rapidly changing market demand. We use such information to actively manage our inventory and enhance profit margins by reducing mark downs for aging inventory. This integrated system allows us to respond quickly to product demand in multiple markets while increasing efficiency and minimizing costs. Our ERP system has allowed us to not only enhance our systematic management capability, but also to improve our financial reporting and risk management functions.

Leveraging our ERP system, we have implemented a standardized management system for each of our independently operated outlets and some of our franchised outlets, which enables us to build a scalable and replicable business model.

## SALES AND MARKETING

### Sales and marketing

We offer telecommunications products and services through our physical retail and wholesale distribution network and e-commerce platforms, to the retail end-users and the large wholesale customers. See "– Our Business – Our Retail and Distribution Network."

As of April 30, 2014, our sales team consisted of over 5,000 sales personnel, located in various localities in which we have independently operated outlets or store-in-store outlets that we operate within third-party premises. Our sales personnel possess broad product knowledge developed through our training programs, allowing them to educate consumers about the features and benefits of our products and to answer product-related questions. We provide frequent training for our sales personnel covering product and industry updates, sales and marketing skills, and customer management and support. To motivate our sales personnel, we offer performance-linked compensation packages based on a number of factors including the number of retail customers attained and the volume of sales at our retail outlets.

We categorize our products based on the product life cycle stages, from introduction and growth stage, maturity stage to decline stage, so as to make specific sales and promotion plans and inventory management plans for products at different stages. Our product management mechanism allows us to increase the sales volume and profit of the products and brands which we mainly promote and sell at our stores.

We carry out a series of promotional activities to achieve the sales targets set by our Board of Directors and maximize our potential profits. Our sales and marketing department works closely with our procurement department, our subsidiaries, mobile carriers and mobile device manufacturers, to develop regional and seasonal marketing and promotional campaigns to boost our sales through lucky draws, special offers, promotional gifts, road shows and other marketing activities. Our headquarters are primarily responsible for developing our marketing strategy, and planning and arranging national promotional campaigns and large cooperation and sponsorship programs. The marketing departments of our provincial subsidiaries are primarily responsible for implementing the marketing strategy in relevant provinces, and cooperating with provincial subsidiaries of the relevant mobile carriers and manufacturers to organize large regional promotional campaigns. Our regional stores are responsible for developing in-store promotional activities and implementing provincial marketing plans in areas surrounding our stores.

Our sales and operating results are influenced by seasonal factors. See "Financial Information – Significant Factors Affecting Our Business, Results of Operations and Financial Conditions – Seasonality." During holidays, festivals and sales events, we work with mobile device manufacturers to offer products at promotional prices through print and media advertising campaigns, to increase the turnover of our unsold inventory. In addition, we publish our marketing and advertising information through new media channels including WeChat (微信) and Weibo (微博). We also work with China's mobile carriers to make sales and marketing strategies in retail markets and we are primarily responsible for implementing such strategies.

### Pricing

Our products are priced competitively. In our retail business, the mobile device manufacturers generally set the reference prices for non-customized products supplied by them and the mobile carriers set the reference prices for mobile phones customized for them by the manufacturers. We set the prices for the products we sell based on these reference prices. We continuously monitor the selling prices of similar products offered by our competitors within the vicinity of our retail outlets so as to ensure that our prices remain competitive. The following table sets out the retail price ranges of the key brands of mobile phones we sold in our independently operated outlets as of April 30, 2014.

| Brands | Price range |
|---|---|
| Samsung | RMB115 – RMB16,500 |
| Apple | RMB2,200 – RMB6,000 |
| Lenovo | RMB72 – RMB2,500 |
| Xiaomi | RMB880 – RMB2,700 |
| Huawei | RMB160 – RMB2,600 |

In our franchise business, our franchisees are obliged to comply with our pricing policies, which are in turn based on the reference prices set by the mobile device manufacturers.

In our wholesale distribution business, we set the product prices for sub-wholesale distributors and retailers that sell products directly to end users based on the cost and the market demand of the products and the pricing of similar products, as well as discussions with relevant manufacturers.

We have implemented a nationwide centralized system for the procurement of mobile telecommunications devices, mobile phone accessories and smart devices from manufactures to optimize our bargaining power and to obtain the most favorable price arrangements. We also request some manufacturers to provide product price guarantees to minimize our exposure to market price fluctuation. Pursuant to such price guarantees, if a supplier adjusts its product price within a certain period after we purchase such products, we are entitled to compensation by that supplier for the difference between the adjusted price and the purchase price for our unsold inventories. During the Track Record Period, major manufacturers such as Samsung, Nokia, Lenovo, Huawei and HTC offered product price guarantees or other favorable pricing terms for mobile devices we procured from them.

## AFTER-SALES SERVICES

We focus on providing our customers with a superior shopping experience through integrated pre-sale, on-sale and after-sales services delivered by our highly trained sales staff. Our sales representative serves a customer throughout the entire purchase process from the moment of initial contact. We provide our customers with comprehensive after-sales services. We provide nationwide warranty (全國聯保) for the mobile phones that our customers purchased from us, which allows our customers to visit any of our stores throughout the PRC to return or exchange their mobile phones or for mobile phone repair and maintenance services. Our customers are permitted to return or exchange their mobile phones within seven days of purchase at our stores. Within 15 days of purchase, our customer may exchange mal-functioned mobile phone for a new one or a different model, without providing any test report issued by customer service centers designated by the relevant manufacturer.

As of April 30, 2014 we had established over 260 repair and maintenance counters in our outlets throughout the PRC. We implement after-sales service policies in collaboration with mobile device manufacturers and in compliance with the applicable PRC laws and regulations. In general, the mobile phones we sell are covered by warranties that entitle the customers to return their defective products to relevant manufacturers within one year of their purchase. We do not incur extra expenses or make provisions for such warranties. If the damaged mobile phones are under warranty, we assist our customers by forwarding their damaged products to relevant manufacturers through our customer service department. For damaged mobiles phones that are not covered by the manufacturer's warranty, our customers can send their mobile phones to one of our repair and maintenance service centers for repair or maintenance at a certain charge.

As of December 31, 2011, 2012 and 2013 and April 30, 2014, we had approximately 9.6 million, 11.4 million, 13.7 million and 14.6 million members in China, respectively. We provide additional after-sales services to our members who have paid membership fees. We extend the warranty period of the mobile phones that our members purchased from us by up to three years. For accidental damages that are not covered by the manufacturer's warranty, we provide insurance services for such accidental damages. Our members may exchange damaged mobile phone for a new one by paying a fee not higher than 65% of the purchase price of the damaged phone, or choose to repair the phone at a capped repairment fee (currently at RMB540). We also provide a spare mobile phone for our member's temporary use if we need to retain his or her damaged mobile phone at our stores for repairment and maintenance.

We record our customers' information in our customer relationship management system, which enables us to distribute more marketing and advertising information to such customers after their purchases. We have also established a customer service hotline to provide our customers with prompt after-sale information and services.

## SUPPLIERS

Leveraging our strong retail operation management capability, we have maintained long-standing cooperative relationships with all three mobile carriers in China and major mobile device manufacturers. As of April 30, 2014, we had maintained relationships with over 800 suppliers from all regions, including both international brands manufacturers, such as Samsung, Apple, Nokia, Sony and HTC, and domestic brands manufacturers, such as Lenovo, Huawei, ZTE, Coolpad, Xiaomi and Vivo. Our suppliers provide us with mobile telecommunications devices including mobile phones, mobile phone accessories, smart devices and other products. In particular, we were chosen to cooperate with Apple as the key retail partner in the PRC. As of April 30, 2014, we had iOS Apple authorized counters in 102 outlets.

We do not rely on any single supplier for our procurement needs because we have an extensive network of suppliers and it would not be difficult for us to find substitute suppliers. In 2011, 2012 and 2013, purchases from our five largest suppliers accounted for approximately 56.4%, 59.8% and 51.0% of our total products purchases, respectively. In 2011, 2012 and 2013, purchases from our single largest supplier accounted for approximately 22.3%, 21.2% and 20.9% of our total products purchases, respectively. We have established relationships of between two and 15 years with these suppliers. Our suppliers generally grant us credit periods of 30 to 45 days.

During the Track Record Period, none of our Directors, their respective associates or any of our Shareholders had any interests in any of our five largest suppliers.

**Mobile phones**

We procure and sell pre-formatted mobile telecommunications devices from all three mobile carriers in China. See "– Our Business – Cooperation with China's Mobile Carriers." In addition, we also purchase mobile telecommunications devices directly from mobile device manufacturers to obtain favorable price arrangements and direct access to a wider range of mobile telecommunications devices. We have entered into strategic cooperation agreements with all three mobile carriers in China and agreements with a number of mobile device manufacturers, such as Samsung, Apple, Nokia, Lenovo, Huawei. Under these agreements, we are (i) able to purchase mobile telecommunications devices at competitive prices; (ii) given priority in terms of supply of products; (iii) given priority with respect to new product models and best-selling product models; and (iv) provided with marketing and promotional support, such as certain advertising displays, promotional gifts and promoters for new product models. We also established direct-supply relationships with some of these manufacturers. According to the SINO Report, we ranked the first among all retailers for Lenovo, Coolpad and Huawei and ranked the second among all retailers for Samsung, Nokia and HTC in terms of sales from non-bundled mobile phone market in 2013, and we are one of the few retailers that have sourced products directly from Samsung, Nokia and HTC.

In addition to strategic cooperation agreements with China's mobile carriers, we generally enter into one-year purchase agreements with mobile device manufacturers and other indirect suppliers and renew such agreements upon their expiration.

**Accessories**

We purchase mobile device accessories from suppliers, including (i) protection accessories such as protective films and cases, (ii) charging accessories such as chargers and battery packs, (iii) storage accessories such as SIM cards, (iv) audio accessories such as ear phones, and (v) other supporting accessories. Our purchase agreements with these suppliers generally have a term of one year and may be renewed upon their expiration. We receive favorable pricing terms from most of our suppliers and some of these suppliers have given us guarantees that the prices of the accessories offered to us are the lowest in the market. For suppliers who have provided us with such guarantees, if we are able to source products from another supplier providing the same products for a lower price, we would be entitled to recover the price difference as a compensatory payment.

**Smart devices and other products**

We purchase smart devices from both OEMs and regional suppliers, including smart wearable devices, smart phone peripherals, smart phone protection and security accessories and smart application peripherals. Our purchase agreements with the OEMs and other suppliers generally have a term of one year and may be renewed upon their expiration. Similar to the purchase agreements for mobile phones and accessories, our purchase agreements with the suppliers of smart devices and other products also contain favorable pricing terms.

We also sell accessories, smart devices and other products for certain suppliers on a consignment basis and receive commissions for such sales. We enter into consignment agreements with these suppliers which generally have a term of one year. Pursuant to such consignment agreements, the suppliers retain ownership of the products until we sell the products at our outlets.

**Quality Control**

We select our suppliers by carefully considering their product quality, price, reliability and our past experiences in conducting business with them, including whether our suppliers were subject to any product liability claims or complaints. The engagement of new suppliers and purchase of new products are subject to review and approval by our procurement department. We require the products being supplied to us to be certified by national quality management authorities. We also require our suppliers to provide relevant certification documents, including a Network Access License of Telecommunication Equipment (電信設備進網許可證) issued by the Ministry of Information Industry of the PRC (中華人民共和國信息產業部), for the products being supplied prior to making a purchase decision.

According to the Requirements on the Liabilities for Repair, Replacement and Return of Mobile Phones (移動電話機商品修理更換退貨責任規定), retailers shall be responsible for the repair, replacement and return of the mobile phones they sold within the warranty periods, which are normally one year. For further details of the warranty periods, see "Regulatory Overview – Product Quality and Product Liability." Mobile phone manufacturers shall also be responsible for the repair of the mobile phones manufactured by them within the warranty period. The defective mobile phones under warranty shall be repaired by either the manufacturer's own repair staff or other qualified repair personnel designated by the manufacturers. In general, under the terms of our agreements with our suppliers, they are obligated to either repair, accept return of or replace the defective products. During the Track Record Period, none of our suppliers refused to repair, replace or return the defective products they supplied to us. Some of our suppliers have agreed to indemnify us for losses incurred as a result of product liability. In the event that our products subject us to product liability claims, we may seek compensation from the relevant supplier under the terms of the contract or to the extent permitted by applicable laws. We may also cease our business relations with that supplier. We do not have product liability insurance coverage in China. See "Risk factors – Risks Relating to Our Business – We have no business insurance coverage in China." During the Track Record Period, we were not subject to any product liability claims or material adverse publicity due to deficiencies in product quality, nor did we terminate any business relations with our suppliers due to the quality of the products supplied.

## CUSTOMERS

We have a broad and well-established customer base throughout the PRC market. Our customers include both retail and wholesale customers. Our retail customers are end-users of mobile telecommunications devices and accessories. Our wholesale customers include China's mobile carriers, large online stores such as JD.com, regional distributors and retailers, and small or mid-sized independently operated telecommunications stores. We generally grant our wholesale customers certain credit periods of 30 to 90 days based on their credit worthiness and the size of orders.

In 2011, 2012 and 2013, sales to our five largest customers accounted for approximately 13.9%, 11.1% and 14.2% of our total revenue, respectively. During the same periods, sales to our single largest customer accounted for approximately 6.0%, 5.2% and 3.7% of our total revenue, respectively. We have established and maintained strong relationships of between two and 12 years with our key corporate customers including the mobile carriers, supermarket chains such as Carrefour and Wal-Mart, and large online stores such as JD.com.

During the Track Record Period, none of our Directors, their respective associates or any of our Shareholders had any interests in any of our five largest customers.

We have built and maintained strategic cooperative relationships with all three mobile carriers in China whereby the mobile carriers serve as both our suppliers and our customers. As our suppliers, the mobile carriers provide pre-formatted mobile telecommunications devices to our retail outlets. For the years ended December 31, 2011, 2012 and 2013, purchases from the mobile carriers accounted for approximately 17.6%, 37.9% and 37.3%, respectively, of our total products purchases. As our customers, the mobile carriers procure designated brands of mobile telecommunications products in bulk from us, and receive our services including promoting and selling their pre-formatted mobile devices, contracted call service subscriptions and pre-paid SIM cards and placing staff at the outlets established by the mobile carriers and operated by us. See "– Cooperation with China's Mobile Carriers." For the years ended December 31, 2011, 2012 and 2013, revenue generated from our products and services provided to the mobile carriers accounted for approximately 5.8%, 5.7% and 7.3%, respectively of our total revenue. For the same periods, our gross profit from service income from mobile carriers was RMB214.4 million, RMB275.5 million and RMB420.1 million, accounting for 17.6%, 18.8% and 24.2% of total gross profit, respectively. See "Financial Information – Certain Income Statement Items – Gross Profit and Gross Profit Margin." According to the SINO Report and our knowledge of the industry, such customer/supplier relationship with the mobile carriers is normal in China's telecommunications industry and consistent with the industry practice among mobile phone retailers in China.

## INTERNAL CONTROL

We maintain an internal control system that enables us to oversee and manage critical aspects of our business operations, including, cash management and finance management.

### Centralized cash management system

Our centralized cash management for our business operations includes generating daily financial reports of revenue, expenditures and bank balances of our Company and subsidiaries:

- We adopt a centralized system for allocation of funds between our headquarters and subsidiaries. We prepare annual operation plans and set up revenue targets for our subsidiaries at the beginning of a financial year. Pursuant to such annual plans and targets, we allocate adequate funds to our subsidiaries which meet their operational needs. Any transfer of funds from our headquarters to our subsidiaries must be applied through internal procedures and approved by our headquarters.

- We maintain strict control over our cash inflow. As our business operations spanned a total of 956 independently operated outlets nationwide as of April 30, 2014, we have established a centralized system to maintain strict control over our cash inflow at our outlets. Under this system, all cash inflow arising from the operations of our outlets is deposited into our bank account on a daily basis. Each store manager is responsible for the cash count, reconciliation and deposit for the relevant outlet at the end of each day. Any late or missing cash deposits are investigated by our management.

- We and our subsidiaries also prepare daily reports on our cash flow and cash balance positions. Our subsidiaries are required to submit their daily reports to the cash management department at our headquarters. Through this daily reporting system, our management regularly monitors the utilization of funds by our subsidiaries and ensures that our subsidiaries maintain an adequate level of cash and cash equivalents for their business operations.

### Centralized finance management system

Our credit and borrowing activities are also centrally managed by our headquarters. We adopt a centralized system of borrowing and the utilization of credit facilities, so that any borrowings and draw-downs from our credit facilities by any of our subsidiaries are managed, approved and monitored by our headquarters. Our headquarters and subsidiaries prepare financing plans based on the needs of our business operations, which specify, among other things, the purpose, method and cost of borrowing and amount of security required. Our subsidiaries are required to submit their financing plans to our headquarters for approval.

For projects that require large amounts of funds, special approval procedures need to be followed. In considering whether to approve such needs, we consider the results of profit forecast analysis, sales forecasts analysis and inventory turnover analysis.

We also operate a centralized credit management system to support our expanding wholesale and franchising business, while maintaining a high turnover of account receivables and a low ratio of bad debts. Our headquarters establish credit policies and procedures, periodically review and analyze the credit status of our wholesale customers and franchisees, approve and adjust the line of credits based on our internal ratings for different wholesale customers and franchisees. We grant different credit limits and credit periods based on our four-level internal ratings for the wholesale customers and franchisees. We grant a credit period of up to 90 days to the wholesale customers and franchisees with level A credit rating, which have maintained a long and stable relationship with us for more than two years and based on our investigation and internal assessment have built up strong brand awareness and reputation in the market and obtained economies of scale. We grant credit periods of up to 60 days to our customers with level B credit rating which have maintained a relationship with us for between one and two years and have a good record of sales. We grant credit periods of up to 30 days to our wholesale customers and franchisees with level C credit rating, which are relatively small but have maintained a relationship with us for more than one year. We grant no credit limits or credit periods to wholesale customers and franchisees with no prior business relationships with us and those with level D credit rating and require them to make prepayments or payments upon delivery. Our headquarters also categorize and analyze monthly aging reports and make early collection plans, in order to avoid bad debts and overdue account receivables.

**Anti-corruption policies**

We have adopted internal control policies to prevent misconduct such as corruption. Our internal audit department conducts internal audits to monitor the daily business operations of our subsidiaries. In addition, the finance department at our headquarters also regularly reviews the cash outflows of our subsidiaries. Employees at our procurement department rotate across their positions at varying intervals and for varying durations, which helps prevent the occurrence of corruption in our business operations. Furthermore, in order to avoid misconduct, responsible individuals from multiple departments including finance managers are required to attend all important meetings, such as when negotiating rents for our outlets.

To further govern the conduct of business between us and our business partners, we have implemented internal control procedures to ensure adherence to high ethical standards. The business department is required to conduct due diligence on the background of a new counterparty before establishing business relationship with it, including diligence on the normal business activities of that party and whose instruction that party takes or is accustomed to take. Quotations on the services or products to be procured by us should be sought to the extent practicable to ensure the price to be paid is reasonable in light of prevailing market price. Once procured, the services or products should be confirmed and verified with sufficient supporting documents. No procurement on personal accounts would be allowed for our employees unless properly authorized and no pre-settlement of expenses should be solicited from the employees or representatives of our customers. In addition, all of the contracts we enter into with our major business partners contain provisions requiring them to comply with applicable laws and regulations on anti-bribery and anti-money laundering.

Our anti-corruption system is under periodic scrutiny by our internal audit team. Our internal audit team consists of eight individuals who offer finance, accounting or management background and possess university degree qualifications. They conduct annual audit on all of our Subsidiaries and examine their compliance standards against our internal control policies. Should any irregular activities be identified in respect of an employee's conduct or our business operations, the internal audit team will conduct ad-hoc investigations, record all actions taken by the internal audit team and its findings, make recommendations for enhancement of the internal control system, and bring attention of the same to the senior management. Our senior management will then examine any deficiencies or weaknesses in our internal control system and ensure necessary enhancement be made in a timely manner.

We have also established a whistle-blower hot line so that activities relating to corruption and fraudulent business activities may be promptly reported to us on a strictly confidential basis. We ensure the Board has access to timely legal advice and will report any abnormal activities to the relevant authorities as appropriate. Our Board assesses and evaluates the effectiveness of our anti-corruption measures on an annual basis. The scope of the annual review includes the extent and effectiveness of the anti-corruption measures in view of our operations and business, our risk management capability, the performance of the internal audit team and any deficiencies detected and corresponding remedial measures taken. We also provide training on ethical business practices and our policies and the legal perspectives on anti-corruption, anti-fraud and other commercial crimes to our employees and senior management on a semi-annual basis.

For details of other internal control measures adopted by us, see "– Legal and Administrative Proceedings and Compliance – Measures designed to prevent future non-compliance and improve corporate governance".

## EMPLOYEES

As of the Latest Practicable Date, we had 6,817 full-time employees. The following table sets forth the number of employees for each of our areas of operations as of the Latest Practicable Date.

| Function | Number of Employees | Percentage of Total |
|---|---|---|
| Sales | 5,021 | 73.7% |
| Management and administration | 1,236 | 18.1% |
| Accounting | 356 | 5.2% |
| Procurement | 204 | 3.0% |
| Total | 6,817 | 100.0% |

For the years ended December 31, 2011, 2012, 2013, we incurred staff costs (including staff salaries and compensation) of RMB312.2 million, RMB379.0 million and RMB466.0 million, respectively, representing approximately 4.8%, 4.3% and 3.6% of our total revenue during those respective periods.

We place significant emphasis on staff recruitment, training and development. We recruit and train talented graduates from colleges and universities, and develop and promote our employees internally. We invest in continuing education and training programs for our management personnel and other employees with a view to constantly upgrade their skills and knowledge. Our staff training is either conducted internally by our management and various department heads or conducted by external trainers. We aim to ensure that our staff remains equipped with the necessary skills to stay up to date in their respective areas of work as this in turn helps us to maintain our competitiveness.

We believe we maintain a good working relationship with our employees. During the Track Record Period, we did not experience any strikes, major labor disputes or other labor disturbances which had interfered with our operations or materially affected our business, financial condition or results of operations.

In accordance with applicable PRC laws and regulations, we are required to make contributions to social insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance, and maternity insurance) and housing funds for our employees. As of December 31, 2013, we had fully contributed to social insurance and housing funds for substantially all of our employees save for certain employees for whom we previously were not able to make contribution to their social insurance and housing funds for various objective reasons including the unwillingness of certain lower-paid employees to participate in the social insurance or housing funds program and administrative obstacles in opening the social insurance or housing funds account for the employees. As of the Latest Practicable Date, we were in the process of arranging for the payment of social insurance and housing funds for certain employees which was estimated to be completed within four months after Listing. As of the Latest Practicable Date, save as described above, we had complied with all statutory social insurance and housing fund obligations applicable to us under PRC laws and regulations in all material aspects, and our PRC legal advisers confirmed that, no administrative penalties will be imposed on us after payments of the remaining social insurance and housing funds are made. Our Controlling Shareholders have agreed to indemnify us against any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines incurred by us in connection with the payment of social insurance and housing funds for the remaining employees. Based on the above, our Directors are of the view that such contribution to our employees' social insurance and housing funds would not have any material legal or operational risks to the Group.

As of the Latest Practicable Date, we also employed individuals from third party human resource companies (the "**Dispatched Employees**"). In accordance with the Interim Regulations on Labour Dispatching (勞務派遣暫行規定) (the "**Interim Regulations**") which took effect on March 1, 2014, the number of Dispatched Employees in a company shall not exceed 10% of its total employees, and a company is required to reduce the number of Dispatched Employees to the permitted level within two years from the effective date of the Interim Regulations. As of the Latest Practicable Date, one of our subsidiaries had Dispatched Employees which accounted for more than 10% of its total employees and it had formulated the adjustment plan in order to reduce the number of its Dispatched Employees to the permitted level before March 1, 2016. Our PRC legal advisers are of the opinion that we are not in violation of the Interim Regulations, and given the relevant subsidiary is in the process of reducing the number of its Dispatched Employees to the permitted level within the requisite period, compliance with the Interim Regulations will not have any legal or operational risks to the Group. Our Controlling Shareholders have agreed to indemnify us against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered by or incurred by us in connection with reducing the number of relevant Dispatched Employees to the permitted level within requisite period according to the Interim Regulations.

## AWARDS AND RECOGNITIONS

Our Company and our brand have received various awards and recognitions in the PRC. Some of the representative awards and recognitions are set out below:

| Year | Award/Certificate | Awarding Body |
|---|---|---|
| 2010 . . . . . . . | Famous Brand in China (中國馳名商標) | Trademark Office, State Administration for Industry and Trademark Office (國家工商行政管理總局商標局) |
| 2011 . . . . . . . | Top ten China Enterprise in Providing After Sales Services (全國售後服務行業十佳單位) | Chinese General Chamber of Commerce (中國商業聯合會)<br>China Foundation of Consumer Protection (中國保護消費者基金會)<br>National Committee for Evaluating After Sales Services (全國商品售後服務評價委員會) |
| 2012 . . . . . . . | Top 120 Franchise in China (中國特許連鎖120強) | China Chain Store & Franchise Association (中國連鎖經營協會) |
| 2012 . . . . . . . | Telecom Enterprise in China with the Greatest Growth Potential (中國最具成長性通信企業) | China Communications Industry Association (中國通信工業協會) |

| Year | Award/Certificate | Awarding Body |
|---|---|---|
| 2012 and 2013 . . . . . | Top Brand in Telecom and Mobile Brands in China (專業通信流通品牌第一名) | Professional Committee of Safety Production and Information Technology, China Electronic Commerce Association (中國電子商務協會安全生產信息技術專業委員會)<br>China Brand Strategy Research Institute (中華品牌戰略研究院) |
| 2013 . . . . . . | Top Five Electronic Brand in China (中國電子五大流通品牌) | Professional Committee of Safety Production and Information Technology, China Electronic Commerce Association (中國電子商務協會安全生產信息技術專業委員會)<br>China Brand Strategy Research Institute (中華品牌戰略研究院) |

## COMPETITION

The PRC market for mobile telecommunications devices and accessories is highly competitive. We face competition from large home electronics retailers including Gome and Suning, major nationwide telecommunications chain stores such as FunTalk (樂語), and regional telecommunications chain stores such as Zhongyu (中域). We believe that we compete on the basis of our nationwide retail and distribution network, brand, strategic partnerships with all three mobile carriers in China, product mix, quality, price and after-sales service. For a description of some of the risks associated with the competition we face, see "Risk Factors – Risks Relating to Our Business – We may fail to sustain the same level of retail outlet sales and new retail outlets may fail to break even within our projected time frames", "– The loss or reduction in orders from our large customers or a reduction in the pricing of the products that we sell or distribute may cause our revenue to decline and impair cash flows", and "– Risks Relating to Our Industry – We operate in a competitive market which may result in lower profit margins." For more details of the mobile telecommunications industry and the competition we face, see "Industry Overview."

## INTELLECTUAL PROPERTY

We rely on a combination of trademark, copyright and other trade secret laws to protect our intellectual property rights.

We are the registered owner of 64 trademarks in the PRC. We have also obtained 20 registered copyrights in China for our original works of authorship for certain software in connection with the information system that we use to manage our retails sales and wholesale distribution activities. We are also the registered owner of the domain names *www.dixintong.com*. For further details of our intellectual property rights that are material to our business, see "Statutory and General Information – Further Information About Our Business – B. Our Intellectual Property Rights" in Appendix VI to this Prospectus.

As of the Latest Practicable Date, we were not aware of any material infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us.

## INSURANCE

We currently maintain social welfare insurance in accordance with the relevant PRC laws and regulations. We do not carry any business interruption insurance, product liability insurance, key-man insurance or insurance covering potential environmental damage claims, as such types of insurance are not mandatory under PRC laws and regulations, and are either unavailable in the PRC or requires substantial costs.

Our Directors believe that our existing insurance policies are sufficient to cover the risks that we may be exposed to with regard to the loss or damage sustained over our business operations and claims from our employees, and are comparable to other retailers and distributors whose size and business operations are similar to us in the mobile telecommunications devices industry in the PRC. During the Track Record Period, we did not submit any material insurance claims nor did we receive any material claim from our customers to any liability arising from or relating to the use of our products or services.

## PROPERTIES

As of April 30, 2014, we owned three properties, two in Anhui province with an aggregate GFA of approximately 1,186.8 square meters, and one in Hunan province with an aggregate GFA of approximately 74 square meters. We possess the building ownership certificates for the two properties in Anhui province. According to the effective judgement of court, we also owned one property in Hunan province as of April 30, 2014. According to our PRC legal adviser, we have the legal ownership of that property. As of the Latest Practicable Date, we were in the process of obtaining the building ownership certificate for the property in Hunan. We were further advised by our PRC legal adviser that we would be able to sell or pledge such property as loan security after obtaining the building ownership certificate. We had no intention to sell or pledge such property in Hunan province as of the Latest Practicable Date.

As of April 30, 2014, we leased 524 properties in the PRC with an aggregate GFA of approximately 157,255.2 square meters for our offices, warehouses and standalone outlets. Our rental expenses for our rented properties were RMB240.2 million, RMB297.4 million and RMB324.7 million for the years ended December 31, 2011, 2012 and 2013, respectively. Among these 524 leased properties, 48 properties with an aggregate GFA of approximate 14,463.5 square meters were for office purpose, ten properties with an aggregate GFA of approximate 3,775.0 square meters were for warehouses, and the remaining properties with an aggregate GFA of approximately 139,016.7 square meters were for our standalone outlets.

Our lease agreements with respect to rented properties for standalone outlets typically have a term of three to five years with generally a rent-free period not longer than one or two months for new tenancies. For our existing 466 leased properties for our standalone outlets, 81, 96 and 85 of the lease agreements will expire in 2014, 2015 and 2016, respectively, and 167 of the lease agreements will expire in or after 2017. The remaining 37 lease agreements are without fixed expiration date. We did not have any significant difficulties in renewing these lease agreements in a timely manner during the Track Record Period.

As of April 30, 2014, the lessors did not provide us either the ownership certificates or the necessary consents to sublease for 110 of our 524 leased properties, with an aggregate GFA of approximately 22,198.6 square meters, accounted for approximately 14.1% of our total leased properties. We may face certain risks with respect to such leased properties. See "Risk Factors – Risks Relating to Our Business – We conduct most of our business in leased properties, and we face certain risks with respect to the properties we lease." Our Controlling Shareholders have agreed to indemnify us against all claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred by our Group in connection with these properties.

By virtue of Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this Prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance which require a valuation report with respect to all our Group's interests in land or buildings, for the reason that, as of the Latest Practicable Date, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets.

## LABOR AND SAFETY MATTERS

The PRC laws and regulations applicable to us in relation to labor and safety are the Labor Law of PRC (《中華人民共和國勞動法》), the Labor Contract Law of PRC (《中華人民共和國勞動合同法》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Social Insurance Law of PRC (《社會保險法》) and the Provisional Regulations on Collection of Social Insurance Premiums (《社會保險費徵繳暫行條例》). We have maintained a relatively clean safety record without occurrence of any major work-related injury, and our operations are in compliance with the current applicable labor laws and safety regulations.

Our labor policies in respect of social insurance, salary and vacations for employees are in compliance with applicable laws and regulations. Our legal and human resources departments closely monitor the issuance of any new laws and regulations. Furthermore, we provide safety and labor-related training to all employees and keep each individual employee's training records, to promote safety awareness. The human resources department oversees all employees to ensure they are in compliance with all internal safety instructions.

As confirmed by the competent local authorities and according to our PRC legal adviser Zhong Lun Law Firm, we have complied with the relevant laws, regulations and administrative rules on labor, social insurance and safety matters. No penalties have been imposed by the relevant regulatory authorities in the PRC on the Group during the Track Record Period.

## LICENSES, PERMITS AND APPROVALS

In accordance with PRC laws and regulations, we are required to maintain certain licenses and permits with and make certain filings to the relevant government authorities in order to maintain business operations, such as those relating to foreign investment, commercial franchise activities, online sales, taxation, foreign exchange, social insurance, labor and public health and safety. We must register our retail outlets with the local trade and industry bureau

(工商局) and obtain the business license. Our store-in-store outlets do not require a separate business license. In 2008, we had completed filings with the Ministry of Commerce or the relevant authorities at the local level (特許經營備案) to enable us to carry out commercial franchise activities. As of the Latest Practicable Date, we have filed to the MIIT for online sales through our own website, *www.dixintong.com*.

Our PRC legal adviser, Zhong Lun Law Firm, has advised us that, save as disclosed in "– Legal and Administrative Proceedings and Compliance – Compliance" below, we have obtained all necessary licenses and made all appropriate filings for our operations in the PRC. As of the Latest Practicable Date, such licenses and filings remain legal and valid. According to our PRC legal adviser, there is no legal impediment to renew such licenses and filings. For further details of the material licenses and permits required for our operations, see "Regulatory Overview."

## LEGAL AND ADMINISTRATIVE PROCEEDINGS AND COMPLIANCE

As of the Latest Practicable Date, we were not involved in any litigation, arbitration or administrative proceedings that, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations. In addition, we have not been involved in any litigation or arbitration proceedings pending or threatened against us or any of our Directors that, individually or in aggregate, could have a material adverse effect on our business, financial condition or results of operations.

Our Directors, as advised by our PRC legal adviser, Zhong Lun Law Firm, confirm that as of the Latest Practicable Date, save as disclosed in the subsection headed "– Compliance" below, our Group was in compliance with all relevant PRC laws and regulations in all material respects and had obtained all material licenses and permits and had made all appropriate filings required for the Group's operation in the PRC.

In 2011 and 2012, we obtained short-term and temporary loans from companies controlled by our Controlling Shareholders (the "**Providers**") in the total amount of RMB8.6 million and RMB4.0 million, respectively. At the time of receiving the loans, we were in need of funds for our business needs and the Providers lent the funds to us free of interest. The borrowed funds were fully repaid by us in 2011 and 2012 and the Providers had no income gained from such lending activities. According to the Lending General Provisions issued by the People's Bank of China (中國人民銀行貸款通則), a "lender" should be a financial institution. Enterprises engaged in lending activities may be imposed a fine of between one and five times of the income gained in violation of the Lending General Provisions. As the Providers were not licensed as financial institutions, our PRC legal adviser is of the view that they did not comply with the Lending General Provisions and the legal liabilities that may arise from such non-compliance fall on the Providers. However since the Providers had no gains from such lending activities, our PRC legal adviser is of the view that the risk of the Providers being fined would be minimal. Based on the foregoing, our Directors are of the view that we will not be subject to any risk of non-compliance with the Lending General Provision. Despite that, with a view to heightening surveillance of our borrowing activities, we have subsequently enhanced our internal control measures in relation to our fund management and borrowing activities. Since the end of 2012, we have not borrowed any further funds from our shareholders.

## Compliance

The table below summarizes three incidents of non-compliance with applicable PRC laws and regulations during the Track Record Period and the subsequent period to Listing. Our Directors are of the view that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us, and we will disclose the progress of rectification in our interim or annual reports to be published after Listing.

| Non-compliance incident | Reason for the non-compliance | Legal consequences, potential maximum penalties; potential impact on our operations and financial condition | Remedies and measures to prevent future breach and ensure ongoing compliance | Senior management in charge of rectification |
|---|---|---|---|---|
| 1. "Dphone market" (迪風市場) is a mobile store of application software (including games) operated in the form of an Internet website and mobile phone software program through which mobile internet users could download various mobile applications on their mobile handsets free of charge (the "**Dphone Market**"). Prior to the Reorganization, we used to pre-install, or install at the request of our customers, the Dphone Market in the mobile handsets we sold to our customers or allow Internet users to install the Dphone Market through the Internet website of the Dphone Market as part of our customized service. As we were not engaged in any commercial operation of the Dphone Market, nor did we levy any fee on the upstream software providers or downstream software users of the Dphone Market, the Dphone Market was regarded as "non-profit activity" (非經營性的活動) under the relevant PRC laws and regulations. In preparation for Listing, the Company engaged Zhong Lun Law Firm as its PRC legal adviser to advise on matters including the Reorganization, compliance with PRC laws and regulations as well as the Listing. During its review Zhong Lun Law Firm has advised the Company that the Dphone Market does not comply with the following applicable rules and regulations. | Given the relatively low capital outlay for the Dphone Market and its non-commercial operation nature, no authorization or approval of the senior management or the Board was sought.<br><br>We did not levy any fee on the upstream software providers or downstream software users of the Dphone Market, no revenue was generated from operating the Dphone Market. Dphone Market should be regarded as a non-profit website. | According to the Provisional Rules on Management of Internet Culture (《互聯網文化管理暫行規定》), entities failing to complete the filing with the internet culture business unit (互聯網文化單位) within the prescribed period may be ordered to make corrections within a stipulated period of time by the cultural and administrative departments of the People's Government (人民政府文化行政部門) or the culture and market comprehensive law enforcement agencies (文化市場綜合執法機構) above the county level. Entities failing to make such corrections may be ordered to terminate its internet culture activities and be imposed a fine below RMB1,000.<br><br>According to the Provisional Rules on Management of Internet Publication (《互聯網出版管理暫行規定》) and other relevant regulations, entities failing to obtain the approval in relation to internet publication may have their relevant licenses and registrations revoked, and major facilities and specific tools used in illegal publication activities and illegal incomes obtained may be confiscated. The relevant entities may be imposed a fine of more than five times but less than ten times the total value of the revenue derived from the illegal operation (where the total value of the revenue derived from the illegal operation exceeds RMB10,000), or a fine above RMB10,000 but below RMB50,000 (where the total value of the revenue derived from the illegal operation is less than RMB10,000).<br><br>We did not make any provision for this non-compliance incident during the Track Record Period and do not expect to make any provision going forward because our Controlling Shareholder, Feng Yong Tai, has agreed to indemnify us against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered by or incurred by our Group as a result of, directly or indirectly or in connection with, operating the Dphone Market (the "**Indemnity**"). | The assets underlying the Dphone Market were transferred to an associate of our Controlling Shareholder, Feng Yong Tai, in February 2014. See "Our History, Reorganization and Corporate Structure – Reorganization." As of the Latest Practicable Date, Feng Yong Tai had completed the non-profit internet information activity filing and was in the process of completing the internet culture business unit filing and the internet publication approval. Until such filing and approval are completed, the relevant content of the Dphone Market which can only be provided once the filings are completed would be temporarily suspended. On February 14, 2014, the Company entered into an agreement with Feng Yong Tai authorising our Company to pre-install or install the software program of Dphone Market in the mobile handsets sold by us. See "Connected Transactions – Exempt Continuing Connected Transactions – (2) Marketing Services." Until Feng Yong Tai completes the relevant filings and the operation of the Dphone Market is fully resumed, Feng Yong Tai has confirmed that we will not be obligated to provide the pre-installation and installation services to Feng Yong Tai. According to our PRC legal adviser, the authorization by Feng Yong Tai to allow our Company to pre-install or install the Dphone Market is legal and valid under relevant PRC laws and regulations since Feng Yong Tai is the legal owner of the copyright pertaining to the Dphone Market, and pre-installing and installing the Dphone Market is not prohibited by any applicable PRC laws and regulations.<br><br>Further internal control measures were designed and adopted since the discovery of this non-compliance incident. See "– Measures designed to prevent future non-compliance and improve corporate governance." | Ms. Li Dongmei, secretary to the Board, joint company secretary and chief legal officer<br><br>Mr. Wu Huan, Vice general manager and chief information officer |

*[To be continued in the next page]*

| Non-compliance incident | Reason for the non-compliance | Legal consequences, potential maximum penalties; potential impact on our operations and financial condition | Remedies and measures to prevent future breach and ensure ongoing compliance | Senior management in charge of rectification |
|---|---|---|---|---|
| The nature of the abovementioned services provided by the Dphone Market may be interpreted as engaging in non-profit information service activities through the provision of "internet culture" products (including online games). According to (i) the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》), (ii) the Provisional Rules on Management of Internet Culture (《互聯網文化管理暫行規定》), (iii) the Notice on Implementation of "Three Decisions" Provisions Promulgated by the State Council, and the Relevant Interpretations Promulgated by the State Commission Office of Public Sectors Reform to Further Enhance the Prior Approval of Online Games and the Approval and Management of Imported Online Games (《關於貫徹落實國務院<"三定"規定>和中央編辦有關解釋, 進一步加強網絡遊戲前置審批和進口網絡遊戲審批管理的通知》) (Xin Chu Lian [2009] No. 13) (新出聯【2009】13號), and (iv) the Provisional Rules on Management of Internet Publication (《互聯網出版管理暫行規定》), we are required to complete the non-profit internet information activity filing (非經營性互聯網信息活動備案) and internet culture business unit filing (互聯網文化單位備案), and obtained the internet publication approval, in respect of the Dphone Market. However, prior to carrying out the non-profit operations, we only completed the non-profit internet information activity filing but did not complete the internet culture business unit filing, nor did we obtain the internet publication approval.<br><br>Based on the reasons set forth under the column headed "Legal consequences, potential maximum penalties, potential impact on our operations and financial condition" for this incident, our Directors and the Joint Sponsors are of the view that the non-compliance of the Dphone Market can be categorised as an immaterial non-compliance under the Guidance Letter GL63-13 of the Stock Exchange, and will not have any material adverse impact on our operations and financial condition. | Our Company was mistaken that a filing (備案) with the relevant PRC authorities would be sufficient for this non-profit website. However, due to an inadvertent oversight, it was not noticed that the provision of software (including online games) fell within the category of regulated cultural activities and hence we did not make the applications in relation to the filing with the relevant Internet culture authority (互聯網文化單位備案) and approval for Internet publication (互聯網出版許可). | Our Directors are of the view that our business and financial condition would not be materially affected by this non-compliance incident taking into account (i) the fact that the Dphone Market did not generate any revenue during the Track Record Period, (ii) the Indemnity and (iii) the fact that the Company has put in place an agreement entered into between Feng Yong Tai and the Company to address the relevant demands of our customers. See "Connected Transactions – Exempt Continuing Connected Transactions – (2) Marketing Services." | | |

| Non-compliance incident | Reason for the non-compliance | Legal consequences, potential maximum penalties; potential impact on our operations and financial condition | Remedies and measures to prevent future breach and ensure ongoing compliance | Senior management in charge of rectification |
|---|---|---|---|---|
| 2. As of the Latest Practicable Date, we had not obtained approvals from the competent authorities under MOFCOM prior to the establishment of 70 subsidiaries invested by our Company as a foreign invested enterprise, and 257 standalone stores throughout the PRC (the "**relevant subsidiaries and stores**").<br><br>As of the Latest Practicable Date, our Company has foreign investors, namely 3i, CDH and Crown Flame. Our Company is considered a "foreign invested enterprise" according to the Law of the People's Republic of China on Chinese-foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法). According to the Measures for the Administration of Foreign Investment in Commercial Fields (《外商投資商業領域管理辦法》), foreign invested enterprises shall obtain approvals from competent authorities under MOFCOM before setting up their re-invested enterprises or opening stores.<br><br>As advised by our PRC legal adviser, MOFCOM has delegated relevant approval authority to competent provincial commerce departments (and competent commerce authorities at local level with the consent of MOFCOM) while retaining the approval authority on certain matters.<br><br>Based on the reasons set forth under the column headed "Legal consequences, potential maximum penalties, potential impact on our operations and financial condition" for this incident, our Directors and the Joint Sponsors are of the view that the absence of approvals with regard to the relevant subsidiaries and stores can be categorised as an immaterial non-compliance under the Guidance Letter GL63-13 of the Stock Exchange, and will not have any material adverse impact on our operations and financial condition. | As confirmed by our PRC legal adviser, there was incongruity between the relevant regulatory requirements and the regulatory measures in practice. According to the Notice of the Ministry of Commerce on Publishing Directory of Available Administrative Approvals (《商務部關於公開現有行政審批事項目錄的通知》), the approvals for establishment of re-invested enterprises or opening stores by foreign-invested enterprises do not fall within the directory of available administrative approvals of MOFCOM. See "Regulatory Overview – Principal Laws and Regulations – Foreign Investment." In addition, during the process of registering the relevant subsidiaries and stores, we were not required by the competent authorities of the SAIC to provide any approvals from the competent authorities under MOFCOM.<br><br>Due to the uncertainty of the relevant provisions and regulations, and due to an inadvertent oversight, it was not noticed that we were required by the provisions of the Measures for the Administration of Foreign Investment in Commercial Fields (《外商投資商業領域管理辦法》) to obtain approvals before setting up re-invested enterprises or opening stores. | Our PRC legal adviser has confirmed that we will not face any sanctions, penalties or other adverse legal consequences for our breach of the relevant provisions in the Measures for the Administration of Foreign Investment in Commercial Fields (《外商投資商業領域管理辦法》) because there are no provisions for such sanctions, penalties or other adverse legal consequences in these measures or in other applicable PRC laws and regulations.<br><br>Furthermore, our PRC legal adviser has confirmed with the relevant personnel from Beijing Municipal Commission of Commerce (北京市商務委員會), a competent authority of MOFCOM, that in practice the competent authorities do not impose any penalty (and have no power to do so) on an enterprise failing to comply with the foreign investment regulations. Our PRC legal adviser has also interviewed with certain provincial competent authorities of MOFCOM and noticed that the efforts made by the authorities on the enforcement of such foreign investment regulations are variable. In certain regions, there is no mechanism established for obtaining such approvals, and the relevant competent authorities would not require and are not empowered to require the foreign invested enterprises in breach of such foreign investment regulations to rectify their non-compliance.<br><br>As advised by our PRC legal adviser, the establishment of the relevant subsidiaries and stores complied with the requirements under the "Regulations of the People's Republic of China on Administration of Registration of Companies" (《公司登記管理條例》) and the relevant subsidiaries and stores were approved by the competent authorities under the SAIC and were validly existing under the PRC laws.<br><br>As of the Latest Practicable Date, we were not fined or punished by any commercial authorities or other regulatory authorities for opening stores without obtaining approvals from the competent authorities of MOFCOM. Our Controlling Shareholders have agreed to indemnify us against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered by or incurred by our Group in connection with obtaining the approvals with regard to the relevant subsidiaries and stores.<br><br>Based on the foregoing, our PRC legal adviser is of the view that the absence of approvals with regard to the relevant subsidiaries and stores will not have a material adverse impact on our historical record of operations or our future operations.<br><br>Based on the foregoing, our Directors are also of the view that the absence of approvals with regard to the relevant subsidiaries and stores will not have any material adverse impact on our operations and financial condition. | Notwithstanding the absence of legal consequences with regard to the lack of approvals for the establishment of the relevant subsidiaries and stores, we are seeking to clarify with the competent authorities of MOFCOM on the relevant approval process with a view to bringing our operations in line with the regulatory requirements going forward, to the extent possible under the relevant regulatory measures in place and in practice. As of the Latest Practicable Date, we together with our PRC legal advisers have sought clarification from the competent authorities of MOFCOM in Beijing, Shanghai and Sichuan and Henan provinces (where more than 60% of the subsidiaries and standalone outlets that have not obtained the relevant approvals are situated) on the relevant approval procedures and we were in the process of obtaining the approvals from these authorities where the relevant administrative procedures provide for a feasible mechanism to obtain such approvals. We have established contacts with the competent authorities of MOFCOM in other provinces and municipal cities, and will seek to obtain the relevant approvals when the process for obtaining such approvals is clarified. | Ms. Li Dongmei, secretary to the Board, joint company secretary and chief legal officer |

**Measures designed to prevent future non-compliance and improve corporate governance**

In order to ensure future compliance with applicable laws and regulations, we have adopted or will adopt the following actions and measures:

1. We engaged HLB at the inception of our Listing process to advise us on our internal control environment and measures. The work scope of HLB includes, but is not limited to, reviewing the Company's internal control measures related to operational and financial controls, financial budget and forecasts, cash management and treasury functions, financial reporting and disclosure procedures, management accounting information system, role of directors and senior management, risk assessments, information and communications, human resource and compensation. Shortly after the non-compliance aspect of the D-phone Market was identified, we have formulated and adopted a number of rectification steps and internal control measures to prevent the occurrence of such non-compliance incident and to expand and improve our legal and regulatory compliance programs. Throughout the process, HLB had conducted successive face-to-face interviews with our management and conducted on-site and telephone reviews and conferences with us and our professional parties to discuss ways to improve our internal control system and provide recommendations. HLB also conducted follow-up reviews to receive updates and to examine the progress of our implementation of their recommendations, and to test whether internal policies and procedures were in place and assess their effectiveness. The procedures performed by HLB over the system of internal control were undertaken with reference to the globally recognized Internal Control – Integrated Framework released by the Committee of Sponsoring Organizations of the Treadway Commission in September 1992.

2. We engaged our Group's PRC legal adviser, Zhong Lun Law Firm, to continually advise us on and keep us abreast with PRC laws and regulations prior to and after Listing.

3. We have adopted a streamlined business review and approval policy which sets out the review and approval procedures to be followed before we take on a new business (regardless of the amount involved or perceived importance to the Group's business). The policy provides that our business department should perform a feasibility study in the new business area and the management should designate personnel to be responsible for developing the relevant business strategies and plans for such new business. The relevant business strategy and plan should be submitted to the Board of Directors for discussion and should be approved by an ordinary board resolution passed at the board meeting. Our in-house legal adviser should be present at such board meeting and discuss with the Directors regarding any compliance matters that could be involved with regard to the new business. The policy also provides that the Directors, management and personnel responsible for designing and developing new business should have access to external advice (from legal advisers, auditors, internal control consultants, industry experts, our Compliance Taskforce (as defined below) or other advisers) at all times throughout the planning, approval and implementation process of the new business.

4. In association with the business review and approval policy, we have designed a licensing and approval requirement checklist, which has been reviewed by our PRC legal adviser and HLB, for our internal management and compliance purposes in approving and operating our businesses going forward. Before we take on a new business, our legal department should review the requirement checklist and identify the specific licenses and approvals required for the new business. Our legal department should also liaise with relevant regulatory authorities and ensure the Company obtain the relevant licenses and approvals for the new business on a timely basis.

5. Our Group has set up a taskforce to monitor and oversee our Group's compliance matters (the "**Compliance Taskforce**"). The team comprises four members, namely Ms. Li Dongmei who is our secretary to the Board and chief legal officer, Mr. Liu Donghai who is our Chairman and executive Director, Mr. Leng Rongquan who is our independent non-executive Director and Mr. Lv Tingjie who is our independent non-executive Director. See "Directors, Supervisors and Senior Management – Directors" and "– Senior Management" for the biographical details of Ms. Li, Mr. Liu, Mr. Leng and Mr. Lv. The team is charged with the oversight of the implementation of our Group's enhanced internal control measures to prevent future breaches and ensure on-going compliance. The team will (i) monitor transactions that may involve connected persons, inside information and insider dealings, (ii) develop and review (or delegate appropriate persons to develop and review) our internal control policy in respect of compliance with applicable laws and regulations, (iii) exercise general oversight on our overall internal control and risk management systems and the handling of any non-compliance incident reported or identified, and report to the Board, (iv) review any reports that may be prepared by our internal control department and external counsels, and deliver such reports for the Board's review, (v) develop the code of conduct of our employees and directors, and (vi) report semi-annually to the Board in respect of the compliance status of the Company. The Compliance Taskforce meets at least once every six months and at any time as required, and can invite any of our executive Directors, employees or external auditors to be present at such meetings as it deems necessary. Our responsible personnel of our internal control department should be present at all meetings of the Compliance Taskforce. The Compliance Taskforce should also attend the annual general meeting of the Company and respond to any questions of the Shareholders.

6. The Group has appointed Shenyin Wanguo Capital (H.K.) Limited ("**Shenyin Wanguo**") as a compliance adviser to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules. The Compliance Taskforce will ensure the Company stay in close contact with Shenyin Wanguo and consult with and, if necessary, seek advice from Shenyin Wanguo on a timely basis in the circumstances set out under Rule 3A.23 of the Listing Rules.

7. Our PRC legal adviser, Zhong Lun Law Firm, has provided training to our Directors and senior management in respect of the PRC laws and regulations, in particular those relating to the Company's business and operations. Our Compliance Taskforce will ensure that compliance training be provided to our Directors and senior management on a quarterly basis on matters including latest developments on laws and regulations (including the Listing Rules), tax, accounting policies and directors' duties, and will keep proper record of the training sessions that have taken place.

8. The audit committee of our Company is responsible for overseeing the internal audit, financial reporting and internal control procedures of our Company. It will also periodically review our compliance status with the laws of the relevant jurisdictions after the Listing. Our audit committee will exercise its oversight by:

   (i) supervising our Company's internal audit system and its implementation;

   (ii) reviewing working plans and reports of our internal audit department on a quarterly basis;

   (iii) reporting to our Board quarterly with respect to the internal audit plans and major issues discovered during our internal audit process;

   (iv) reviewing our Company's internal control and legal compliance;

   (v) discussing the internal control systems with management to ensure that management has performed its duty to have an effective internal control system; and

   (vi) considering major investigation findings on internal control matters as delegated by our Board or on its own initiative and management's response to these findings.

9. Our Board (which shall be responsible for monitoring the corporate governance of our Group) will also periodically review our compliance status with all relevant laws and regulations after the Listing.

In view of the above measures, our Directors and HLB are of the view that there are adequate and effective internal control measures in place to ensure ongoing compliance of the Company with applicable laws and regulations.

Having (i) considered the above measures and HLB's view; (ii) reviewed the internal control procedures prepared by the Company and the relevant documents; (iii) discussed with the management of the Group on the findings and recommendations by HLB concerning the internal control system of the Group; (iv) taken into account the training session provided to our Directors by the PRC legal adviser to the Company on legal compliance; (v) taken into consideration that the Company will continue to retain PRC and Hong Kong legal advisers to provide professional assistance to the Group on regulatory compliance matters and training to our Directors and senior management after Listing and the Company is committed to implementing the enhanced internal control measures; (vi) considered that the non-compliances arose due to inadvertent oversight (in the case of the non-compliance incident relating to the D-phone Market); and (vii) regarded that none of the non-compliance incidents has any material operational and financial impact on our Group's principal business operation, our Directors (including independent non-executive Directors) are satisfied that the above non-compliance incidents would not affect the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. On the basis that nothing has come to the attention of the Joint Sponsors that would cause them to cast doubt on the abovementioned reasons, the Joint Sponsors concur with the Directors' view above.

## CONTROLLING SHAREHOLDERS

We were established as a foreign-invested joint stock limited liability company under PRC laws on December 28, 2009. Feng Yong Tai and Di Er Tong were the promoters of our Company at the time. Immediately following the completion of the Global Offering, assuming no Over-allotment Option is exercised, our Company will be directly owned as to 46.9% by Feng Yong Tai and Di Er Tong. Feng Yong Tai and Di Er Tong are investment holding companies which are held as to 39.47% and 52.33% by Mr. Liu Songshan, 47.75% and 34.89% by Mr. Liu Donghai, 5.13% and 5.13% by Ms. Liu Hua, 5.13% and 5.13% by Ms. Liu Yongmei, and 2.52% and 2.52% by Ms. Liu Wencui, respectively. Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui are siblings. In addition, Ms. Liu Wencui indirectly owns 1.12% of the issued share capital of our Company through her non-wholly-owned holding company Rong Feng Tai. Accordingly, as Feng Yong Tai, Di Er Tong, Rong Feng Tai, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui, directly and indirectly, will together be entitled to exercise 48.02% of the voting power at general meetings of our Company, each of Feng Yong Tai, Di Er Tong, Rong Feng Tai, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui will be regarded as our Controlling Shareholder under the Listing Rules immediately following the completion of the Global Offering.

## DELINEATION OF BUSINESS ACTIVITIES BETWEEN OUR CONTROLLING SHAREHOLDERS AND OUR GROUP

In comparison with the business activities of our Controlling Shareholders (which primarily relates to the MVNO business), we engage in separate business activities relating to sales of mobile telecommunications devices and accessories through our retail, franchise and wholesale networks, which accounted for approximately 94.6%, 95.5% and 95.1% of our total revenue contribution for the years ended December 31, 2011, 2012 and 2013, respectively.

As of the Latest Practicable Date, our Controlling Shareholders conduct the MVNO business through their controlled entity Dixintong Telecommunications Services and cooperation with us based on the MVNO Strategic Cooperation Agreement. For details of such agreement, see "Connected Transactions." Other than the MVNO business, Dixintong Telecommunications Services does not conduct any business activities as of the Latest Practicable Date.

Notwithstanding the MVNO Strategic Cooperation Agreement, we believe that our business activities can be clearly differentiated from that of Dixintong Telecommunications Services based on the following:

- ***Different business activities*** – The business activity of Dixintong Telecommunications Services is to act as a mobile virtual network operator and conduct the MVNO business through cooperation with other parties in terms of the sale and marketing function while we are a retailer of mobile telecommunications devices and accessories with an established sales network and will continue to cooperate with the three mobile carriers and Dixintong Telecommunications Services in terms of selling their service plans as one of the products we offer to our retail customers;

- ***Regulatory restriction*** – We are prohibited to apply for MVNO license and conduct the MVNO business due to PRC regulatory restriction. The issuance of MVNO licenses is regulated by the MIIT, and pursuant to the "Mobile Telecommunication Resale Service Pilot Scheme", a joint stock company with foreign investment of over 10% interest is prohibited to apply for the MVNO license;

- ***No overlapping of business*** – Based on the business relationship under the MVNO Strategic Cooperation Agreement, we only act as a sales and marketing agent for Dixintong Telecommunications Services to promote its MVNO business using our retail, franchise and wholesale networks and earn commission based on the sales volume of the products we sell for Dixintong Telecommunications Services. We will not be considered as "conducting a MVNO business" *per se* by way of such cooperation with Dixintong Telecommunications Services and we will continue to develop our core business, namely sales of mobile telecommunications devices and accessories through our retail, franchise and wholesale networks;

- ***No reliance on the Controlling Shareholders*** – The MVNO Strategic Cooperation Agreement was made on normal commercial terms based on arm's-length negotiation. We may cooperate with other MVNO licensees who do not have sales network under similar terms and conditions if the MVNO Strategic Cooperation Agreement were terminated or expired. We believe that our core business, namely sales of mobile telecommunications devices and accessories, would not be affected in the absence of the MVNO Strategic Cooperation Agreement in any event; and

- ***No competition*** – unlike certain other MVNO licensees which are also mobile phone retailers, Dixintong Telecommunications Services currently can only provide the MVNO services through cooperation with mobile phone retailers including us due to its lack of retail network and resources. Dixintong Telecommunications Services has established its own customer service and call center to deal with any issues raised from subscribers relating to service plans sold through our sales network, and it has also employed its own marketing staff to promote the MVNO business. Dixintong Telecommunications Services confirmed that it does not intend to conduct the MVNO business independently through establishing its own retail network within the term of the MVNO Strategic Cooperation Agreement. As such, the cooperation under the MVNO Strategic Cooperation Agreement will be mutually beneficial to both our Company and Dixintong Telecommunications Services.

Except for their respective interests in our Group, the Controlling Shareholders had no interest in any other companies, as of the Latest Practicable Date, which may, directly or indirectly, compete with our Group's core business.

## NON-COMPETITION UNDERTAKING

### Non-competition

The Controlling Shareholders issued a non-competition undertaking on March 4, 2014 in favor of our Group (the "**Non-competition Undertaking**"). Pursuant to the Non-competition Undertaking, each of the Controlling Shareholders has irrevocably undertaken that, among others:

- it would not and will procure that its associates (except any members of our Group) would not, directly or indirectly, or as principal or agent either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business which is in competition with the core business of any member of our Group (the "**Restricted Business**") from time to time;

- if there is any new business opportunity in the Restricted Business, it shall within seven (7) days refer such new business opportunity to our Group. Such business opportunity shall have first been offered or made handling available to us and be considered by our Board or its committees which do not have a material interest in the business opportunity. Each of the Controlling Shareholders shall not invest, participate, be engaged in and/or operate in such business opportunity unless our Board or its committees have declined in writing or failed to respond within six (6) months after being notified of such opportunity;

- if it intends to transfer, sell, lease or license to a third party any business interests which compete, or may lead to competition, directly or indirectly, with the Restricted Business or its MVNO business, our Company shall have a pre-emptive right over these interests. The Controlling Shareholders must provide us written notice (the "**Selling Notice**") as soon as possible in advance of any sale as described above. Our Company must reply within six (6) months (or such other period as may be agreed between the parties) after receiving the Selling Notice, in order to exercise our right. The exercise of such rights by our Company shall be permitted by the relevant regulations, in particular, the regulations of the MIIT by then with respect to the MVNO business. If our Company intends to exercise the right, the terms will be determined at fair market value. The Controlling Shareholders (except for any members of our Group) shall not dispose such business and equity to any third party, unless the Board (including independent non-executive Directors) has refused in writing to purchase such business or equity, or the Controlling Shareholders has not received any notice about exercising the pre-emptive rights from the Group post to our receipt of the Selling Notice. In addition, any conditions of disposal offered by the Controlling Shareholders shall not be more favorable than those to be given to the Group ("**Pre-emptive Rights**"); and

- to grant us the option to acquire any business that has been engaged by the Controlling Shareholders or any equity of such business based upon the above new business opportunity (the "**Option for Acquisition**"). The Company is entitled to request at any time to acquire any business that has been engaged by the Controlling Shareholders or any equity of such business under the above new business opportunity, and the Controlling Shareholders shall grant us the Option for Acquisition on the condition that the considerations of the acquisition are made in the ordinary course of business following negotiation between the parties under the fair and reasonable principle. The acquisition shall be based on the valuation conducted by independent valuer consisting of our independent non-executive Directors and also in the best interest of the our Group.

Each of the Controlling Shareholders has further undertaken to:

- provide the Group with all the information related to the fulfillment of this undertaking owned by him and his associates;

- subject to confidentiality restrictions imposed by any third party, allow the authorized representatives or auditors of the Group to access the necessary financial information or corporate information on his transactions with third parties, so that the Group can determine whether he and his associates are in compliance with the non-competition undertaking; and

- confirm in writing that he and his associates have complied with the non-competition undertaking within ten (10) working days upon the receipt of the Group's written request, and agree with the Group to include such confirmation in the Group's annual report.

The above undertaking by the Controlling Shareholders would not be applicable where:

- he is interested in any shareholdings in any members of the Group or conducts any business on behalf of any members of the Group;

- he holds, directly or indirectly, equity interests of any company (other than the Group) listed on a stock exchange, and such company is not engaged in the Restricted Business;

- he owns equity interests of any company other than the Group but:

  (a) according to the latest audited accounts of such company, any Restricted Business conducted or engaged by the company (and its underlying assets) accounts for less than 5% of the consolidated sales or consolidated assets of the company; and

(b) the total number of shares held by him and/or his associates accounts for no more than 5% of the shares of the same class issued by such company, and he and/or his associates have no rights to appoint the majority of directors of the company; additionally, the company shall at all times have at lease one shareholder the percentage of whose shareholding is greater than the aggregate percentage of shareholdings held by him and his associates; and

(c) he and his associates have no control over the board of directors of such company.

Pursuant to the Non-competition Undertaking, the above restrictions would cease to have effect upon the earlier of: (i) the Shares of our Company ceasing to be listed on the Stock Exchange; (ii) the Group ceasing to hold, directly or indirectly, Shares of any members of the Group which is engaged in the Restricted Business; and (iii) the Controlling Shareholders ceasing to be the Controlling Shareholders of the Group.

**Corporate Governance Measures**

To further protect the interests of our minority Shareholders, we will adopt the following corporate governance measures to manage any potential conflicts of interest:

- our independent non-executive Directors will review, on an annual basis, the compliance with the Non-competition Undertaking by the Controlling Shareholders; each of the Controlling Shareholders undertakes to provide all information requested by our Company which is necessary for fulfillment of the Non-competition Undertaking, including the annual review by the independent non-executive Directors;

- unless invited by a majority of the independent non-executive Directors, the Controlling Shareholders being Directors of our Company shall exclude themselves from any meeting convened to consider any issues arising under the Non-competition Undertaking. Our independent non-executive Directors may engage professional advisers at our Company's cost for advice on matters relating to the Non-competition Undertaking; and

- we will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance with the Non-competition Undertaking in our annual reports.

Further, any transaction that is proposed between our Group and the Controlling Shareholders and/or their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

## DIRECTORS

Each of our Directors confirms that he or she is not interested in any business apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business. Moreover, pursuant to their respective service agreements with our Group, our executive Directors will not at any time during their terms of service without the prior written consent of the Board be or become a director of any company (other than our Company or any other member of our Group) or be engaged, concerned or interested directly or indirectly in any other business, trade or occupation.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

### Operational Independence

Our Company makes business decisions independently from our Controlling Shareholders. We have established our own independent organizational structure with different operational departments, each with specific areas of responsibility. We maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. Our operational functions, such as cash and accounting management, invoicing and billing, run independently of the Controlling Shareholders and their associates. We have independent access to customers and are not dependent on the Controlling Shareholders and their associates with respect to suppliers for our business operations. We have our own employee headcount for our operations and manage our human resources independently. We have obtained all material licenses, approvals and permits from appropriate regulatory authorities that are material for our business operations in the PRC.

In relation to the MVNO Strategic Cooperation Agreement signed between the Company and our affiliate Dixintong Telecommunications Services, under which the Company (and its respective subsidiaries) will establish cooperative partnership with Dixintong Telecommunications Services to develop the MVNO market in the certain business areas. This agreement was entered into on normal commercial terms after arm's length negotiations, and is in line with the industry practices and general market conditions as of the Latest Practicable Date. For further details of such agreement, please see the section headed "Connected Transactions." Our Directors are of the view that even if the MVNO Strategic Cooperation Agreement is terminated and the partnership under this agreement is no longer available to us, our Company would be able to find other suitable partners to satisfy our business and operative needs for the MVNO market business, on terms and conditions consistent with the prevailing market rates through arm's length negotiation and without undue delay.

Based on the above, our Directors are of the view that we are able to operate independently.

**Management Independence**

We are able to carry on our business independently from our Controlling Shareholders from management perspective. Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. As of the Latest Practicable Date, save as disclosed below, our executive Directors and senior management team have not hold any directorship or senior management role within our Controlling Shareholders. Set below is a table summarizing the positions held by our Directors at the Company and our Controlling Shareholders as of the Latest Practicable Date.

| Name of Directors | Position with the Company | Position with our Controlling Shareholders |
|---|---|---|
| Liu Songshan. . . | Executive Director | • executive director of Feng Yong Tai<br>• supervisor of Di Er Tong |
| Liu Wencui . . . . | Executive Director | • supervisor of Feng Yong Tai<br>• executive director of Di Er Tong<br>• director of Rong Feng Tai |

As set out above, two of our five executive Directors hold certain positions within our Controlling Shareholders. However, our Directors are of the view that there are sufficient and effective control mechanisms to ensure that these two executive Directors discharge their duties appropriately and safeguard the interests of our Shareholders as a whole on the following grounds:

- each of our Directors is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and do not allow any conflict between his/her duties as a Director and his/her personal interest. The decision-making mechanism of the Board set out in the Articles of Association includes provisions to avoid conflicts of interest. In the event that there is any potential conflict of interest between our Group and our Directors or their respective associates, arising out of any transaction to be entered into, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, when considering connected transactions, our independent non-executive Directors will review the relevant transactions;

- none of our three independent non-executive Directors has any relationship with our Controlling Shareholders and their associates; and

- none of our members of senior management has any relationship with our Controlling Shareholders and their associates.

Therefore, there are sufficient non-overlapping Directors who are independent and have relevant experience to allow the proper functioning of the Board. Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently and are of the view that we are capable of managing our business independently from our Controlling Shareholders.

**Financial Independence**

We have established our own finance department with a team of independent financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control functions of our Company independent from our Controlling Shareholders. We can make financial decisions independently and our Controlling Shareholders do not intervene with our use of funds. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management and books and records system. In addition, we maintain bank accounts with banks independently and our Controlling Shareholders do not share any bank accounts with us. We have made independent tax registration in accordance with applicable laws, and paid tax independently pursuant to applicable PRC tax laws and regulations, rather than on a combined basis with our Controlling Shareholders or other enterprises under its control.

During the Track Record Period, we had various short-term bank borrowings with commercial banks to finance our business operations and expansion, and we were usually required by the banks to obtain guarantees for the performance of our contractual obligations from our Controlling Shareholders. We have released the Controlling Shareholders' guarantees for all of our outstanding bank borrowings as at the date of this Prospectus.

We have settled all amounts due to our Controlling Shareholders of a non-trade nature prior to the Listing. Given that we have the ability to obtain financing independently and subject to the foregoing, the Directors are of the view that the existence of the Borrowings do not affect our financial independence.

Upon the listing of our H Shares on the Stock Exchange, continuing transactions between our Group and our Connected Persons will constitute continuing connected transactions under new Chapter 14A of the Listing Rules (which will come into effect on July 1, 2014).

## CONNECTED PERSONS

As Feng Yong Tai, Di Er Tong, Rong Feng Tai, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui, directly and indirectly, will together be entitled to exercise 48.02% of the voting power at general meetings of our Company at the time of Listing, each of Feng Yong Tai, Di Er Tong, Rong Feng Tai, Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui will be regarded as our Controlling Shareholder under the Listing Rules immediately following the completion of the Global Offering. Therefore, each of them is a Connected Person of our Company according to the 14A.07(1) of the Listing Rules. The transactions between our Group and each of the Controlling Shareholders, which will continue after the Listing, will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

Mr. Li Wanqing is the chief executive of Guangxi Dixintong Electronics Technology Ltd., which is a subsidiary of our Company. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li Wanqing is a Connected Person of the Company. Therefore, the transactions between our Group and Mr. Li Wanqing, which will continue after the Listing, will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As of the Latest Practicable Date, Feng Yong Tai and Di Er Tong, two of our Controlling Shareholders, hold 70% and 30% equity interests of Dixintong Telecommunications Services, respectively. As such, Dixintong Telecommunications Services is an associate of Feng Yong Tai and Di Er Tong and a Connected Person of the Company for the purpose of the Listing Rules. Therefore, the transactions between our Group and Dixintong Telecommunications Services, which will continue after the Listing, will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

## EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are made in the ordinary course of business and on normal commercial terms where each of the relevant percentage ratios (other than the profits ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, not exceed 1% on an annual basis. Under Rule 14A.76(b) of the Listing Rules, the transactions are exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## (1) Property Leasing

*Parties*

Our Group, as the leasee, entered into a property leasing agreement on February 28, 2010 with Mr. Li Wanqing, as the leasor, pursuant to which, our Group may rent properties from Mr. Li Wanqing as office premises for Guangxi Dixintong Electronics Technology Ltd., a wholly owned subsidiary of our Company.

*Reasons for the transaction*

We have historically leased certain properties from Mr. Li Wanqing as office premises for Guangxi Dixintong Electronics Technology Ltd.. Compared with independent third party, Mr. Li Wanqing has a better understanding of our requirements in terms of office premises, and is able to maintain stable relationship with us as to the property leasing. In addition, relocating our offices to other premises will cause unnecessary disruptions to our operation and incur unnecessary costs.

*Historical amounts*

The rental expenses incurred by our Group for the years ended December 31, 2011, 2012 and 2013 were approximately RMB60,000, RMB60,000 and RMB60,000, respectively.

The Directors are of the view that the rentals are consistent with the then prevailing market rate in the local market.

## (2) Marketing Services

*Parties*

Our Company entered the Dphone Website Transfer Agreement with Feng Yong Tai on February 14, 2014, pursuant to which our Company transferred relevant intellectual property assets pertaining to the "Dphone market" (迪風市場) to Feng Yong Tai. "Dphone market" is a mobile store of application software operated in the form of an Internet website and mobile phone software program through which mobile internet users could download various mobile applications on their mobile handsets. Pursuant to such transfer agreement, after the transfer, our Company will provide mobile phone software program marketing services to Feng Yong Tai to support the operation of the "Dphone market".

*Reasons for such transaction*

Historically we operated business in relation to the "Dphone market" by pre-installing the "Dphone market" in the mobile handsets we sold to our customers or allowing Internet users to install the "Dphone market" through the Internet website free of charge as part of our customized service. However, such business operation did not comply with the relevant PRC laws and regulations in relation to filing requirement for "value-added service" and "internet culture". For details of such non-compliance incident, please see "Business – Legal and Administrative Proceedings and Compliance – Compliance." As a rectification measure, we transferred business in relation to "Dphone market" to Feng Yong Tai in February 2014.

Our Company is a large mobile telecommunications chain store and mobile phone retailer. The operator of "Dphone market", Feng Yong Tai, may leverage on our extensive retail network to market "Dphone market" by pre-installing the software of "Dphone market" in the mobile handsets sold by us. In addition, since our Company used to operate "Dphone market", we have a thorough understanding of the operation of "Dphone market" so that we can better meet the requirements from Feng Yong Tai.

***Historical amount***

There was no income generated from the transaction above during the Track Record Period since "Dphone market" was transferred from us in February 2014.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction is made in the ordinary course of business and on normal commercial terms where, as our Directors expect as of the Latest Practicable Date, the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules will exceed 5% on an annual basis. Under Rules 14A.35, 14A.36, 14A.49 and 14A.71 of the Listing Rules, such transaction will constitute our non-exempt continuing connected transaction, and is subject to the requirements of reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### MVNO Strategic Cooperation Agreement

***Parties***

Dixintong Telecommunications Services, the MVNO Licensee and a connected person of our Company, and our Company entered into a MVNO strategic cooperation agreement and a supplemental agreement on March 20, 2014 and June 4, 2014, respectively (collectively "**MVNO Strategic Cooperation Agreement**"). We commenced such cooperation with the MVNO Licensee in April 2014.

***Principal terms***

We entered into the MVNO Strategic Cooperation Agreement with the MVNO Licensee in relation to a MVNO business cooperation for a term from April 1, 2014 to December 31, 2016. The MVNO Strategic Cooperation Agreement provides a framework under which we collaborate with the MVNO Licensee in promoting their MVNO business and provide the basis for further operative agreements to be entered into between us. By providing such a framework, the MVNO Strategic Cooperation Agreement allows the MVNO Licensee and us to formulate implementation plans for specific arrangements in different localities, taking into account different local governmental policies applicable to different kinds of arrangements and local market needs. Pursuant to the MVNO Strategic Cooperation Agreement, the MVNO Licensee and our Company (and our respective subsidiaries) will establish cooperative partnership to develop the MVNO market in the PRC in the following areas:

- Retail channel

  We agree to promote the MVNO brand held by the MVNO Licensee by allowing the MVNO Licensee to establish their own sales counters or sales areas in our independently operated outlets throughout the PRC. In exchange, we are authorized by the MVNO Licensee to offer its MVNO-related products and services to subscribers and receive the benefits of its marketing policies and incentives.

- Provision of telecommunications services

  We agree to act as the MVNO Licensee's agent in our retail stores to provide certain telecommunications services on behalf of the MVNO Licensee, including developing customers for it through selling call service subscriptions or mobile phones that are bundled with call service subscription.

- Large-scale joint marketing activities and sales promotions

  We and the MVNO Licensee agree to cooperate in carrying out large-scale marketing activities and sales promotions.

Leveraging our extensive retail network for telecommunications devices, we will receive commissions from the MVNO Licensee for developing future subscribers for MVNO Licensee and sales of contracted call service subscriptions, which are calculated based on the number of newly developed subscribers, a portion of the recurring fees (話費分成) paid by subscribers over the terms of subscriptions, as well as marketing allowance and discretionary bonus paid by the MVNO Licensee under certain conditions.

Pursuant to the MVNO Strategic Cooperation Agreement, we are not obligated to prioritize the MVNO-related products and services offered by the MVNO Licensee in our marketing efforts.

The term of the MVNO Strategic Cooperation Agreement is three years. We may enter into a new agreement upon expiration of the initial term.

***Reasons for the transaction***

Pursuant to the MVNO Strategic Cooperation Agreement, the MVNO Licensee will continue to work with us to benefit from our extensive retail network, in-depth industry knowledge and management expertise. We will be able to promote their MVNO brand, develop new subscribers for them and provide services to their subscribers, and, in return, we are able to generate revenue through receiving commissions for providing services as mentioned above. Through such cooperation, we expect that our sales volume of mobile telecommunications devices will increase in tandem through such cooperation. Moreover, we believe that we will enjoy more favorable credit limits and payment terms arrangements, which in turn will further reduce our capital risk and enhance our profitability.

***Historical amounts***

We entered into the MVNO Strategic Cooperation Agreement with the MVNO Licensee in 2014 so there are no historical amounts for this transaction during the Track Record Period.

***Annual caps***

The maximum aggregate annual amounts of commissions and fees to be received by the Company under the MVNO Strategic Cooperation Agreement for the years ending December 31, 2014, 2015 and 2016 shall not exceed the caps set out below:

| | Proposed annual cap for the year ending December 31, | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | | **(RMB million)** | |
| Total commissions and fees . . . . . . . . . . | 41 | 320 | 788 |

***Basis of caps***

The above annual caps of commissions and fees comprise four components: (i) commissions generated from sales, which are those obtained by us for our development of new subscribers for the MVNO Licensee; (ii) a portion of the recurring fees paid by our subscribers, which is our share of the fees paid by the newly contracted subscribers within relevant contract periods; (iii) marketing allowance for subscriber development, which is the compensation granted to us for the purpose of developing future subscribers. We will rely on such marketing allowance to develop future subscribers for MVNO Licensee leveraging our extensive retail network, and will determine the strength of our marketing efforts (including attributing part or all of the marketing allowance as subsidy or rebate to subscribers) depending on the then market condition; and (iv) bonus, which is the reward that may be granted to us for accomplishing the target of the required number of newly contracted subscribers and the required amount of their ARPU (average revenue per user) within a prescribed period of time.

In determining the above annual caps, in particular, the estimated number of newly developed subscribers, our Directors have considered: (i) the estimated trend of significant increase in the user scale of bundled mobile phones in the MVNO market. For further details see "Industry Overview – Development Status of Chinese MVNO"; (ii) the commercial terms (including level of ARPU, the scale of commissions, recurring fees and the proportion of bonus) used during our current cooperation with the three mobile carriers in China, namely China Mobile, China Unicom and China Telecom; and (iii) the latest development of the MVNO market which itself is a new and evolving sector of the telecommunications industry in China.

In relation to the estimated number of newly increased subscribers, taking into consideration the above factors, we have based our views on the numbers of newly increased subscribers gained from our cooperation with the three mobile carriers for the past three years. The following table sets forth the approximately number of subscribers we developed for the three mobile carriers in the three years ended December 31, 2011, 2012 and 2013:

| | Year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **('000)** | **('000)** | **('000)** |
| China Mobile | 590 | 1,230 | 3,770 |
| China Unicom | 350 | 700 | 1,200 |
| China Telecom | 90 | 320 | 720 |

It is expected that the newly increased subscribers for the MVNO-related products and services offered by the MVNO Licensee are to increase significantly from 2014 to 2016, in line with the trend of newly increased subscribers gained from our cooperation with the three mobile carriers for the past three years. Based on the above, our Directors are of the view that the estimated number of newly increased subscribers for the MVNO-related products and services offered by the MVNO Licensee are in line with the current market expectation and are objective and reasonable.

In setting the estimated coefficients for calculating the sales commissions and recurring fees, we have based our views on the most recent coefficients for the commissions/fees derived from our cooperation with the three mobile carriers. In terms of ARPU, the average ARPU for our cooperation with the three mobile carriers ranges from RMB60/month to RMB80/month for the year 2013.

The following annual caps are based on our estimate on the number of newly acquired subscribers and their ARPU for each year:

| | **For the period from June 1, 2014 to December 31, 2014** | **2015** | **2016** |
|---|---|---|---|
| Estimated number of newly increased subscribers | 740,000 | 1,500,000 | 3,000,000 |
| Estimated ARPU (RMB/month) | 60 | 63 | 65 |
| Estimated annual revenue of the MVNO Licensee (RMB million) | 155 | 1,043 | 2,508 |
| Estimated commissions (RMB million) | | | |
| – Commissions generated from sales | 9 | 85 | 214 |
| – Recurring fees paid by subscribers | 13 | 98 | 239 |
| – Marketing allowance for subscriber development | 17 | 127 | 310 |
| – Bonus | 2 | 10 | 25 |
| Estimated aggregate amount of commissions (RMB million) | 41 | 320 | 788 |

The formulae for calculation of the annual caps based on the said four components respectively (and the commencement period for the payment of such four components of commissions after the signing of each subscription plan) are as follows:

1. Commissions generated from sales = (estimated annual revenue*/number of months of actual sales in the year) x 10% x number of months of actual payments

   (commissions to be paid on a quarterly basis in the fourth month)

2. Recurring fees = (estimated annual revenue*/number of months of actual sales in the year) x 10% x number of months of actual payments

   (recurring fees to be paid in the next month)

3. Marketing allowance for subscriber development = (estimated annual revenue*/number of months of actual sales in the year) x 13% x number of months of actual payments

   (marketing allowance to be paid in the next month)

4. Bonus = estimated annual revenue* x 1%

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* *Estimated annual revenue = estimated number of newly increased customers x estimated ARPU x number of months of actual sales in the year/variables (variables is determined on the assumptions that: (a) the net number of newly increased customers grows on a monthly basis, hence there is no ARPU on the net number of newly increased customers in the first month; (b) the number of churned users is not calculated until the next year (based on the industry churn rate of approximately 30%), and those churned users will no longer generate ARPU.)*

The specific calculations are set out as follows:

Taking the year 2014 as an example, the annual cap of the estimated commission in 2014 is approximately RMB41 million, of which the estimated commission generated from sales is approximately RMB9 million, estimated recurring fees is approximately RMB13 million, estimated marketing allowance for subscriber development is approximately RMB17 million, and estimated bonus is approximately RMB2 million:

1. Estimated commissions generated from sales = (estimated annual revenue*/number of months of actual sales in the year) x 10% x number of months of actual payments = (RMB155 million/7) x 10% x 4[(1)] = RMB9 million

2. Estimated recurring fees = (estimated annual revenue*/number of months of actual sales in the year) x 10% x number of months of actual payments = (RMB155 million/7) x 10% x 6[(2)] = RMB13 million

3. Estimated marketing allowance for subscriber development = (estimated annual revenue*/number of months of actual sales in the year) x 13% x number of months of actual payments = (RMB155 million/7) x 13% x 6[(3)] = RMB17 million

4. Estimated bonus = estimated annual revenue[(4)] x 1% = RMB155 million x 1% = RMB2 million

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(1) The supplemental MVNO strategic cooperation agreement took effect from June 1, 2014. In regards to commissions generated from sales, the commissions for the first month (i.e. June 2014) to the third month (i.e. August 2014) will be paid from the fourth month (i.e. September 2014). Therefore, for year 2014, the months of actual payment will be four months (i.e. from September 2014 to December 2014);

(2) The supplemental MVNO strategic cooperation agreement took effect from June 1, 2014. In regards to recurring fees, the commissions will be paid starting from the following month. For the year 2014, the months of actual payments will be six months (i.e. from July 2014 to December 2014);

(3) The supplemental MVNO strategic cooperation agreement took effect from June 1, 2014. In regards to marketing allowance for subscriber development, the allowance will be paid starting from the following month. For the year 2014, the months of actual payments will be six months (i.e. from July 2014 to December 2014);

(4) Estimated annual revenue (2014) = estimated number of newly increased customers x estimated ARPU x number of months of actual sales in the year/variables = (740,000 x RMB60 x 7)/2 = RMB155 million.

Our Directors are of the opinions that the above calculated total commissions are based on arm's-length negotiations between both parties with reference to the market rates, and are in line with the industry practices and general market conditions known as of the Latest Practicable Date. The annual caps above can meet the basic transaction demands of the MVNO Licensee and us under the MVNO Strategic Cooperation Agreement.

## WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Under Rules 14A.35, 14A.36, 14A.49 and 14A.71 of the Listing Rules, the above mentioned transactions will constitute continuing connected transaction which are subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the above non-exempt continuing connected transaction under the MVNO Strategic Cooperation Agreement is expected to continue on a recurring and continuing basis, our Directors consider that compliance with the above announcement and independent shareholders' approval requirements would be impractical, we would incur unnecessary administrative costs and it would be unduly burdensome to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement and independent Shareholders' approval requirements in respect of the above non-exempt continuing connected transaction.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable to us as of the Latest Practicable Date on the continuing connected transactions referred to in this Prospectus, we will take immediate steps to ensure compliance with such new requirements within reasonable time.

The wavier to be granted by the Stock Exchange for the non-exempt continuing connected transaction will expire on December 31, 2016. Upon the expiry of the waiver, the above continuing connected transaction will be subject to the then applicable Listing Rules.

## CONFIRMATION FROM OUR DIRECTORS AND THE JOINT SPONSORS

Our Directors (including our independent non-executive Directors) and the Joint Sponsors are of the view that: (i) the MVNO Strategic Cooperation Agreement was entered into in the ordinary and usual course of business of our Group and is on normal commercial terms; (ii) the terms of the MVNO Strategic Cooperation Agreement are fair and reasonable and in the interests of our Shareholders as a whole; and (iii) that the proposed annual caps for the transactions under the MVNO Strategic Cooperation Agreement are fair and reasonable and in the interests of our Shareholders as a whole.

## BOARD OF DIRECTORS

The Board of Directors consists of nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. According to the Articles of Association, all the Directors shall be elected by the general meeting for a term of three years, and are eligible for re-election upon expiry of their terms. The terms of reference of the Board of Directors includes, but not limited to, convening the general meetings, reporting on the performance of the Board of Directors at the general meeting, implementing the resolutions passed at the general meetings, formulating business plans and investment plans, preparing annual budget and final accounts, preparing proposals on profit distribution and increase or decrease in registered capital as well as performing the other authorities, functions and responsibilities granted by the Articles of Association.

The following table presents certain information in respect of our Directors. Among our Directors, Mr. Liu Donghai, Mr. Liu Songshan, Ms. Liu Wencui and Ms. Liu Hua are siblings.

| Name | Age | Position | Responsibility | Date of Appointment | Date of Joining the Group |
|---|---|---|---|---|---|
| Mr. Liu Donghai (劉東海) . . . . . . | 48 | Chairman and executive Director | Responsible for the overall business strategies of the Company and overseeing their execution | December 25, 2013 | December 1997 |
| Mr. Liu Yajun (劉雅君) . . . . . . | 57 | Vice chairman and executive Director | Responsible for formulating investment plans and leading investment negotiations | March 29, 2014 | August 2010 |
| Mr. Liu Songshan (劉松山) . . . . . . | 41 | Executive Director | Responsible for formulating business operation and investment strategies | December 25, 2013 | February 1998 |
| Ms. Liu Wencui (劉文萃) . . . . . . | 40 | Executive Director | Responsible for formulating business plans of the Company | June 24, 2007 | February 1998 |
| Ms. Liu Hua (劉華). . . . . . . . | 42 | Executive Director | Responsible for formulating business plans of the Company | November 24, 2009 | February 1998 |
| Mr. Wang Lin (王霖). . . . . . . . | 46 | Non-executive Director | Provide strategic advice to our Group and attend meetings of the Board to perform duties, but not engaged in daily management of our business operation | June 24, 2007 | June 2007 |
| Mr. Lv Tingjie (呂廷杰) . . . . . . | 59 | Independent non-executive Director | Provide independent opinion and judgment to the Board | November 24, 2009 | November 2009 |
| Mr. Leng Rongquan (冷榮泉) . . . . . . | 65 | Independent non-executive Director | Provide independent opinion and judgment to the Board | September 28, 2010 | September 2010 |
| Mr. Vincent Man Choi, Li (李文才) . . . . . . | 52 | Independent non-executive Director | Provide independent opinion and judgment to the Board in particular with regard to the financial aspects of our Company | January 9, 2014 | January 2014 |

## DIRECTORS

### Executive Directors

**Mr. Liu Donghai (劉東海)**, aged 48, joined the Company in June 2001 and has been the chairman of the Board since December 2013. He joined the Group in December 1997 and held various positions in the Group, including the vice chairman of the Board from July 2010 to December 2013, the general manager of the Company since March 2011 and the internal risk control officer of the Company from June 2001 to March 2011. He is primarily responsible for formulating the overall business strategies of the Company and overseeing the execution of the business strategies and the operation of the Company.

Prior to joining our Group, from April 1991 to March 1993, he served as the sales director of Beijing Hamamatsu Technology Co., Ltd. (北京濱松光子技術有限公司), which is set up as a company providing comprehensive services including research, development and provision of a variety of products for photonics field as a whole, mainly responsible for formulating sales policies, proposals and targets, and planning and overseeing the implementation of sales proposals.

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

**Mr. Liu Yajun (劉雅君)**, aged 57, joined the Company in August 2010 as an executive Director and elected as the vice chairman of the Board since March 2014. He is primarily responsible for formulating investment plans and leading investment negotiations of the Company.

Prior to joining our Group, he held various positions, including director and vice-president of Shenzhen Development Bank Tianjin Branch (深圳發展銀行天津分行), which provide various financial service with respect to corporate business, retailing business, inter-bank business and etc. from May 2003 to July 2008. He was mainly responsible for the credit business in the abovementioned bank.

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

**Mr. Liu Songshan (劉松山)**, aged 41, joined the Company in May 2001 and was the chairman of the Board from November 2009 to December 2013. He joined the Group in February 1998 and held various positions in the Group, including an executive Director and the general manager of the Company from May 2001 to March 2011, an executive director of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from February 1998 to May 2009, and the general manager of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from May 2009 to October 2010. He is primarily responsible for formulating business operation strategies and investment plans of the Company, and leading annual procurement and sales planning of the Company.

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

**Ms. Liu Wencui (劉文萃)**, aged 40, joined the Group since February 1998 and has been an executive Director since June 2007 and the deputy director of the procurement center of the Company since April 2004. She is primarily responsible for organizing and implementing annual business and investment plans of our Group, implementing annual procurement plans of our Group and tracing delivery status of the procured products, establishing database for suppliers and facilitating communication with them, within the authorization of the chairman of the Board executing contracts on behalf of our Group as well as handling other matters under authorization of the chairman of the Board.

**Ms. Liu Hua (劉華)**, aged 42, joined the Company in March 2001 and has been an executive Director since November 2009. She joined the Group in February 1998 and held various positions in the Group, including the procurement manager of the Company since March 2001 and the manger of the procurement department of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from February 1998 to 2000. She is primarily responsible for organizing and implementing annual business and investment plans of our Group, implementing annual procurement plans of our Group and tracing delivery status of the procured products, establishing database for suppliers and facilitating communication with them, within the authorization of the chairman of the Board executing contracts on behalf of our Group as well as handling other matters under authorization of the chairman of the Board.

**Non-Executive Director**

**Mr. Wang Lin (王霖)**, aged 46, joined the Company in June 2007 and has been a non-executive Director since then. He is primarily responsible for providing strategic advice to our Group and attending meetings of the Board to perform duties, but not engaged in daily management of our business operation.

Prior to joining our Group, he held various positions, including the non-executive director of Springland International Holdings Limited (華地國際控股有限公司), which is a company with principal business activities being operating businesses of grocery stores and supermarkets and was listed on the Stock Exchange (Stock Code: 01700.HK) from September 2006 to October 2013, mainly responsible for participating and organizing and implementing annual business and investment plans of the company and leading daily operational and managerial work, the managing director of Beijing CDH Innovation and Investments Consultation Ltd. (北京鼎暉創新投資顧問有限公司), principal business activities of which are commerce and consultation relating to management, economic information and technology since August 2002, mainly responsible for developing investment projects, inspecting business due diligence and managing post-investment matters, the investment manager of China International Capital Co., Ltd. (中國國際金融有限公司), providing comprehensive financial services including investment banking, institutional and individual securities sales and trading, asset management, individual wealth management and research from April 1999 to August 2002, mainly responsible for developing investment projects, inspecting business due diligence and managing post-investment matters, senior manager of China National Investment and Guaranty Co., Ltd. (中國投融資擔保有限公司), principal business activities of which are credit guarantee mainly including financial product guarantee, logistics finance guarantee as well as guarantee for low-carbon areas and micro and small business financing guarantee from August 1994 to March 1999, mainly responsible for providing financing guarantee for small and medium-sized enterprises.

He obtained his bachelor degree in Mechanical Technology and Equipment from East China Jiaotong University in July 1989, master degree and doctorate degree in Cameralistics from Research Institute for Fiscal Science, Ministry of Finance (財政部財政科學研究所) in February 1993 and July 2002, respectively.

**Independent Non-Executive Directors**

**Mr. Lv Tingjie (呂廷杰)**, aged 59, has been an independent non-executive Director since November 2009, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He has served as a professor, doctoral tutor and the executive dean of School of Economics Management of Beijing University of Posts and Telecommunications (北京郵電大學) since May 1997, June 1999 and September 2007, respectively, the standing director of the International Telecommunication Society (國際電信協會) since June 2007, mainly responsible for coordinating the economic cooperation and academic exchanges in Asia and Greater China region, mainly responsible for works of the Communication Modernization Management Committee, a member of the Telecommunications Experts Committee, Ministry of Industry and Information Technology (工業和信息化部電信專家委員會) since 2004, mainly responsible for policy consultation, examination and appraisal work, and the vice chairman of the Electronic Commerce Teaching Steering Committee, Ministry of Education (教育部電子商務教學指導委員會) since 2008, mainly responsible for revising education plans for e-commerce. Mr. Lv is currently an independent non-executive director of Gohigh Data Networks Technology Co., Ltd. (大唐高鴻數據網絡技術股份有限公司), which is listed in Shenzhen Stock Exchange (Stock Code: 000851) and dedicates itself to the provision of telecommunications devices, business and overall resolution with respect to industry informatization. Mr. Lv was conferred the teaching qualification certificate of senior high education by the Ministry of Education P.R.C. in July 1997.

Mr. Lv obtained his engineering doctor degree in systematic engineering from Kyoto University (日本京都大學) in November 1997, his master degree in management engineering and his bachelor degree in radio engineering from Beijing University of Posts and Telecommunications (北京郵電大學) in April 1985 and July 1982, respectively.

**Mr. Leng Rongquan (冷榮泉)**, aged 65, joined the Company in September 2010 and has been an independent non-executive Director since then and is mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. Mr. Leng has served as the chairman of the board of Unihub China Information Technology Co., Ltd. (中盈優創資訊科技有限公司), which provides comprehensive innovative and suitable solutions for telecommunications operators, governments and enterprises since March 2005, mainly responsible for presiding the work of the Board, and a director of China Finance Online Co., Ltd. (中國金融在線有限公司), principal business activities of which are providing vertically integrated financial information and services including news, data, analytics, securities investment advisory and brokerage-related services since April 2012, mainly responsible for relevant works in the audit committee, remuneration committee and nomination committee.

Prior to joining our Group, he served as the deputy director of Directorate General of Telecommunications, P & T, China (中國郵電電信總局) from 1996 to 2000 and the deputy general manager of China Network Communications Group Corporation (中國網絡通信集團公司), principal business activities of which are operating domestic and international fixed telecommunications network facilities and related telecommunications services from 2002 to 2004.

Mr. Leng obtained his master degree in Computer-Aided Logic Design from Beijing Institute of Posts and Telecommunications in September 1983. Mr. Leng received the title of professor-level senior engineer from Directorate General of Telecommunications, P & T, China (中國郵電電信總局) in August 1997.

**Mr. Vincent Man Choi, Li (李文才)**, aged 52, joined our Company in January 2014 and has been an independent non-executive Director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of our Company.

Mr. Li has served as an independent non-executive director of Qinhuangdao Port Co., Ltd. (a company listed on the Stock Exchange (03369 HK), (秦皇島港股份有限公司), the principal business activity of which is the provision of integrated port services, including stevedoring, stacking, transportation and handling various types of cargo, a partner of Zhonglei (HK) CPA Company Limited (中磊(香港)會計師事務所有限公司) in Hong Kong and technical director of Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)) in the PRC since June 2013, and a partner of Pan-China (H.K.) CPA Limited (天健(香港)會計師事務所有限公司) in Hong Kong since August 2013, the principal business activities of which are audit and taxation and consulting services. Prior to joining our Group, he held various positions, including a partner both for Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計師事務所(特殊普通合夥), "**Deloitte Touche Tohmatsu China**") in the PRC and Deloitte Touche Tohmatsu (德勤•關黃陳方會計師行, "**Deloitte Touche Tohmatsu Hong Kong**") in Hong Kong from June 2005 to May 2013 and November 2005 to May 2013, respectively, a director of Deloitte Touche Tohmatsu China from September 2003 to May 2005, the senior manager of Deloitte Touche Tohmatsu Hong Kong from November 2000 to August 2003, June 1997 to June 1998, and July 1995 to September 1996, a manager of Deloitte Touche Tohmatsu Hong Kong from July 1991 to June 1995, senior auditor of Deloitte Touche Tohmatsu Hong Kong from July 1989 to June 1991 and a semi-senior auditor of Deloitte Touche Tohmatsu Hong Kong from August 1988 to June 1989, the principal business activities of which are audit, taxation, consulting and financial advisory services.

Mr. Li obtained his master degree of Science in Social Science from University of Southampton in 1998, his master degree in Business Administration from Brunel University in 1997 and his honourable diploma of Accounting from Hong Kong Baptist University in 1986.

Mr. Li is a fellow member of Hong Kong Institute of Certified Public Accountants since 1998 and has been a Hong Kong Certified Public Accountant (Practising). Mr. Li is also a fellow member of Association of Chartered Certified Accountants since 1995, and an associated member of Institute of Chartered Accountants in England and Wales since 2005.

Save as disclosed above, there is no other information relating to our Directors that should be disclosed pursuant to Rule 13.51(2) of the Listing Rules, including directorships in any listed company whose securities are listed on any stock markets in Hong Kong or overseas within the three years immediately preceding the date of this Prospectus.

## BOARD OF SUPERVISORS

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

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

| Name | Age | Position | Date of Appointment | Date of Joining the Group |
|---|---|---|---|---|
| Xiao Hong (肖紅) . . . . . . . . . | 38 | Chairman of Board of Supervisors and employee representative Supervisor | November 24, 2009 | May 1999 |
| Li Wanlin (李萬林). . . . . . . . . | 51 | Supervisor | May 20, 2014 | May 2014 |
| Hu Yuzhong (胡玉忠) . . . . . . . | 56 | Supervisor | May 20, 2014 | May 2014 |

## SUPERVISORS

**Ms. Xiao Hong (肖紅)**, aged 38, joined the Group in May 1999, and has been an employee representative Supervisor since November 2009. She began to serve as the chairman of the board of Supervisors from May 2014. She has also served as the deputy sales manager of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) since August 2008. Ms. Xiao is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members.

**Mr. Li Wanlin (李萬林)**, aged 51, joined the Group in May 2014 and has been a Supervisor of our Company since then. Before joining our Group, he served as a professor leading the major national mobile telecommunications laboratory at Southeast University from 2010 to 2012. Mr. Li also served as manager of Beijing EVERSINO Technology Ltd. (北京華恒銘聖科技發展有限責任公司) from 2007 to now. From 1998 to 2007, Mr. Li held various positions within Siemens Ltd. China, including senior vice president and chief technology officer of the group and mobile internet department, general manager of the 3G mobile internet department and officer of the TDSCDMA R&D centre. Mr. Li is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members. Mr. Li obtained his bachelor degree in computer engineering from Chongqing University in 1982, and his master and Ph.D. degree in information science from Technical University of Karlsruhe in Germany in 1986 and 1991.

**Mr. Hu Yuzhong (胡玉忠)**, aged 56, joined the Group in May 2014 and has been a Supervisor of our Company since then. From 2003 to now, Mr. Hu has served as a president and director of Beijing Zhongguang Times Telecom Equipments Company Limited (北京中廣時代通訊設備有限公司). From 1992 to 2002, he served as vice president of China Post Putai Mobile Telecom Equipments Company Limited (中郵普泰移動通訊設備股份有限公司). Mr. Hu is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members. Mr. Hu obtained his MBA degree in Asia International Open University (Macau) in 2004.

Save as disclosed above, there is no other information relating to our Supervisors that should be disclosed pursuant to Rule 13.51(2) of the Listing Rules, including directorships in any listed company whose securities are listed on any stock markets in Hong Kong or overseas within the three years immediately preceding the date of the Prospectus.

## SENIOR MANAGEMENT

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

| Name | Age | Position | Date of Appointment | Date of Joining the Group |
|---|---|---|---|---|
| Jin Xin (金鑫) . . . . . . . . . | 43 | General manager | December 25, 2013 | January 1999 |
| Qi Feng (齊峰) . . . . . . . . . | 45 | Vice general manager | November 24, 2009 | August 2003 |
| Wu Huan (吳歡) . . . . . . . . | 48 | Vice general manager and chief information officer | November 24, 2009 | May 2002 |
| Zhou Qing (周清) . . . . . . . | 46 | Vice general manager | November 24, 2009 | May 2002 |
| Bai Ren (白韌) . . . . . . . . . | 42 | Vice general manager | November 24, 2009 | March 1998 |
| Huang Jianhui (黃建輝) . . . . | 54 | Vice general manager | April 12, 2011 | July 2010 |
| Leng Jianchuang (冷建闖) . . . | 35 | Chief financial officer | June 8, 2010 | December 2006 |
| Li Dongmei (李冬梅). . . . . . | 36 | Secretary to the Board and chief legal officer | November 24, 2009 | April 2006 |

**Mr. Jin Xin (金鑫)**, aged 43, joined the Company in April 2003 and has been the general manger of the Company since December 2013. Mr. Jin joined the Group in January 1999 and served as the executive vice general manager of the Company from May 2003 to December 2012. Prior to that, he served as the vice manager of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from January 1999 to March 2003. Mr. Jin is primarily responsible for daily operation and management of our Group, assisting with the Board to inspect the implementation of major plans and system of the Company, taking charge of the organizational institutions and staffing systems and training; recommending candidates for department managers and medium level management members, preparing internal measures to cope with emergencies, coordinating our Company and its subsidiaries to facilitate daily operation.

Prior to joining our Group, he served as an assistant engineer of Computer Center of National Bureau of Statistics of China (國家統計局計算中心) from July 1994 to October 1998, obtaining the title of "Excellent Youth of China State Organs (中國國家機關優秀青年)" during his term in June 1998, and is mainly responsible for computer system construction and management, data analysis and management, software development and management, internal operation and management, and technical support and services.

Mr. Jin obtained his master degree in Business Administration from Tsinghua University (清華大學) in June 2008.

**Mr. Qi Feng (齊峰)**, aged 45, joined the Company in August 2003 and has been the vice general manger of the Company since November 2009. Mr. Qi joined the Group in August 2003 and served various positions in the Group, including the assistant to general manager, vice general manager and general manager of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from August 2003 to present and the executive director of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) since May 2009. Mr. Qi is primarily responsible for researching and making development strategies, making and evaluating medium and long-term plans, participating in the research and formulation of strategic investment, capital operation, mergers and acquisitions, reorganizations and industrial integrations as well as the overall management of businesses of the companies within our Group located in Beijing.

Mr. Qi obtained his master degree in Business Administration from China Europe International Business School (中歐國際工商學院) on September 3, 2008.

**Mr. Wu Huan (吳歡)**, aged 48, joined the Company in May 2002 and has been the vice general manger since November 2009 and the chief information officer of the Company since May 2002. Mr. Wu is primarily responsible for information construction of the Company, researching, developing, upgrading and maintaining the information management system of the Company, safeguarding Internet security to ensure smooth online operation and taking charge of IT training, seeking opportunities to establish software distribution platforms and further enhance the cooperation with SP and CP suppliers.

Before joining Company, he served as an electronics engineer of Beijing Hamamatsu Photon Techniques INC (北京濱松光子技術有限公司), mainly responsible for the research and development of photoelectric sensors and instruments from July 1991 to December 1993.

Mr. Wu obtained his master degree in Computer Science from Lamar University (拉瑪大學) in May 1999.

**Mr. Zhou Qing (周清)**, aged 46, joined the Company in May 2002 and has been the vice general manager of the Company since November 2009. Mr. Zhou joined the Group in May 2002 and has served as the general manager of Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司) since May 2002. Mr. Zhou is primarily responsible for the operation and management of Shanghai Dixin Electronic Communication Technology Co., Ltd. (上海迪信電子通信技術有限公司).

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

Mr. Zhou obtained his master degree in Business Administration from China Europe International Business School (中歐國際工商學院) in September 2009.

**Mr. Bai Ren (白韌)**, aged 42, joined the Company in July 2002 and has been the vice general manager of the Company since November 2009. Mr. Bai joined the Group in March 1998 and served as the assistant to general manager of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) from May 2002 to November 2009 and Hefei Digitone (合肥迪信通通信技術有限公司) since July 2002. Mr. Bai is primarily responsible for formulating development strategies, making and evaluating medium and long-term plans, participating in the research and formulation of strategic investment, capital operation, mergers and acquisitions, reorganizations and industrial integration as well as the overall management of businesses operated in Anhui province.

Mr. Bai obtained his master's degree in Business Administration from Cheung Kong Graduate School of Business (長江商學院) in November 2012.

**Mr. Huang Jianhui (黃建輝)**, aged 54, joined the Company in July 2010 and has been the vice general manager of the Company since April 2011. Mr. Huang is primarily responsible for formulating development strategies, making and evaluating medium and long-term plans, participating in the research and formulation of strategic investment, capital operation, mergers and acquisitions, reorganizations and industrial integration, as well as establishing cooperation relationship with China Unicom, China Telecom and China Mobile.

Prior to joining our Group, Mr. Huang held various positions, the details of which are set out in the table below.

| Term of office | Company | Position | Responsibility | principal business activity of the company |
|---|---|---|---|---|
| September, 2008 – June, 2010 . . . . | China United Telecommunications Business Department of Nokia Siemens Networks Technology(Beijing) Co., Ltd. (諾基亞西門子通信技術(北京)有限公司) | president | liaising and facilitating connections with China United Network Communications Group Co., Ltd. (中國聯合網絡通信集團有限公司) and business management and development | producing and selling hardware and software of telecommunications; providing related professional service |
| October, 2003 – September, 2008 . . . . . . . | China Network Communications Business Department of Siemens (China) Co., Ltd. Communications Group (西門子(中國)有限公司通信集團) | manager | liaising and facilitating connections with China Netcom Communication Corporation (中國網絡通信集團公司) and business management and development | providing electronic and electrical products and services for industrial, energy, medical treatment, and infrastructure and city sectors |

| Term of office | Company | Position | Responsibility | principal business activity of the company |
|---|---|---|---|---|
| November, 1999 – September, 2003 . . . . . . . | China Mobile Business Department of Nokia (China) Investment Co., Ltd. (諾基亞(中國)投資有限公司) | vice president | liaising and facilitating connections with headquarters of China Mobile Limited (中國移動通信集團公司) and business management and development | producing and selling a wide range of mobile devices and providing people with experiences in music, navigation, video, television, imagine,games and business mobility through these devices |
| March, 1994 – October, 1999 . . | Beijing branch of Samsung Electronics (三星電子北京辦事處) | manager | market development liaising and facilitating connections with Ministry of Posts and Telecommunications (原中華人民共和國郵電部), so as to achieve pre-determined sales targets | manufacturing electronic components such as lithium-ion batteries, semiconductors, chips, flash memory and hard drive devices |
| September, 1986 – March, 1994 . . . | China Institute of Petroleum Pipeline Survey and Design (中國石油和天然氣管道勘察設計院) | senior engineer | Participating in and responsible for design of various communication engineering projects of China National Petroleum Corporation (中國石油天然氣集團公司) | N/A |
| September, 1983 – August, 1986 . . | Office of Introduction of Zhengzhou Telecom Bureau of Henan Provincial Postal Administration (河南省郵電管理局鄭州電信局引進辦) | assistant engineer | participating in the introduction work of stored program control exchanges (SPC exchange) of major projects in Henan province | N/A |

Mr. Huang was qualified as a senior engineer conferred by China National Petroleum Corporation (中國石油天然氣集團公司) in December 1993.

Mr. Huang obtained his bachelor of science degree in communication and computer from Beijing University of Posts and Telecommunications (北京郵電大學) in July 1983, and master degree in Business Administration from Peking University (北京大學) in July 2006.

**Mr. Leng Jianchuang (冷建闖)**, aged 35, joined the Company in December 2006 and has served as the vice president since April 2012, performed the duties of the vice chief financial officer since December 2008 and was officially appointed as the chief financial officer in June 2010. He served as the assistant to the chief financial officer of the Company from April 2008 to November 2008 and financial manager from December 2006 to March 2008. Mr. Leng is mainly responsible for accounting, establishment of budgeting system and internal control regulations, coordinating financial resources and business operation, forming management, profitability and investment plans of the Company and etc..

Prior to joining our Group, from August 2001 to August 2003, Mr. Leng served as the financial officer of the financial department of China Hualu Group Co., Ltd. (中國華錄集團有限公司) principal business activities of which are manufacturing and sale of audio and video products, mainly responsible for analyzing financial contacts, non-current assets, accounting, budgeting and, and the financial officer of the internal management department of Hualu Culture Industry Co., Ltd. (華錄文化產業有限公司) from August 2003 to December 2006, generally responsible for finance-related work.

Mr. Leng was conferred the Certificate of Accounting Professional by Dalian Municipal Bureau of Finance in October 2002, the Certificate of Assistant Accountant by Liaoning Provincial Department of Personnel in August 2002, the Certified Finance Manager by the Appraisal Center for Professional Qualifications of International Managers Association in June 2006. Mr. Leng obtained his bachelor degree in computerized and specialized accounting from Dongbei University of Finance and Economics (東北財經大學) in July 2007.

**Ms. Li Dongmei (李冬梅)**, aged 36, joined the Company in April 2006 and has served as the secretary to the Board and chief legal officer since November 2009. Ms. Li is primarily responsible for preparing for the Board meetings and Shareholders' meetings, disclosing information of the Company in a complete, accurate and prompt manner, ensuring the directors, supervisors and senior management members to have complied with law, regulations and rules, providing legal opinions for the operation and management of the Company as well as participating in the drafting of contracts and negotiations for material contracts.

Prior to joining our Group, she served as the legal manager of Enn Group Co., Ltd. (新奧集團股份有限公司) from September 2004 to April 2006. The principal business activities of this company are production, application and sales of clean energy. Ms. Li was responsible for the listing related work of Enric Energy Equipment Holdings Limited (安瑞科能源裝備控股有限公司) a subsidiary of Enn Group Co., Ltd. which is listed on GEM Board of the Stock Exchange (HKSE: 03899).

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

Save as disclosed above, there are no other directorships held by our senior management in any listed company whose securities are listed on any stock markets in Hong Kong or overseas within the three years immediately preceding the date of this Prospectus.

## RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Liu Donghai (劉東海) (chairman of the Board), Mr. Liu Songshan (劉松山) (vice chairman of the Board), Ms. Liu Wencui (劉文萃) (executive Director) and Ms. Liu Hua (劉華) (executive Director) are siblings. Saved as disclosed above, there is no relationship existing among other Directors, Supervisors and senior management.

## JOINT COMPANY SECRETARIES

Ms. Li Dongmei (李冬梅) was appointed as a joint company secretary of our Company on March 15, 2014. Ms. Li has in-depth knowledge and understanding in the telecommunication industry, and also has substantial experience on corporate governance, operation and management. For biographical details of Ms. Li Dongmei, please see the subsection headed "Senior Management" above.

Ms. Ng Sau Mei (伍秀薇) was appointed as a joint company secretary of our Company on March 15, 2014. Ms. Ng is a manager of KCS Hong Kong Limited (凱譽香港有限公司) and has over 13 years of experience in the company secretarial field. She has worked for various sizable and reputable Hong Kong Main Board listed companies including Hanison Construction Holdings Limited (HKSE: 00896), Café de Coral Holdings Limited (HKSE: 00341) and Baltrans Holdings Limited (HKSE: 00562) (privatized in 2008, now known as "Toll Global Forwarding Limited", a wholly owned subsidiary of Toll Holdings Limited, an Australian listed company), with extensive knowledge and experience in dealing with corporate governance, regulatory and compliance affairs of listed companies. Ms. Ng holds a Bachelor Degree in Laws from City University of Hong Kong (香港城市大學), and is an associate member of the Hong Kong Institute of Chartered Secretaries (香港特許秘書公會) and the Institute of Chartered Secretaries and Administrators (英國特許秘書及行政人員公會) in United Kingdom.

## BOARD COMMITTEES

### Audit Committee

The Audit Committee of the Company consists of three Directors: Mr. Vincent Man Choi, Li (李文才) (independent non-executive Director), Mr. Wang Lin (non-executive Director), Mr. Lv Tingjie (呂廷杰) (independent non-executive Director), and Mr. Vincent Man Choi, Li currently serves as the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee are reviewing and supervising our financial reporting procedures, including proposing on appointing or changing the external auditors; supervising the Company's internal audit system and its implementation; communication between the internal auditors and external auditors; auditing the financial information and its disclosure; reviewing the Company's internal control system and auditing the significant connected transactions; nominating the heads of the internal audit department; other matters that the Board of Directors has authorized it to deal with.

**Nomination Committee**

The Nomination Committee of the Company consists of three Directors: Mr. Lv Tingjie (呂廷杰) (independent non-executive Director), Mr. Leng Rongquan (冷榮泉) (independent non-executive Director), and Mr. Liu Songshan (劉松山) (executive Director). Mr. Lv Tingjie currently serves as the chairman of the Nomination Committee.

The primary responsibilities of the Company's Nomination Committee are preparing the procedures and criteria for determining the candidates for the directors and senior management of the Company and conducting preliminary review on their qualifications and credentials, including proposing to the Board on its size and composition in accordance with the Company's operating results, assets and shareholding structure; reviewing the procedures and criteria for determining the candidates for the directors and general managers of the Company and make proposals to the Board of Directors; looking widely for the qualified candidates for the directors and general managers; reviewing and making proposals on the candidates for the directors and general managers; reviewing and making proposals on the candidates for the other senior management such as the vice general managers, secretary to the Board of Directors and chief accountant, on which the Board of Directors need to resolve; other matters that the Board of Directors has authorized it to deal with.

**Remuneration and Assessment Committee**

The Remuneration and Assessment Committee of the Company consists of three Directors: Mr. Leng Rongquan (冷榮泉) (independent non-executive Director), Mr. Vincent Man Choi, Li (李文才) (independent non-executive Director), and Ms. Liu Hua (劉華) (executive Director). Mr. Leng Rongquan currently serves as the chairman of the Company's Remuneration and Assessment Committee.

The primary responsibilities of the Remuneration and Assessment Committee are formulating the criteria for and conducting assessment on the Directors and senior management as well as determining and reviewing the remuneration policies and plans for the Directors and senior management, including formulating remuneration plans and proposals in accordance with the terms of reference of the Directors and senior management and the importance of their positions as well as the remuneration benchmarks for the relevant positions in the other comparable companies; the remuneration plans and proposals include, but not limited to criteria, procedures and main assessment system for performance assessment, main proposals and regulations on award and punishment; reviewing the performance of the Directors and senior management and conducting annual assessment on their performance and results; supervising the implementation of the remuneration policies of the Company; other matters that the Board of Directors has authorized it to deal with.

**Strategy Committee**

The Strategy Committee of the Company consists of five Directors: Mr. Liu Donghai (劉東海) (executive Director), Mr. Liu Yajun (劉雅君) (executive Director), Mr. Liu Songshan (劉松山) (executive Director), Mr. Lv Tingjie (呂廷杰) (independent non-executive Director), and Mr. Wang Lin (王霖) (non-executive Director). Mr. Liu Donghai currently serves as the chairman of the Strategy Committee.

The primary responsibilities of the Strategic Committee are: conducting research and making proposals on the long-term development strategies and plans of the Company; conducting research and making proposals on the significant investment and financing plans which need to be approved by the Board of Directors in accordance with the Articles of Association; conducting research and making proposals on the significant projects of capital manipulation and assets operation which need to be approved by the Board of Directors in accordance with the Articles of Association; conducting research and making proposals on the significant matters which affect the development of the Company; monitoring the implementation of the above-mentioned issues; other matters that the Board of Directors has authorized it to deal with.

## COMPENSATION OF THE DIRECTORS AND SENIOR MANAGEMENT

As of December 31, 2011, 2012 and 2013, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors and Supervisors were approximately RMB2.4 million, RMB2.7 million and RMB2.5 million, respectively. Our Directors' and Supervisors' remuneration is determined with reference to salaries paid by comparable companies, their experience, their responsibilities and their performance.

The remuneration and benefits in kind (if applicable) received by the five highest-paid individuals (including Directors and Supervisors) as of December 31, 2011, 2012 and 2013 were RMB2,159,000, RMB2,238,000 and RMB2,282,000, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors, Supervisors or the five highest-paid individuals as an inducement to join or upon joining the Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, our Supervisors, former Supervisors or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of the Company.

None of our Directors or Supervisors waived any remuneration for any of the last three years. Save as disclosed above, no other payments have been paid, or are payable, by us or any of our subsidiaries to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period.

Under the remuneration policy of the Company, the Remuneration and Assessment Committee will consider factors such as salaries paid by comparable companies, tenure, commitment, responsibilities and performance of our Directors, Supervisors and the senior management as the case may be, in assessing the amount of remuneration payable to our Directors, Supervisors and such employees. It is estimated that under the arrangements currently in force, the aggregate remuneration payable to the Directors and Supervisors for the year ending December 31, 2014, is estimated to be approximately RMB2,360,000 and RMB237,000, respectively.

## DIRECTORS' INTEREST

Save as disclosed in the Prospectus, each of our Directors (i) did not hold other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as of the Latest Practicable Date; and (iii) did not hold any directorship in any other listed companies in the three years immediately preceding the date of this Prospectus.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, save as disclosed herein, there was no additional matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to our Directors that is required to be disclosed pursuant to Rules 13.51 (2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

## COMPLIANCE ADVISER

We have appointed Shenyin Wanguo Capital (H.K.) Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we must consult with and, if necessary, seek advice from its compliance adviser on a timely basis in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;

(iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where the business activities, developments or results of our Group deviate from any forecast, estimate, or other information in this Prospectus; and

(iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares.

So far as our Directors are aware, immediately following the completion of the Global Offering (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option), the following persons will have an interest or short position in Shares or underlying shares of our Company, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

| Name of Substantial Shareholders | Number of Shares to be held after the Global Offering | Nature of interests | Approximate percentage of shareholding of total Shares after the Global Offering (%)[1] |
|---|---|---|---|
| Feng Yong Tai[2] | 211,400,000 Domestic Shares | Beneficial owner | 31.71 |
| Di Er Tong[3] | 101,300,000 Domestic Shares | Beneficial owner | 15.19 |
| Rong Feng Tai | 7,500,000 Domestic Shares | Beneficial owner | 1.12 |
| 3i | 87,100,000 Unlisted Foreign-invested Shares | Beneficial owner | 13.06 |
| 3i Group plc[4] | 87,100,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 13.06 |
| 3i Nominees Limited[4] | 87,100,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 13.06 |
| 3i Asia Pacific 2004-06 LP[4] | 87,100,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 13.06 |
| 3i Investment GP Limited[4] | 87,100,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 13.06 |
| CDH | 71,250,000 Unlisted Foreign-invested Shares | Beneficial owner | 10.69 |
| CDH Mobile Limited[5] | 71,250,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 10.69 |
| CDH China Growth Capital Fund II, L.P.[5] | 71,250,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 10.69 |
| CDH China Growth Capital Holdings Company Limited[5] | 71,250,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 10.69 |
| China Diamond Holdings III Limited[5] | 71,250,000 Unlisted Foreign-invested Shares | Interest in a controlled corporation | 10.69 |
| Mr. Liu Songshan[2][3] | 312,700,000 Domestic Shares | Interest in a controlled corporation | 46.90 |
| Mr. Liu Donghai[2][3] | 312,700,000 Domestic Shares | Interest in a controlled corporation | 46.90 |

| Name of Substantial Shareholders | Number of Shares to be held after the Global Offering | Nature of interests | Approximate percentage of shareholding of total Shares after the Global Offering (%)(1) |
|---|---|---|---|
| Ms. Liu Hua(2)(3) . . . . . . . . . . | 312,700,000 Domestic Shares | Interest in a controlled corporation | 46.90 |
| Ms. Liu Yongmei(2)(3) . . . . . . . | 312,700,000 Domestic Shares | Interest in a controlled corporation | 46.90 |
| Ms. Liu Wencui(2)(3)(6) . . . . . . . | 320,200,000 Domestic Shares | Interest in a controlled corporation | 48.03 |

*Notes:*

(1) The calculation is based on the total number of 666,667,000 Shares in issue immediately after completion of the Global Offering (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option).

(2) Feng Yong Tai is owned as to 39.47% by Mr. Liu Songshan, 47.75% by Mr. Liu Donghai, 5.13% by Ms. Liu Hua, 5.13% by Ms. Liu Yongmei and 2.52% by Ms. Liu Wencui. Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui are siblings. Each of Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui is deemed to be interested in the Shares held by Feng Yong Tai for the purpose of the SFO.

(3) Di Er Tong is owned as to 52.33% by Mr. Liu Songshan, 34.89% by Mr. Liu Donghai, 5.13% by Ms. Liu Hua, 5.13% by Ms. Liu Yongmei and 2.52% by Ms. Liu Wencui. Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui are siblings. Each of Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Yongmei and Ms. Liu Wencui is deemed to be interested in the Shares held by Di Er Tong for the purpose of the SFO.

(4) The equity interests of 3i is held by 3i Group plc (31.25%), 3i Nominees Limited (43.75%) and 3i APTech Nominees Limited (25%). The capital subscription of 3i Nominees Limited was entrusted by 3i Asia Pacific 2004-06 LP, whereas that of 3i APTech Nominees Limited was entrusted by 3i Asia Pacific Technology LP. 3i Asia Pacific 2004-06 LP was owned by 3i Investment GP Limited as a general partner and 3i Group plc and 3i Asia Pacific 2004-06 Limited as limited partners, with the ultimate beneficial owner being 3i Group plc. 3i Asia Pacific Technology LP was owned by 3i APTech GP Limited as a general partner and 3i Group plc and TIF Asia Pte Limited as limited partners. Accordingly, for the purpose of the SFO, each of 3i Group plc, 3i Nominees Limited, 3i Investment GP Limited and 3i Asia Pacific 2004-06 LP are deemed to be interested in the Shares held by 3i.

(5) The entire equity interests of CDH is held by CDH Mobile Limited, which was entirely by CDH China Growth Capital Fund II, L.P. CDH China Growth Capital Fund II, L.P. is owned by CDH China Growth Capital Holdings Company Limited as its general partner and 34 institutional investors as its limited partners. The equity interests of CDH China Growth Capital Holdings Company Limited is held by Prowell Ventures Pte Ltd (18.0%), CZI II GP Holdings L.P. (12.5%) and China Diamond Holdings III Limited (69.5%). Accordingly, for the purpose of the SFO, each of CDH Mobile Limited, CDH China Growth Capital Fund II, L.P., CDH China Growth Capital Holdings Company Limited and China Diamond Holdings III Limited are deemed to be interested in the Shares held by CDH.

(6) Ms. Liu Wencui holds 66.27% of the equity interests of Rong Feng Tai, which directly holds 7,500,000 Domestic Shares of our Company. Accordingly, for the purpose of the SFO, Ms. Liu Wencui is deemed to be interested in the Shares held by Rong Feng Tai.

For details of our Directors', Supervisors' and president's interests in the Shares immediately following the completion of the Global Offering, see "Appendix VI – Statutory and General Information – 3. Further Information about Directors, Supervisors and Substantial Shareholders".

Save as disclosed herein, the Directors are not aware of any person who will immediately following the Global Offering (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option), have an interest or short position in Shares or underlying shares of our Company, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

As of the date of this Prospectus, the registered share capital of the Company is RMB500 million divided into 500 million Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of the Company immediately after the Global Offering will be as follows:

| Number of Shares | Description of Shares | Approximate percentage to total share capital |
|---|---|---|
| 337,700,000 | Domestic Shares(1) | 50.7% |
| 162,300,000 | H Shares to be converted from Unlisted Foreign-invested Shares(2) | 24.3% |
| 166,667,000 | H Shares to be issued under the Global Offering | 25.0% |
| 666,667,000 | | 100% |

Assuming the Over-allotment Option is exercised in full, the share capital of the Company immediately after the Global Offering will be as follows:

| Number of Shares | Description of Shares | Approximate percentage to total share capital |
|---|---|---|
| 337,700,000 | Domestic Shares(1) | 48.8% |
| 162,300,000 | H Shares to be converted from Unlisted Foreign – invested Shares(2) | 23.5% |
| 166,667,000 | H Shares to be issued under the Global Offering | 24.1% |
| 25,000,000 | H Shares to be issued upon full exercise of Over-allotment Option | 3.6% |
| 691,667,000 | | 100% |

*Notes:*

(1) As of the Latest Practicable Date, these Domestic Shares are held by Feng Yong Tai, Di Er Tong, Rong Feng Tai and Chang Qing Investment.

(2) As of the date of this Prospectus, these Unlisted Foreign-invested Shares are held by 3i, CDH and Crown Flame. These Unlisted Foreign-invested Shares will be converted into H Shares, which will be listed on the Stock Exchange, immediately after the Global Offering. As advised by our PRC legal adviser, Zhong Lun Law Firm, according to the PRC Securities Law, any domestic enterprise that directly or indirectly issues any shares abroad or lists its shares abroad shall be subject to the approval of the securities regulatory authority under the State Council according to the relevant provisions of the State Council. These Unlisted Foreign-invested Shares are allowed to be converted into H Shares and listed on the Stock Exchange for trading, provided that approval granted by CSRC is obtained. As advised by our PRC legal adviser, Zhong Lun Law Firm, we have received the above-mentioned approval from the CSRC for the conversion of our Unlisted Foreign-invested Shares into H Shares, and such conversion complies with all the applicable laws and regulations of the PRC.

## PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalisation at the time of listing of not less than HK$50 million.

Based on the information in the above tables, our Company will meet the public float requirement under the Listing Rules after the completion of the Global Offering (whether or not the Over-allotment Option is exercised in full).

### Our Shares

Our Domestic Shares, Unlisted Foreign-invested Shares and H Shares are all ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares and Unlisted Foreign-invested Shares, on the other hand, may only be traded in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and transferred between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. Dividends and other payments payable by the Company to holders of Domestic Shares shall be denominated and declared in Renminbi, and payable in Renminbi within three months following the announcement of dividends distribution. Dividends and other payments payable to holders of H Shares and Unlisted Foreign-invested Shares shall be denominated and declared in Renminbi and payable in Hong Kong dollars within three months following the announcement of dividends distribution.

As of the Latest Practicable Date, our promoters hold 96.5% of the existing Domestic Shares and Unlisted Foreign-invested Shares as promoters' shares (as defined in the PRC Company Law), with the remaining 3.5% of the existing Domestic Shares held by Chang Qing Investment. Under the PRC Company Law, promoter shares may not be sold within a period of one year from December 28, 2009, on which we were organised as a joint stock limited liability company. This lock-up period expired on December 27, 2010. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange.

Except as described in this Prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this Prospectus, our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

**Increase in Share Capital**

As advised by our PRC legal advisers, Zhong Lun Law Firm, pursuant to the Articles of Association of the Company and relevant PRC laws and regulations, the Company, upon Listing of its H Shares and with its Unlisted Foreign-invested Shares having been fully converted into H Shares, is eligible to enlarge its share capital by issuing either new H Shares or new Domestic Shares on condition that such proposed issuance shall be approved by a special resolution of Shareholders in general meeting and by holders of Shares of that class of shareholders whose interest is affected at a separate meeting conducted in accordance with the provisions of the Articles of Association and that such issuance complies with the Listing Rules and other relevant laws and regulations of Hong Kong. To adopt a special resolution of Shareholders in general meeting, more than the two thirds votes represented by the Shareholders (including proxies) present at the shareholders' general meeting must be exercised in favor of the resolution. Resolutions of a class of Shareholders shall be passed by votes representing more than two thirds of Shareholders with voting rights attending the class Shareholders' meeting. For details, see "Appendix V – Summary of the Articles of Association of our Company."

PRC Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organisation; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council. The public offer requires the approval of the CSRC.

## CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

### Conversion of Unlisted Shares

Upon the completion of the Global Offering, we will have two classes of ordinary shares, H Shares and Domestic Shares. All of our Domestic Shares are unlisted Shares which are not listed or traded on any stock exchange, therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term "unlisted Shares" is used to describe whether certain Shares are listed on a stock exchange.

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange provided that prior to the conversion and trading of such converted H Shares, the requisite internal approval processes (but without the necessity of Shareholders' approval by class) have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

If any of our unlisted Shares are to be converted and to be traded as H Shares on the Stock Exchange, such conversion will be subject to the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No Shareholder voting by class is required for the listing and trading of the converted Shares on an overseas stock exchange. Any application for listing of the converted Shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

### Mechanism and Procedures for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share Registrar maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share Registrar will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share Registrar and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share Registrar, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders currently proposes to convert any of the Domestic Shares held by it into H Shares. Our PRC legal advisor, Zhong Lun Law Firm, advised that our Articles of Association is not inconsistent with the relevant laws and regulations with respect to the laws and regulations regarding the conversion.

## TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The PRC Company Law provides that in relation to the Hong Kong Public Offering of a company, the shares issued by a company prior to the Hong Kong Public Offering of shares shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

## REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 working days upon listing.

## THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the following cornerstone investors (the "**Cornerstone Investors**" and each a "**Cornerstone Investor**") who have agreed to subscribe, or cause their designated entities that are qualified domestic institutional investors to subscribe, for such number of our Offer Shares (rounded down to the nearest whole board lot of 500 H Shares) which may be purchased with an aggregate amount of approximately US$48.75 million (or approximately HK$377.89 million) (the "**Cornerstone Placing**").

Assuming an Offer Price of HK$5.30 (being the low-end of the indicative Offer Price range stated in this Prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 71,298,000, representing (i) approximately 10.69% of the Shares and approximately 42.78% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) approximately 10.31% of the Shares and approximately 37.20% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK$6.20 (being the mid-point of the indicative Offer Price range stated in this Prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 60,948,000, representing (i) approximately 9.14% of the Shares and approximately 36.57% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) approximately 8.81% of the Shares and approximately 31.80% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised. Assuming an Offer Price of HK$7.10 (being the high-end of the indicative Offer Price range stated in this Prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors would be 53,222,500, representing (i) approximately 7.98% of the Shares and approximately 31.93% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised; and (ii) approximately 7.69% of the Shares and approximately 27.77% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised.

To the best knowledge of the Company, each of the Cornerstone Investors is an independent third party, independent of each other, not our connected person, and not an existing Shareholder of the Company. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by the Company on or around July 7, 2014.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Offer Shares in issue and will be counted towards the public float of the Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone investment agreements). Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone

Investors become a substantial shareholder of the Company (as defined under the Listing Rules). The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed "Structure of the Global Offering – The Hong Kong Public Offering" in this Prospectus.

## OUR CORNERSTONE INVESTORS

We have entered into a cornerstone investment agreement with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

### 1. Lenovo Group Limited

Lenovo Group Limited ("**Lenovo Group**") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot of 500 H Shares) which may be purchased for an aggregate amount of US$22.5 million (approximately HK$174.4 million at the Offer Price). Assuming an Offer Price of HK$5.30 (being the low-end of the indicative Offer Price range stated in this Prospectus), Lenovo Group will subscribe for approximately 32,907,000 Offer Shares, representing approximately 4.94% of the Shares and approximately 19.74% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$6.20 (being the mid-point of the indicative Offer Price range stated in this Prospectus), Lenovo Group will subscribe for approximately 28,130,000 Offer Shares, representing approximately 4.22% of the Shares and approximately 16.88% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$7.10 (being the high-end of the indicative Offer Price range stated in this Prospectus), Lenovo Group will subscribe for approximately 24,564,500 Offer Shares, representing approximately 3.68% of the Shares and approximately 14.74% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Lenovo Group is a limited liability company incorporated in Hong Kong and its ordinary shares have been listed on the Stock Exchange (HKSE: 0992) since 1994. Lenovo Group and its subsidiaries are principally engaged in the sales and manufacture of personal computers, tablets, smartphones, servers and related information technology products and the provision of advanced information services across the world.

### 2. Qihoo 360 Technology Co., Ltd.

Qihoo 360 Technology Co., Ltd. ("**Qihoo 360**") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot of 500 H Shares) which may be purchased for an aggregate amount of US$20 million (approximately HK$155.0 million) at the Offer Price. Assuming an Offer Price of HK$5.30 (being the low-end of the indicative Offer

Price range stated in this Prospectus), Qihoo 360 will subscribe for approximately 29,250,500 Offer Shares, representing approximately 4.39% of the Shares and approximately 17.55% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$6.20 (being the mid-point of the indicative Offer Price range stated in this Prospectus), Qihoo 360 will subscribe for approximately 25,004,500 Offer Shares, representing approximately 3.75% of the Shares and approximately 15.00% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$7.10 (being the high-end of the indicative Offer Price range stated in this Prospectus), Qihoo 360 will subscribe for approximately 21,835,000 Offer Shares, representing approximately 3.28% of the Shares and approximately 13.10% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Qihoo 360 is a company incorporated in 2005 under the laws of the Cayman Islands, It is principally engaged in providing internet and mobile security products in China, and also providing users with secure access points to the internet via its web browsers and application stores. It has built one of the largest open Internet platforms in China and monetizes its massive user base primarily through online advertising and through internet value-added services on its open platform. Qihoo 360 is listed on the New York Stock Exchange (NYSE: QIHU).

**3. Unicom Innovation Enterprise Investment Co., Ltd.**

Unicom Innovation Enterprise Investment Co., Ltd. (**聯通創新創業投資有限公司**) ("**Unicom Innovation**") has agreed to cause their designated entities that are qualified domestic institutional investors to subscribe for such number of Offer Shares (rounded down to the nearest board lot of 500 H Shares) which may be purchased for an aggregate amount of US$3.25 million (approximately HK$25.2 million at the Offer Price). Assuming an Offer Price of HK$5.30 (being the low-end of the indicative Offer Price range stated in this Prospectus), Unicom Innovation will subscribe for approximately 4,753,000 Offer Shares, representing approximately 0.71% of the Shares and approximately 2.85% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$6.20 (being the mid-point of the indicative Offer Price range stated in this Prospectus), Unicom Innovation will subscribe for approximately 4,063,000 Offer Shares, representing approximately 0.61% of the Shares and approximately 2.44% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$7.10 (being the high-end of the indicative Offer Price range stated in this Prospectus), Unicom Innovation will subscribe for approximately 3,548,000 Offer Shares, representing approximately 0.53% of the Shares and approximately 2.13% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Unicom Innovation is a company incorporated under the laws of the PRC and is wholly owned by China United Network Communications Limited (中國聯合網絡通信股份有限公司), which is in turn wholly owned by China Unicom (Hong Kong) Limited (中國聯合網絡通信(香港)股份有限公司) ("**China Unicom**"), which is in turn controlled by China United Network

Communications Group Co., Ltd. (中國聯合網絡通信集團有限公司). Unicom Innovation is principally engaged in investment activities. China Unicom is a PRC integrated telecom operator listed in New York (NYSE: CHU), Hong Kong (HKSE: 0762) and Shanghai (SSE: 600050), which is principally engaged in mobile telecommunications business, domestic and international fixed telephone networks and facilities (including wireless local loops), voice, data, image and multimedia communications and information services, value-added telecom services, IP telephone services, and business-related communications and information systems integration services, as well as other state-approved business.

**4. Most Success Holdings Limited, a direct wholly-owned subsidiary of TCL Communication Technology Holdings Limited**

Most Success Holdings Limited ("**Most Success**") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest board lot of 500 H Shares) which may be purchased for an aggregate amount of US$3 million (approximately HK$23.3 million at the Offer Price. Assuming an Offer Price of HK$5.30 (being the low-end of the indicative Offer Price range stated in this Prospectus), Most Success will subscribe for approximately 4,387,500 Offer Shares, representing approximately 0.66% of the Shares and approximately 2.63% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$6.20 (being the mid-point of the indicative Offer Price range stated in this Prospectus), Most Success will subscribe for approximately 3,750,500 Offer Shares, representing approximately 0.56% of the Shares and approximately 2.25% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$7.10 (being the high-end of the indicative Offer Price range stated in this Prospectus), Most Success will subscribe for approximately 3,275,000 Offer Shares, representing approximately 0.49% of the Shares and approximately 1.96% of the Offer Shares, in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Most Success is a company incorporated under the laws of British Virgin Islands, and is a direct wholly-owned subsidiary of TCL Communication Technology Holdings Limited **(TCL 通訊科技控股有限公司)** (HKSE: 02618) **("TCL")**. TCL together with its subsidiaries design, manufacture and market an expanding portfolio of mobile and internet products worldwide which is currently sold in the PRC and over 160 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific.

**CONDITIONS PRECEDENT**

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- the Hong Kong Underwriting Agreement and the International Underwritng Agreement being entered into and having become unconditional and not having been terminated by no later than the time and date as specified in these underwriting agreements in accordance with their respective original terms, or as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties;

- the Listing Committee having granted the approval for the listing of, and permission to deal in, the H Shares and that such approval or permission having not been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;

- the respective representations, warranties, undertakings and acknowledgements of the relevant Cornerstone Investors and the Company under the relevant cornerstone investment agreements are accurate and true in all material respects and not misleading and there being no material breach of the relevant cornerstone investment agreements on the part of the relevant Cornerstone Investor; and

- no relevant laws and regulations shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or in the cornerstone investment agreements, and no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

## RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company and the relevant underwriter(s), it will not at any time during the period of six (6) months following the Listing Date dispose of (as defined in the relevant cornerstone investment agreement) any of the H Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investors provided that, among others, such wholly-owned subsidiary undertakes to, and the Cornerstone Investors undertake to procure that such subsidiary will, abide by the terms and restrictions imposed on the Cornerstone Investors.

***The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements as of and for the three years ended December 31, 2011, 2012 and 2013 and, in each case, the related notes set out in the "Accountants' Report" included as Appendix I to this Prospectus. Our consolidated financial statements have been prepared in accordance with IFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" in this Prospectus.***

## OVERVIEW

We are the largest mobile telecommunications chain store and the third largest mobile phone retailer, both in terms of sales volume in China in 2013, according to the SINO Report. We maintain our leading position in the PRC mobile telecommunications devices industry by selling and distributing mobile telecommunications devices and accessories and providing value-added services. We benefit from our long-established and strategic collaborations with China's mobile carriers, namely China Mobile, China Unicom and China Telecom, through commissions derived from the development of a significant customer base for each of them over the years. We currently offer our customers a broad selection of more than 2,000 mobile phone models of different specifications (such as colors and formatting systems) and brands from international brands and domestic brands. Our value-added services are offered on a personalized basis and include mainly software and mobile application packages and mobile phone configuration services.

We derive our revenue from three parts: (i) sales of mobile telecommunications devices and accessories; (ii) service income from mobile carriers; and (iii) other service fee income. 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 franchised 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 distributed to mobile carriers and other wholesale customers. Service income from mobile carriers mainly includes income from commissions received by us through selling contracted call service subscriptions and SIM cards for the mobile carriers, as well as income generated from services of staff that we send to the outlets established by the mobile carriers and operated by us. 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) franchise fees.

We have the largest physical retail and distribution network among China's mobile telecommunications chain stores in terms of number of retail outlets, according to the SINO Report. As of April 30, 2014, our offline channels comprised (i) a physical retail and distribution network of 1,512 outlets, including 956 independently operated outlets and 556 franchised outlets, spreading across 21 provinces and four municipal cities in China, both under the brand of D.Phone, and (ii) a wholesale distribution network which supplies mobile devices and accessories in bulk to the mobile carriers and other third-party retailers. Our franchised outlets are operated by third-party franchisees pursuant to their franchise agreements with us. In addition, in 2013, we promoted the sales of mobile products and services in over 1,500 outlets of the three mobile carriers in China (駐廳銷售). Our online channels comprise various e-commerce platforms, including our own Internet-based platform, *www.dixintong.com*, and third-party Internet-based platforms, such as Tmall, Amazon.cn and Yhd.com. Our virtual platforms also include television sales channels and credit card online stores.

Benefiting from our extensive network and high-standard services, we are the key national strategic partner of, and one of the few partners that collaborate on a nationwide basis with all three mobile carriers in China. We have developed successful partnerships with China Mobile, China Unicom and China Telecom for over 12 years, six years and four years, respectively, through collaboration in several areas, including developing a customer base for them, procuring products for them, jointly establishing outlets with them and operating their outlets. We were the largest retailer selling China Mobile's products in terms of sales volume, and developed the largest customer base as compared to other large retailers for China Telecom in 2013. We also maintain long-standing relationships with domestic and foreign mobile device manufacturers, such as Samsung, Nokia and Lenovo. According to the SINO Report, among all mobile phone retailers in China, we ranked the first for Lenovo, Coolpad and Huawei and the second for Samsung, Nokia and HTC in terms of sales from non-bundled mobile phone market in 2013, and we are among the few retailers in China that sourced products directly from Samsung, Nokia and HTC. In addition, we started to cooperate directly with Apple in March 2012 and, as of April 30, 2014, we had iOS Apple authorized counters in 102 outlets throughout the PRC.

We have experienced significant growth during the Track Record Period. For the years ended December 31, 2011, 2012 and 2013, our total revenue was RMB6,513.5 million, RMB8,802.7 million and RMB12,812.0 million, respectively, representing a CAGR of 40.2% over the periods. For the same periods, revenue derived from our sales of mobile telecommunications devices and accessories was RMB6,162.8 million, RMB8,406.2 million and RMB12,186.4 million, representing 94.6%, 95.5% and 95.1% of our total revenue, respectively. Revenue derived from our service income from mobile carriers was RMB257.2 million, RMB329.2 million and RMB496.2 million, representing 4.0%, 3.7% and 3.9% of our total revenue, respectively. Revenue derived from other service income was RMB93.5 million, RMB67.3 million and RMB129.4 million, representing 1.4%, 0.8% and 1.0% of our total revenue, respectively. For the same periods, our profit for the year and total comprehensive income were RMB221.5 million, RMB249.8 million and RMB274.2 million, respectively, representing a CAGR of 11.3% over the periods.

## BASIS OF PREPARATION AND CONSOLIDATION

Our financial information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by International Accounting Standard Board. All IFRSs effective for the accounting period commencing from January 1, 2013, together with the relevant transitional provisions, have been early adopted by us in the preparation of the financial information throughout the Track Record Period. Our financial information has been prepared under the historical cost convention. Our financial information is presented in Renminbi and all values are rounded to the nearest thousand except when otherwise indicated.

Our financial information includes the financial statements of our Company and its subsidiaries for the Track Record Period. The financial statements of our subsidiaries are prepared for the same reporting period as our Company, using consistent accounting policies. The results of our subsidiaries are consolidated from the date of their respective acquisitions, and will continue to be consolidated until the date that such control ceases. 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.

## SIGNIFICANT FACTORS AFFECTING OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

We believe the most significant factors that affect our business, results of operations and financial conditions are:

- our ability to adjust to changes in the market;
- our ability to expand our multiple-channel retail, franchise and wholesale distribution network;
- our ability to optimize our product offerings, pricing and inventory levels;
- our relationship with mobile carriers and mobile phone manufacturers;
- seasonality; and
- the overall growth of the Chinese mobile phone industry.

### Our ability to adjust to changes in the market

The mobile telecommunications devices industry in China has been developing rapidly, driven by technological changes and changes in consumer demands and consumption preferences. As the PRC mobile telecommunications devices industry matures, we believe mobile phone manufacturers will focus increasingly on differentiating their products from those of their competitors, including adding more sophisticated mobile handsets and upgrading the existing models. As mobile handset and wireless technology advances rapidly, product life cycles may become shorter than anticipated. For example, according to the SINO Report, 3G mobile phones entered into the Chinese market in 2009 and the sales volume of 3G mobile phones reached 376 million handsets in 2013, which almost replaced 2G mobile phones in the market. It is anticipated that 3G mobile phones will reach sales peak in 2014 and then will be replaced by 4G models. As a result of such technological changes, consumers may change their product preferences constantly. As a retailer and wholesale distributor in this sector, we must have the ability to adjust quickly to the evolving changes in the market. If we cannot successfully adapt to the technological changes and evolving customer demands in a rapidly developing market, our customers may turn to our competitors who can offer mobile telecommunications products that we cannot provide. As a result, our business, financial condition and results of operations could be adversely affected.

In order to meet the increasing demands from our customers for mobile telecommunications services and applications, we have commenced to provide various value-added services, including mobile phone customization services, mobile application packages, software and mobile Internet service applications, the cloud platform and some location based services. We believe value-added services will complement our product sales and will contribute to our growth and profitability. In addition, with the rapid development of e-commerce, retail channels have become more diversified and the O2O business model has been emerging quickly. We have identified this market trend and developed a multiple-channel retail network through our O2O platform, which comprises both physical retail stores and online sales and distribution channels. According to the SINO Report, we are one of the pioneers in establishing and developing an O2O platform among the mobile telecommunications retailers in China. In the future, we plan to further improve our O2O platform and integrate our online and offline business. Our ability to constantly adjust our business strategy to meet the challenges in the rapidly evolving market will be a key factor that affect our business performance and financial results.

**Our ability to expand our multiple-channel retail, franchise and wholesale distribution network**

We commenced our retail business in 1998, and have established retail and distribution chains to build our retail platform of products and services, which resulted in the high growth of our retail revenue. The numbers of our independently operated outlets and franchised outlets increased from 645 and 422 as of January 1, 2011, to 936 and 529 as of December 31, 2013, and further to 956 and 556 as of April 30, 2014, respectively. As a result of our expansion, as of April 30, 2014, we operated a retail and distribution network with a total of 1,512 retail outlets spreading across 21 provinces and four municipal cities, including 956 independently operated outlets and 556 franchised outlets. For the years ended December 31, 2011, 2012 and 2013, revenue derived from our retail business and franchise business was RMB5,323.3 million, RMB7,034.1 million and RMB8,839.7 million, respectively, representing 81.7%, 79.9% and 69.0% of our total revenue, respectively. We expect revenue from our retail business and franchisee business to continue to increase as we continue to expand from both organic growth and selected acquisitions. We also use the Internet to market and sell mobile telecommunications devices and related accessories over various e-commerce platforms, including our own Internet-based sales platform on our website, *www.dixintong.com*, and third-party Internet-based platforms, such as Tmall, Amazon.cn and Yhd.com. Our virtual platforms also include television sales channels and credit card online stores. We expect to continue to develop our O2O platform to integrate our online and offline business.

In the past, we generated sales partially through wholesale distribution of mobile phones and accessories. Over the years, we have expanded our wholesale distribution network in China. As of April 30, 2014, we had a wholesale distribution network of approximately 400 wholesale customers across 18 provinces and three municipal cities. For the years ended December 31, 2011, 2012 and 2013, revenue derived from our wholesale business was RMB839.6 million, RMB1,372.1 million and RMB3,346.7 million, representing 12.9%, 15.6% and 26.1%, of our total revenue, respectively.

**Our ability to optimize our product offerings, pricing and inventory levels**

Our gross margin and operating margin are substantially affected by our product mix, particularly by the type of mobile handsets we sell. Sales of mid- to high-end handset products generally command higher margin than sales of low-end handset products, despite that sales of such mobile phone products require greater sales and marketing efforts and better retail and wholesale distribution capability. Sales of mobile phone accessories and smart devices, as well as membership services, value-added services and contracted call service subscriptions in cooperation with mobile carriers, typically command higher margin than sales of mobile phones. Because of these differences in margins, we intend to continue to increase our retail and wholesale distribution of mid- to high- end handset products, as well as accessories and smart devices, and provide various types of services.

In our retail business, manufacturers set the reference retail prices for non-customized mobile phones and mobile carriers set the reference retail prices of mobile phones customized for them by the manufacturers. We set the prices of the products we sell based on these reference prices. In addition, we develop a customer base for the mobile carriers through promoting and selling mobile phones that are bundled with contracted call services subscriptions offered by the mobile carriers in most of the outlets we operate. Capitalizing on the increasing demand for annual subscriptions offered by the mobile carriers, we also receive commissions for sales of such call services subscriptions, which are calculated based on the value of the subscriptions and the amount of phone usage by the subscribers.

In our franchise business, our franchisees are obligated to comply with our pricing policies, which in turn are based on the reference prices set by the mobile device manufacturers.

In our wholesale distribution business, we set the retail prices of products for sub-wholesale distributors and retailers that sell products to end users directly based on the cost of and demand for the products and the prices of similar products, as well as discussions with manufacturers regarding its suggested prices for its products.

We aim to manage our inventory efficiently to allow us to stock sufficient quantity of products to meet customer demand. We will receive less revenue if we do not maintain sufficient inventory to meet customer demand. On the other hand, excessive inventory will cause increase in expenses including cost of storage space, cost of moving stock and cost of time spent managing the inventory. In addition, the introduction of new products may cause certain existing inventory to be obsolete. As a result, our management is concerned with having a balanced stock while keeping supplies readily available without overstocking the shelves. We have computerized our control system from ordering, shipping, receiving, tracking inventory, retail turnover and storage. We have a company-wide online management system that delivers real-time updates on our sales and enables us to adjust merchandise allocation and pricing in response to the changing market demand. We believe our experience, technology, expertise and knowledge about the market assist us in making key decisions regarding inventory levels. We generally maintain an approximately 30 to 60 days of inventory supplies for our retail and wholesale businesses.

**Our relationship with mobile carriers and mobile phone manufacturers**

We have strategic partnerships with all of China's mobile carriers, namely China Mobile, China Unicom and China Telecom, to develop customer base for them through selling contracted call service subscriptions offered by them, manage and operate outlets owned by them and jointly establish outlets with them. We believe China's mobile carriers have chosen to collaborate with us mainly due to our large nationwide retail network, in-depth customer marketing knowledge, management expertise and after-sales support. We have helped the mobile carriers develop their subscriber base and market their mobile products and services to a sizable pool of customers. In return, we generate substantial revenue from mobile phone and accessory sales and commissions from selling contracted call service subscriptions.

We also have established and maintained cooperative relationships with mobile phone manufacturers. We are one of the principal retailers and wholesale distributors, of various popular international and local brands of mobile phones in China, such as Samsung, Apple, Nokia, HTC, Sony, Lenovo, Huawei, ZTE, Coolpad, Xiaomi and Vivo. Under the relevant arrangements, we enter into agreements with the manufacturers to distribute their mobile phones, and the mobile carriers also designate us to distribute mobile phones customized for them by the manufacturers. According to the SINO Report, we ranked the first among all retailers for Lenovo, Coolpad and Huawei and ranked the second among all retailers for Samsung, Nokia and HTC, in terms of sales from non-bundled mobile phone market in 2013, and we are among the few retailers that have sourced products directly from Samsung, Nokia and HTC. In addition, we started to cooperate directly with Apple in March 2012 and have set up iOS Apple authorized counters in our stores. As of April 30, 2014, we had iOS Apple authorized counters in 102 outlets throughout the PRC.

### Seasonality

Our retail operating results are also influenced by seasonal factors, including the timing of local holidays, the launch of new products or models and other events affecting consumer demand and purchasing patterns of customers in different markets. These factors may cause our sales and operating results to fluctuate on an interim period basis. Although it is difficult to make broad generalizations with respect to seasonality, our sales tend to be lower in the first half of each fiscal year, compared to sales in the second half of each fiscal year. Our future operating results may continue to fluctuate significantly from interim period to interim period. If unanticipated events occur, including delays in securing adequate inventories of competitive products at times of peak sales or inventory surpluses in the event of sales decreases, our operating results could suffer. In addition, due to seasonal factors, our interim results may not be indicative of annual results.

### The overall growth of the Chinese mobile phone industry

The mobile phone market in China has experienced rapid growth. Because of the limited fixed line infrastructure, wireless technology has become an increasingly important medium of communications in China. In 2013, the number of mobile phone subscribers in China increased by 593 million, or 92.5%, to 1,234 million, from 641 million in 2008, according to the MIIT. The number of mobile phone subscribers in China is expected to reach 1,660 million in 2018.

Mobile phone sales volume in China reached 429 million units in 2013, compared to 269 million units in 2011, representing a CAGR of 26.3%, and is expected to reach 845 million in 2018, according to the 2013 China Mobile Phone Market Development Research by SINO.

For more information regarding the overall growth of the Chinese mobile phone industry, see the section headed "Industry Overview."

## CRITICAL ACCOUNTING POLICIES

We have identified below the accounting policies that we believe are the most critical to our consolidated financial statements. Our significant accounting policies are set forth in detail in Section II, note 4 to the "Accountants' Report" included as Appendix I to this Prospectus. These accounting policies require subjective or complex judgments by our management, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our consolidated financial statements. The estimates and associated assumptions are based on our historical experience and various other factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities are discussed in more detail in Section II, note 5 to the "Accountants' Report" included as Appendix I to this Prospectus. We review our estimates and underlying assumptions on an ongoing basis.

**Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to us and when the revenue can be measured reliably. We recognize revenue on the following bases:

- income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that we maintain neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- promotion income from mobile carriers, when we are entitled to receive such income according to the underlying contract terms;

- income from the rendering of services, in the period in which the services are rendered;

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

- rental income, on a time proportion basis over the lease terms.

**Income tax**

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Inventories**

Inventories comprise merchandise purchased for resale and consumables and are stated at the lower of cost and net realizable value. Cost is determined on the first in, first out basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## RESULTS OF OPERATIONS

The following table sets forth selected items from our consolidated statement of comprehensive income for the periods indicated. Our results of operations have fluctuated in the past and are likely to continue to fluctuate in the future. Therefore, our operating results may not be directly comparable from period to period, and our past performance may not be a reliable indicator of our future operating results.

| | Year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **(RMB'000)** | **(RMB'000)** | **(RMB'000)** |
| **Revenue** | 6,513,501 | 8,802,689 | 12,812,024 |
| Cost of sales | (5,297,597) | (7,339,689) | (11,074,062) |
| **Gross profit** | 1,215,904 | 1,463,000 | 1,737,962 |
| Other income and gains | 12,295 | 31,490 | 34,819 |
| Selling and distribution expenses | (668,575) | (816,866) | (952,644) |
| Administrative expenses | (189,707) | (232,244) | (286,318) |
| Other expenses | (17,452) | (18,363) | (56,127) |
| Finance costs | (48,161) | (73,038) | (107,334) |
| **Profit before tax** | 304,304 | 353,979 | 370,358 |
| Income tax expense | (82,799) | (104,177) | (96,166) |
| **Profit for the year and total comprehensive income** | 221,505 | 249,802 | 274,192 |
| **Profit for the year and total comprehensive income attributable to** | | | |
| Owners of the parent | 221,566 | 252,121 | 266,441 |
| Non-controlling interests | (61) | (2,319) | 7,751 |
| | 221,505 | 249,802 | 274,192 |

## CERTAIN INCOME STATEMENT ITEMS

### Revenue

Our revenue for the years ended December 31, 2011, 2012 and 2013 was RMB6,513.5 million, RMB8,802.7 million and RMB12,812.0 million, respectively. We derive our revenue primarily from three parts: (i) sales of mobile telecommunications devices and accessories; (ii) service income from mobile carriers; and (iii) other service fee income. 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 franchised 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 distributed to mobile carriers and other third-party retailers. Service income from mobile carriers mainly includes income from commissions received by us through selling contracted call service subscriptions and SIM cards for the mobile carriers, as well as income generated from services of staff that we send to the outlets established by the mobile carriers and operated by us. 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) franchise fees.

The following table sets forth our revenue for the periods indicated:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue |
| **Revenue** | | | | | | |
| Sales of mobile telecommunications devices and accessories | 6,162,814 | 94.6% | 8,406,194 | 95.5% | 12,186,395 | 95.1% |
| – Retail of mobile telecommunications devices and accessories | 4,261,320 | 65.4% | 5,693,802 | 64.7% | 6,862,902 | 53.6% |
| – Sales of telecommunications devices and accessories to franchisees | 1,061,939 | 16.3% | 1,340,285 | 15.2% | 1,976,843 | 15.4% |
| – Wholesale of mobile telecommunications devices and accessories | 839,555 | 12.9% | 1,372,107 | 15.6% | 3,346,650 | 26.1% |
| Service income from mobile carriers | 257,227 | 4.0% | 329,208 | 3.7% | 496,205 | 3.9% |
| Other service fee income | 93,460 | 1.4% | 67,287 | 0.8% | 129,424 | 1.0% |
| **Total** | 6,513,501 | 100.0% | 8,802,689 | 100.0% | 12,812,024 | 100.0% |

Our service income from mobile carriers was RMB257.2 million, RMB329.2 million and RMB496.2 million, accounting for 4.0%, 3.7% and 3.9% of our revenue for the years ended December 31, 2011, 2012 and 2013, respectively. The following table sets forth our service income from each of the three mobile carriers during the Track Record Period:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue | (RMB'000) | % of Total revenue |
| China Mobile | 231,511 | 90.0% | 190,998 | 58.0% | 214,395 | 43.2% |
| China Unicom | 21,762 | 8.5% | 78,211 | 23.8% | 93,796 | 18.9% |
| China Telecom | 3,954 | 1.5% | 59,999 | 18.2% | 188,014 | 37.9% |
| **Total** | 257,227 | 100.0% | 329,208 | 100.0% | 496,205 | 100.0% |

A large proportion of our service income from mobile carriers during the Track Record Period consisted of commissions received by us through selling contracted call service subscriptions and pre-paid SIM cards for the mobile carriers. The total amount of commissions received from mobile carriers was RMB149.9 million, RMB260.9 million and RMB471.5 million for the years ended December 31, 2011, 2012 and 2013, respectively.

**Cost of Sales**

Our cost of sales consists primarily of costs incurred in relation to our retail, franchisee and wholesale business, including mainly purchase costs of mobile phones and accessories. Our cost of sales for the years ended December 31, 2011, 2012 and 2013 was RMB5,297.6 million, RMB7,339.7 million and RMB11,074.1 million, respectively.

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

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB'000) | % of Total Cost of sales | (RMB'000) | % of Total Cost of sales | (RMB'000) | % of Total Cost of sales |
| **Cost of sales** | | | | | | |
| Sale of mobile telecommunications devices and accessories | 5,253,332 | 99.2% | 7,283,242 | 99.2% | 10,994,134 | 99.3% |
| – Retail of mobile telecommunications devices and accessories.. | 3,470,065 | 65.5% | 4,672,807 | 63.7% | 5,801,635 | 52.4% |
| – Sales of mobile telecommunications devices and accessories to franchisees | 1,025,087 | 19.4% | 1,300,733 | 17.7% | 1,932,335 | 17.5% |
| – Wholesale of mobile telecommunications devices and accessories. | 758,180 | 14.3% | 1,309,702 | 17.8% | 3,260,164 | 29.4% |
| Service income from mobile carriers | 42,831 | 0.8% | 53,693 | 0.7% | 76,140 | 0.7% |
| Other service fee income | 1,434 | 0.0% | 2,754 | 0.1% | 3,788 | 0.0% |
| **Total.** | 5,297,597 | 100.0% | 7,339,689 | 100.0% | 11,074,062 | 100.0% |

**Gross Profit and Gross Profit Margin**

Gross profit represents revenue less cost of sales. Our gross profit in 2011, 2012 and 2013 was RMB1,215.9 million, RMB1,463.0 million and RMB1,738.0 million, respectively. Our overall gross profit margin for the years ended December 31, 2011, 2012 and 2013 was 18.7%, 16.6% and 13.6%, respectively. The decrease in our overall profit margin during the Track Record Period was primarily due to the decrease in gross profit margin from sales of mobile telecommunications devices and accessories. The decrease in our gross profit margin from sales of mobile telecommunications devices and accessories during the Track Record Period was primarily due to (i) the increase in the purchasing costs of smart mobile phones and 3G mobile phones outpacing the increase in their selling prices, while the proportion of these mobile phones in our sales was increasing steadily during the period; (ii) the increase in the proportion of wholesale of mobile telecommunications devices and accessories which generally commanded relatively low gross profit margin; and (iii) our strategy of developing our online sales platforms by offering lower selling prices which may lead to relatively low gross profit margin. Our gross profit margins from service income from mobile carriers and other service fee income were relatively high during the Track Record Period primarily because these businesses involved relatively low cost of sales.

The following table sets forth information about our gross profit and gross profit margin for the periods indicated:

| | Year ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2012 | | | 2013 | | |
| | Gross profit | % of total gross profit | Gross profit margin | Gross profit | % of total gross profit | Gross profit margin | Gross profit | % of total gross profit | Gross profit margin |
| | (RMB'000) | | | (RMB'000) | | | (RMB'000) | | |
| Sale of mobile telecommunications devices and accessories | 909,482 | 74.8% | 14.8% | 1,122,952 | 76.8% | 13.4% | 1,192,261 | 68.6% | 9.8% |
| – Retail of mobile telecommunications devices and accessories | 791,255 | 65.1% | 18.6% | 1,020,995 | 69.8% | 17.9% | 1,061,267 | 61.1% | 15.5% |
| – Sales of mobile telecommunications devices and accessories to franchisees | 36,852 | 3.0% | 3.5% | 39,552 | 2.7% | 3.0% | 44,508 | 2.5% | 2.3% |
| – Wholesale of mobile telecommunications devices and accessories | 81,375 | 6.7% | 9.7% | 62,405 | 4.3% | 4.5% | 86,486 | 5.0% | 2.6% |
| Service income from mobile carriers | 214,396 | 17.6% | 83.3% | 275,515 | 18.8% | 83.7% | 420,065 | 24.2% | 84.7% |
| Other service fee income | 92,026 | 7.6% | 98.5% | 64,533 | 4.4% | 95.9% | 125,636 | 7.2% | 97.1% |
| **Total** | 1,215,904 | 100.0% | 18.7% | 1,463,000 | 100.0% | 16.6% | 1,737,962 | 100.0% | 13.6% |

### Other Income and Gains

Other income and gains consist of (i) interest income; (ii) government grants; (iii) gain on disposal of subsidiaries; (iv) gains on disposal of items of property, plant and equipment; and (v) others. Our other income and gains for the years ended December 31, 2011, 2012 and 2013 were RMB12.3 million, RMB31.5 million and RMB34.8 million, respectively. The following table sets forth information about our other income and gains for the periods indicated:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Interest income | 5,023 | 7,978 | 11,107 |
| Government grants | 4,359 | 16,140 | 17,997 |
| Gain on disposal of subsidiaries | – | 3,506 | – |
| Gain on disposal of items of property, plant and equipment | 33 | 62 | 90 |
| Others | 2,880 | 3,804 | 5,625 |
| **Total** | 12,295 | 31,490 | 34,819 |

Government grants in the amount of RMB4.4 million in 2011, RMB16.1 million in 2012 and RMB18.0 million in 2013 represented grants received from local PRC government authorities by our subsidiaries in connection with certain financial subsidies to support local businesses. There were no unfulfilled conditions and other contingencies relating to these grants.

We had gain on disposal of subsidiaries in the amount of RMB3.5 million in 2012 in connection with disposal of four subsidiaries.

### Selling and Distribution Expenses

Selling and distribution expenses consist of (i) staff salaries and compensation; (ii) rental expenses; (iii) office expenses; (iv) transportation expenses; (v) business entertainment expenses; (vi) communication expenses; (vii) repair expenses; (viii) advertising and promotion expenses; (ix) depreciation and amortization expenses; (x) market management fees; (xi) water and electricity expenses; and (xii) other expenses. Our selling and distribution expenses for the years ended December 31, 2011, 2012 and 2013 were RMB668.6 million, RMB816.9 million and RMB952.6 million, respectively, representing 10.3%, 9.3% and 7.4% of our total revenue, respectively.

The following table sets forth information about our selling and distribution expenses for the periods indicated:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB'000) | % | (RMB'000) | % | (RMB'000) | % |
| Staff salaries and compensation | 241,825 | 36.2% | 293,780 | 36.0% | 368,730 | 38.7% |
| Rental expenses | 231,000 | 34.6% | 286,899 | 35.1% | 312,803 | 32.8% |
| Office expenses | 8,969 | 1.3% | 14,362 | 1.8% | 21,413 | 2.3% |
| Transportation expenses | 17,096 | 2.5% | 17,376 | 2.1% | 21,391 | 2.2% |
| Business entertainment expenses | 3,951 | 0.6% | 6,455 | 0.8% | 6,913 | 0.7% |
| Communication expenses | 4,290 | 0.6% | 5,138 | 0.6% | 3,842 | 0.4% |
| Repair expenses | 3,361 | 0.5% | 4,520 | 0.6% | 5,450 | 0.6% |
| Advertising and promotion expenses | 80,924 | 12.1% | 93,943 | 11.5% | 87,164 | 9.2% |
| Depreciation and amortization expenses | 32,479 | 4.9% | 47,772 | 5.9% | 69,104 | 7.3% |
| Market management fees | 1,955 | 0.3% | 4,344 | 0.5% | 10,920 | 1.1% |
| Water and electricity expenses. | 23,470 | 3.5% | 28,417 | 3.5% | 28,044 | 2.9% |
| Others | 19,255 | 2.9% | 13,860 | 1.6% | 16,870 | 1.8% |
| **Total** | 668,575 | 100.0% | 816,866 | 100.0% | 952,644 | 100.0% |

Our rental expenses, consisting of the rental expenses for our standalone outlets, were RMB231.0 million, RMB286.9 million and RMB312.8 million for the years ended December 31, 2011, 2012 and 2013, respectively. Our rentals for our standalone outlets are based on fixed rental rates. The following table sets forth information about our average rental for our standalone outlets during the Track Record Period:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Average number of standalone outlets[1] | 331 | 362 | 400 |
| Average rental for standalone outlets[2] *(RMB per store)* | 697,885 | 792,539 | 782,008 |

*Note:*

(1) Average number of standalone outlets for the year equals the total of the number of standalone outlets at the beginning of the year and at the end of the year and divided by two.

(2) Average rental for standalone outlets is calculated by dividing the rental expenses for the year by the average number of standalone outlets for the year.

The following table sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in rental expenses of 5.0%, 10.0% and 20.0% for each of the years ended December 31, 2011, 2012 and 2013, respectively.

| | (RMB thousands, except percentages) | | | | | |
|---|---|---|---|---|---|---|
| | **+5%** | **-5%** | **+10%** | **-10%** | **+20%** | **-20%** |
| **Impact on Certain Income Statement Items for the Financial Year Ended December 31, 2011** | | | | | | |
| Change in rental expenses | 11,550 | (11,550) | 23,100 | (23,100) | 46,200 | (46,200) |
| Change in profit before tax | (11,550) | 11,550 | (23,100) | 23,100 | (46,200) | 46,200 |
| Change in profit after tax | (8,663) | 8,663 | (17,325) | 17,325 | (34,650) | 34,650 |
| **Impact on Certain Income Statement Items for the Financial Year Ended December 31, 2012** | | | | | | |
| Change in rental expenses | 14,345 | (14,345) | 28,690 | (28,690) | 57,380 | (57,380) |
| Change in profit before tax | (14,345) | 14,345 | (28,690) | 28,690 | (57,380) | 57,380 |
| Change in profit after tax | (10,759) | 10,759 | (21,517) | 21,517 | (43,035) | 43,035 |
| **Impact on Certain Income Statement Items for the Financial Year Ended December 31, 2013** | | | | | | |
| Change in rental expenses | 15,640 | (15,640) | 31,280 | (31,280) | 62,561 | (62,561) |
| Change in profit before tax | (15,640) | 15,640 | (31,280) | 31,280 | (62,561) | 62,561 |
| Change in profit after tax | (11,730) | 11,730 | (23,460) | 23,460 | (46,920) | 46,920 |

### Administrative Expenses

Administrative expenses consist of (i) staff salaries; (ii) payment for shares; (iii) tax expenses; (iv) office expenses; (v) depreciation and amortization expenses; (vi) business trip and transportation expenses; (vii) rental and property management fees; (viii) business entertainment expenses; (ix) agency fees; (x) financial institution charges and (xi) others expenses. Our administrative expenses for the years ended December 31, 2011, 2012 and 2013 were RMB189.7 million, RMB232.2 million and RMB286.3 million, respectively, representing 2.9%, 2.6% and 2.2% of our total revenue, respectively. The following table sets forth information about our administrative expenses for the periods indicated:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | 2012 | | 2013 | |
| | (RMB'000) | % | (RMB'000) | % | (RMB'000) | % |
| Staff salaries | 70,328 | 37.1% | 85,259 | 36.7% | 97,287 | 34.0% |
| Payment for shares | 1,170 | 0.6% | – | – | – | – |
| Tax expenses | 3,314 | 1.7% | 6,584 | 2.8% | 6,140 | 2.2% |
| Office expenses | 20,011 | 10.5% | 19,936 | 8.6% | 25,787 | 9.0% |
| Depreciation and amortization expenses | 10,473 | 5.5% | 12,247 | 5.3% | 15,096 | 5.3% |
| Business trip and transportation expenses | 22,327 | 11.8% | 28,230 | 12.2% | 37,987 | 13.2% |
| Rental and property management fees | 9,182 | 4.8% | 10,495 | 4.5% | 11,871 | 4.1% |
| Business entertainment expenses | 11,529 | 6.1% | 10,927 | 4.7% | 14,337 | 5.0% |
| Agency fees | 5,835 | 3.1% | 7,450 | 3.2% | 15,174 | 5.3% |
| Financial institution charges | 23,698 | 12.5% | 31,732 | 13.7% | 41,688 | 14.6% |
| Others | 11,840 | 6.3% | 19,384 | 8.3% | 20,951 | 7.3% |
| **Total** | 189,707 | 100.0% | 232,244 | 100.0% | 286,318 | 100.0% |

### Other Expenses

Our other expenses consist of impairment loss on assets, non-operating expenses and disposals of subsidiaries. Our other expenses for the years ended December 31, 2011, 2012 and 2013 were RMB17.5 million, RMB18.4 million and RMB56.1 million, respectively.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Impairment losses on assets | 15,889 | 16,580 | 52,619 |
| Non-operating expenses | 1,015 | 1,783 | 3,508 |
| Disposals of subsidiaries | 548 | – | – |
| **Total** | 17,452 | 18,363 | 56,127 |

### Finance Costs

Our finance costs consist of interest on bank loans wholly repayable within one year. Our finance costs for the years ended December 31, 2011, 2012 and 2013 were RMB48.2 million, RMB73.0 million and RMB107.3 million, respectively.

### Income Tax Expenses

Our income tax expenses for a given period include PRC enterprise income tax (EIT) and deferred income tax during the year. Under the EIT Law and the Implementation Regulations of the EIT Law, our PRC subsidiaries have been subject to the tax rate of 25% since January 1, 2008. The income tax rate of 25% was applicable to all of our Group's PRC subsidiaries during the Track Record Period, except that our subsidiary, Beijing Ziyun Baoguang Technology Co., Ltd. (北京紫雲寶光科技有限公司), enjoyed an income tax rate of 15% in 2011 as a new high-technology company. For the years ended December 31, 2011, 2012 and 2013, our effective tax rate was 27.2%, 29.4% and 26.0%, respectively. During the track Record Period, we paid all relevant taxes and there were no disputes or unresolved tax issues with the relevant tax authorities.

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

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Current tax | | | |
| Income tax in the PRC for the year | 84,713 | 105,857 | 106,179 |
| Deferred tax | (1,914) | (1,680) | (10,013) |
| | 82,799 | 104,177 | 96,166 |

## CERTAIN OPERATING DATA

### Comparable Store Sales

Our profitability is affected in part by our ability to successfully increase the revenue from our existing stores. We believe that comparable store sales provide a meaningful period-to-period comparison of our store performance because they exclude increases and decreases that are due to the opening and closing of new retail outlets. Comparable store sales growth represents a comparison between the sales of those stores that were open and in operation throughout the years being compared. For example, comparable stores for the financial years ended December 31, 2011 and 2012 are stores that were open and in operation throughout the period from January 1, 2011 to December 31, 2012. There are variations in the way in which other retailers calculate these metrics. Accordingly, these metrics may not be fully comparable with those of our competitors.

The following table sets forth our comparable store sales, as well as gross profit and gross profit margins for these stores during the comparison periods indicated:

| | Years ended December 31, | | Years ended December 31, | |
|---|---|---|---|---|
| | 2011 | 2012 | 2012 | 2013 |
| Number of comparable stores | 566 | 566 | 651 | 651 |
| Comparable store sales[1] *(RMB'000)* | 3,107,804 | 3,386,318 | 3,700,912 | 3,978,608 |
| Comparable store sales growth | | 9.0% | | 7.5% |
| Comparable store cost of sales *(RMB'000)* | 2,519,289 | 2,770,342 | 3,028,759 | 3,360,066 |
| Comparable store gross profit *(RMB'000)* | 588,515 | 615,976 | 672,153 | 618,542 |
| Comparable store gross profit margin | 18.9% | 18.2% | 18.2% | 15.5% |

*Note:*

(1) Comparable store sales do not include service income from mobile carriers.

Our comparable store sales growth decreased from 9.0% for the year ended December 31, 2012 to 7.5% for the year ended December 31, 2013, primarily because a larger portion of mobile phones bundled with contracted call services subscriptions were sold for the year ended December 31, 2013 which generated less sales revenue as part of the revenue was recognized as service income from mobile carriers. Our comparable store gross profit margin decreased from 18.9% for the year ended December 31, 2011 to 18.2% for the year ended December 31, 2012 and further to 15.5% for the year ended December 31, 2013, primarily due to the increase in the purchasing costs of smart mobile phones and 3G mobile phones outpacing the increase in their selling prices, while the proportion of these mobile phones in our sales was steadily increasing during the period.

**Store Investment Amount, Breakeven and Payback Periods**

During the three years ended December 31, 2011, 2012 and 2013, we opened 77, 71 and 131 standalone outlets and 238, 162 and 91 store-in-store outlets, respectively. For the year ended December 31, 2013, our average investment amount for each standalone outlet and store-in-store outlet was approximately RMB800,000 and RMB40,000, respectively. Our store investment amount includes renovation expenses, expenses for certain fixed assets and, in the case of standalone outlets, the initially committed rental expenses under lease agreements. Our average investment amount for store-in-store outlets for the year ended December 31, 2013 was relatively low, primarily because these store-in-store outlets were opened in the supermarkets which entailed less initial investment and no rental expenses were required.

We incur various costs and expenses prior to opening new stores. In addition, new stores generally require a period of time after opening to achieve target performance income. A store is considered to achieve breakeven at the point which the gross profit is at least equal to expenses, which include rental expenses, staff expenses and utility expenses, but exclude tax and depreciation. During the Track Record Period, our standalone outlets normally achieved breakeven in approximately three to six months, and our store-in-store outlets normally achieved breakeven in approximately two to six months.

Payback period for a new store represents the time that it takes for the accumulated gross profit, less accumulated rental expenses, staff expenses and utility expenses, before tax and depreciation, from a store to cover its capital expenditures. During the Track Record Period, our standalone outlets normally achieved payback in approximately six to 30 months, and our store-in-store outlets normally achieved payback in approximately three to 18 months.

**Sales Volume and Average Selling Price of Mobile Handsets**

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

| | Years ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB | RMB | RMB |
| Sales of mobile handsets *(in thousands)* | 5,557,050 | 7,640,512 | 11,903,493 |
| Sales volume *(in handsets)* | 7,277,007 | 7,547,336 | 9,563,894 |
| Average selling price *(per handset)* | 763.6 | 1,012.3 | 1,244.6 |

## REVIEW OF HISTORICAL OPERATING RESULTS

**Year ended December 31, 2013 compared to the year ended December 31, 2012**

***Revenue***

Our revenue increased by RMB4,009.3 million, or 45.5%, from RMB8,802.7 million in 2012 to RMB12,812.0 million in 2013. The overall increase in revenue in 2013 as compared to in 2012 was primarily attributable to (i) an increase in the number of our standalone outlets from 373 as of December 31, 2012 to 427 as of December 31, 2013, (ii) an increase in revenue from our wholesale business as a result of an increase in the number of wholesale customers and the growth in wholesale sales to third-party retailers, particularly JD.com, and (iii) an overall increase in the selling prices of smart phones and 3G mobile phones.

Revenue from sales of telecommunications devices and accessories increased by RMB3,780.2 million, or 45.0%, from RMB8,406.2 million in 2012 to RMB12,186.4 million in 2013. This increase was attributable to a 20.5% increase in revenue from our retail business, a 47.5% increase in revenue from our franchise business and a 143.9% increase in revenue from our wholesale business, as discussed below.

Revenue from retail of mobile telecommunications devices and accessories increased by RMB1,169.1 million, or 20.5%, from RMB5,693.8 million in 2012 to RMB6,862.9 million in 2013. This increase was primarily due to (i) an increase in the number of our independently operated outlets, (ii) an overall increase in the selling prices of smart phones and 3G mobile phones, and (iii) the growth in sales of mobile phones bundled with contracted call service subscriptions and mobile phones customized for mobile carriers as a result of our cooperation with mobile carriers.

Revenue from sales of mobile telecommunications devices and accessories to franchisees increased by RMB636.5 million, or 47.5%, from RMB1,340.3 million in 2012 to RMB1,976.8 million in 2013. This increase was primarily due to (i) an increase of sales volume of our franchised outlets, and (ii) an overall increase in the selling prices of smart phones and 3G mobile phones.

Revenue from wholesale of mobile telecommunications devices and accessories increased by RMB1,974.6 million, or 143.9%, from RMB1,372.1 million in 2012 to RMB3,346.7 million in 2013. This increase was primarily due to (i) an increase in the number of wholesale customers, and (ii) the growth in wholesale sales to third-party retailers, particularly JD.com.

Revenue from service income from mobile carriers increased by RMB167.0 million, or 50.7%, from RMB329.2 million in 2012 to RMB496.2 million in 2013. This increase was primarily due to an increase in commissions received from mobile carriers for contracted call service subscriptions during the term of the subscription contract.

Revenue from other service fee income increased by RMB62.1 million, or 92.3%, from RMB67.3 million in 2012 to RMB129.4 million in 2013. This increase was primarily due to (i) an increase in management and service fees received from suppliers; and (ii) an increase in our income from our value-added services.

***Cost of sales***

Our cost of sales increased by RMB3,734.4 million, or 50.9%, from RMB7,339.7 million in 2012 to RMB11,074.1 million in 2013. This increase was driven by a 24.2% increase in cost of sales from retail of mobile telecommunications devices and accessories, a 148.9% increase in cost of sales from whole sale of mobile telecommunications devices and accessories, a 41.7% increase in cost of sales from service income from mobile carriers and a 37.5% increase in cost of sales from other service fee income.

Our cost of sales from sales of telecommunications devices and accessories increased by RMB3,710.9 million, or 51.0%, from RMB7,283.2 million in 2012 to RMB10,994.1 million in 2013. This increase was attributable to a 24.2% increase in cost of sales from our retail business, a 48.6% increase in cost of sales from our franchise business and a 148.9% increase in cost of sales from our wholesale business, as discussed below.

Our cost of sales from retail of mobile telecommunications devices and accessories increased by RMB1,128.8 million, or 24.2%, from RMB4,672.8 million in 2012 to RMB5,801.6 million in 2013. Our cost of sales from sales to franchisees increased by RMB631.6 million, or 48.6%, from RMB1,300.7 million in 2012 to RMB1,932.3 million in 2013. Our cost of sales from wholesale of mobile telecommunications devices and accessories increased by RMB1,950.5 million, or 148.9%, from RMB1,309.7 million in 2012 to RMB3,260.2 million in 2013. These increases were primarily due to (i) an overall increase in the purchase prices of smart phones and 3G mobile phones, and (ii) an increase in our sales volume as a result of higher demand for sales.

Our cost of sales from service income from mobile carriers increased by RMB22.4 million, or 41.7%, from RMB53.7 million in 2012 to RMB76.1 million in 2013. This increase was primarily due to an increase in staff costs for the staff we send to the outlets established by mobile carriers and managed by us.

Our cost of sales from other service fee income increased by RMB1.0 million, or 35.7%, from RMB2.8 million in 2012 to RMB3.8 million in 2013. This increase was primarily due to the increase in repair costs in connection with purchase of parts for mobile phones.

***Gross Profit***

As a result of the foregoing, our gross profit increased by RMB275.0 million, or 18.8% million, from RMB1,463.0 million in 2012 to RMB1,738.0 million in 2013. Our overall gross profit margin decreased from 16.6% in 2012 to 13.6% in 2013.

Our gross profit from sales of telecommunications devices and accessories increased by RMB69.3 million, or 6.2%, from RMB1,123.0 million in 2012 to RMB1,192.3 million in 2013. This increase was attributable to a 3.9% increase in gross profit from our retail business, a 12.4% increase in gross profit from our franchise business and a 38.6% increase in gross profit from our wholesale business, as discussed below.

Our gross profit from retail of mobile telecommunications devices and accessories increased by RMB40.3 million, or 3.9%, from RMB1,021.0 million in 2012 to RMB1,061.3 million in 2013. Our gross profit margin from retail of mobile telecommunications devices and accessories decreased from 17.9% in 2012 to 15.5% in 2013. Our gross profit from sales to franchisees increased by RMB4.9 million, or 12.4%, from RMB39.6 million in 2012 to RMB44.5 million in 2013. Our gross profit margin from sales to franchisees decreased from 3.0% in 2012 to 2.3% in 2013. Our gross profit from wholesale of mobile telecommunications devices and accessories increased by RMB24.1 million, or 38.6%, from RMB62.4 million in 2012 to RMB86.5 million in 2013. Our gross profit margin from wholesale of mobile telecommunications devices and accessories decreased from 4.5% in 2012 to 2.6% in 2013. These decreases in gross profit margins were primarily due to the increase in the purchasing costs of smart mobile phones and 3G mobile phones outpacing the increase in their selling prices, while the proportion of these mobile phones in our sales was steadily increasing during the period.

Our gross profit from service income from mobile carriers increased by RMB144.6 million, or 52.5%, from RMB275.5 million in 2012 to RMB420.1 million in 2013. Our gross profit margin from service income from mobile carriers increased from 83.7% in 2012 to 84.7% in 2013. This increase was primarily due to increased commissions received from mobile carriers for contracted call service subscriptions during the term of the subscription contract which commanded relatively high profit margin.

Our gross profit from other service fee income increased by RMB61.1 million, or 94.7%, from RMB64.5 million in 2012 to RMB125.6 million in 2013. Our gross profit margin from other service fee income increased from 95.9% in 2012 to 97.1% in 2013.

***Other Income and Gains***

Our other income and gains increased by RMB3.3 million, or 10.5%, from RMB31.5 million in 2012 to RMB34.8 million in 2013. This increase was primarily due to an increase in interest income of our bank accounts from RMB8.0 million in 2012 to RMB11.1 million in 2013.

***Selling and Distribution Expenses***

Our selling and distribution expenses increased by RMB135.7 million, or 16.6%, from RMB816.9 million in 2012 to RMB952.6 million in 2013. This increase was primarily due to (i) a 25.5% increase in salaries and compensation for our sales and distribution staff as a result of the increase in the salary level, as well as the increase in the number of our sales and distribution staff; (ii) a 9.0% increase in rental and property management expenses as a result of an increase of rental fees for our sales outlets; and (iii) a 44.7% increase in depreciation and amortization expenses primarily in connection with amortization for rental expenses.

***Administrative Expenses***

Our administrative expenses increased by RMB54.1 million, or 23.3%, from RMB232.2 million in 2012 to RMB286.3 million in 2013. This increase was primarily due to (i) a 14.1% increase in salaries for our administrative staff as a result of the increase in the salary level, as well as the increase in the number of our administrative staff; (ii) a 34.6% increase in business trip and transportation expenses as a result of more visits to our subsidiaries nationwide in connection with enhanced management of our outlets; and (iii) a 29.3% increase in office expenses in connection with purchase of office supplies.

***Other Expenses***

Our other expenses increased by RMB37.7 million, or 204.9%, from RMB18.4 million in 2012 to RMB56.1 million in 2013. This increase was primarily due to a 217.4% increase in impairment losses on assets in connection with making provisions for bad debts as a result of an increase in trade receivables, in line with the increases in our inventories and trade receivables.

*Finance Costs*

Our finance costs, consisting of interest on bank loans wholly repayable within one year, increased by RMB34.3 million, or 47.0%, from RMB73.0 million in 2012 to RMB107.3 million in 2013. This increase was primarily due to an increase in our bank loans.

*Income Tax Expense*

Our income tax expense decreased by RMB8.0 million, or 7.7%, from RMB104.2 million in 2012 to RMB96.2 million in 2013. The decrease in our income tax expense was primarily due to the decrease in our effective tax rate from 29.4% in 2012 to 26.0% in 2013, despite an increase in our profit before tax from RMB354.0 million in 2012 to RMB370.4 million in 2013.

*Profit for the Year*

As a result of the foregoing, our profit increased by RMB24.4 million, or 9.8%, from RMB249.8 million in 2012 to RMB274.2 million in 2013. Our net profit margin decreased from 2.8% in 2012 to 2.1% in 2013. The decrease in our net profit margin was primarily due to (i) the decrease in our gross profit margin from 16.6% in 2012 to 13.6% in 2013, and (ii) the increase in other expenses from RMB18.4 million in 2012 to RMB56.1 million in 2013, mainly as a result of the increase in impairment losses on assets in connection with making provisions for bad debts.

**Year ended December 31, 2012 compared to the year ended December 31, 2011**

*Revenue*

Our revenue increased by RMB2,289.2 million, or 35.1%, from RMB6,513.5 million in 2011 to RMB8,802.7 million in 2012. The overall increase in revenue in 2012 as compared to in 2011 was primarily attributable to (i) an increase in the number of sales outlets from 1,384 as of December 31, 2011 to 1,471 as of December 31, 2012, (ii) closer cooperation with mobile carriers, (iii) the overall increase in the selling prices and sales volumes of smart mobile phones and 3G mobile phones, and (iv) the growth in sales of tablets and accessories for smart phones.

Revenue from sales of telecommunications devices and accessories increased by RMB2,243.4 million, or 36.4%, from RMB6,162.8 million in 2011 to RMB8,406.2 million in 2012. This increase was attributable to a 33.6% increase in revenue from our retail business, a 26.2% increase in revenue from our franchise business and a 63.4% increase in revenue from our wholesale business, as discussed below.

Revenue from retail of mobile telecommunications devices and accessories increased by RMB1,432.5 million, or 33.6%, from RMB4,261.3 million in 2011 to RMB5,693.8 million in 2012. This increase was primarily due to (i) the growth in revenue from sales of mobile phones and accessories in our standalone outlets as a result of the increase in the number of the outlets and the increase in our store sales; (ii) the growth in revenue from store-in-store outlets as a result of our closer cooperation with supermarkets such as Wal-Mart and Vanguard; and (iii) the growth in sales of mobile phones bundled with contracted call service subscriptions and mobile phones customized for mobile carriers as a result of our closer cooperation with mobile carriers.

Revenue from sales of mobile telecommunications devices and accessories to franchisees increased by RMB278.4 million, or 26.2%, from RMB1,061.9 million in 2011 to RMB1,340.3 million in 2012. This increase was primarily due to (i) an increase in the numbers of our franchised outlets, and (ii) an overall increase in the selling prices of smart phones and 3G mobile phones.

Revenue from wholesale of mobile telecommunications devices and accessories increased by RMB532.5 million, or 63.4%, from RMB839.6 million in 2011 to RMB1,372.1 million in 2012. This increase was primarily due to the increase in our revenue from wholesale to third-party retailers such as JD.com.

Revenue from service income from mobile carriers increased by RMB72.0 million, or 28.0%, from RMB257.2 million in 2011 to RMB329.2 million in 2012. This increase was primarily due to (i) closer cooperation with mobile carriers as a result of more diversified cooperation channels, such as managing outlets established by mobile carriers and jointly establishing outlets with carriers; and (ii) more commission income from mobile carriers as a result of more demand for products and services by mobile carriers.

Revenue from other service fee income decreased by RMB26.2 million, or 28.0%, from RMB93.5 million in 2011 to RMB67.3 million in 2012. This decrease was primarily due to (i) a decrease in rental fees of counter space to third parties who provide repair services, and (ii) a decrease in management and service fees from suppliers.

***Cost of sales***

Our cost of sales increased by RMB2,042.1 million, or 38.5%, from RMB5,297.6 million in 2011 to RMB7,339.7 million in 2012. This increase was driven by a 38.6% increases in cost of sales from sales of mobile telecommunications devices and accessories, and to a lesser extent, a 25.5% increase in cost of sales from service income from mobile carriers, and a 92.9% increase in cost of sales from other service fee income.

Our cost of sales from sales of telecommunications devices and accessories increased by RMB2,029.9 million, or 38.6%, from RMB5,253.3 million in 2011 to RMB7,283.2 million in 2012. This increase was attributable to a 34.7% increase in cost of sales from our retail business, a 26.9% increase in cost of sales from our franchise business and a 72.7% increase in cost of sales from our wholesale business, as discussed below.

Our cost of sales from retail of mobile telecommunications devices and accessories increased by RMB1,202.7 million, or 34.7%, from RMB3,470.1 million in 2011 to RMB4,672.8 million in 2012. Our cost of sales from sales to franchisees increased by RMB275.6 million, or 26.9%, from RMB1,025.1 million in 2011 to RMB1,300.7 million in 2012. Our cost of sales from wholesale of mobile telecommunications devices and accessories increased by RMB551.5 million, or 72.7%, from RMB758.2 million in 2011 to RMB1,309.7 million in 2012. These increases were primarily due to (i) an increase in purchase prices of smart mobile phones and 3G mobile phones, and (ii) the growth in our sales volume as a result of higher demand for sales.

Our cost of sales from service income from mobile carriers increased by RMB10.9 million, or 25.5%, from RMB42.8 million in 2011 to RMB53.7 million in 2012. This increase was primarily due to an increase in staff costs for the staff we send to the outlets established by mobile carriers and managed by us.

Our cost of sales from other service fee income increased by RMB1.4 million, or 100.0%, from RMB1.4 million in 2011 to RMB2.8 million in 2012. This increase was primarily due to the increase in repair costs in connection with purchase of parts for mobile phones.

***Gross Profit***

As a result of the foregoing, our gross profit increased by RMB247.1 million, or 20.3%, from RMB1,215.9 million in 2011 to RMB1,463.0 million in 2012. Our overall gross profit margin decreased from 18.7% in 2011 to 16.6% in 2012.

Our gross profit from sales of telecommunications devices and accessories increased by RMB213.5 million, or 23.5%, from RMB909.5 million in 2011 to RMB1,123.0 million in 2012. This increase was attributable to a 29.0% increase in gross profit from our retail business, a 7.3% increase in gross profit from our franchise business and a 23.3% decrease in gross profit from our wholesale business, as discussed below.

Our gross profit from retail of mobile telecommunications devices and accessories increased by RMB229.7 million, or 29.0%, from RMB791.3 million in 2011 to RMB1,021.0 million in 2012. Our gross profit margin from retail of mobile telecommunications devices and accessories decreased from 18.6% in 2011 to 17.9% in 2012. Our gross profit from sales to franchisees increased by RMB2.7 million, or 7.3%, from RMB36.9 million in 2011 to RMB39.6 million in 2012. Our gross profit margin from sales to franchisees decreased from 3.5% in 2011 to 3.0% in 2012. Our gross profit from wholesale of mobile telecommunications devices and accessories decreased by RMB19.0 million, or 23.3%, from RMB81.4 million in 2011 to RMB62.4 million in 2012. Our gross profit margin from wholesale of mobile telecommunications devices and accessories decreased from 9.7% in 2011 to 4.5% in 2012. These decreases in gross profit margins were primarily due to the increase in the purchasing costs of smart mobile phones and 3G mobile phones outpacing the increase in their selling prices, while the proportion of these mobile phones in our sales was steadily increasing during the period.

Our gross profit from service income from mobile carriers increased by RMB61.1 million, or 28.5%, from RMB214.4 million in 2011 to RMB275.5 million in 2012. Our gross profit margin from service income from mobile carriers increased from 83.3% in 2011 to 83.7% in 2012. This increase was primarily due to increased commissions from mobile carriers as a result of our providing more services to them. Such services normally command high gross profit margins.

Our gross profit from other service fee income decreased by RMB27.5 million, or 29.9%, from RMB92.0 million in 2011 to RMB64.5 million in 2012. Our gross profit margin from other service fee income decreased slightly from 98.5% in 2011 to 95.9% in 2012.

***Other Income and Gains***

Our other income and gains increased by RMB19.2 million, or 156.1%, from RMB12.3 million in 2011 to RMB31.5 million in 2012. This increase was primarily due to (i) a 58.8% increase in interest income; (ii) a 270.3% increase in government grants as a result of our subsidiaries in Jiangsu Province receiving more financial subsidies and tax refund from local government authorities for the purpose of supporting local businesses; and (iii) a gain on disposal of subsidiaries in the amount of RMB3.5 million in 2012 in connection with the disposal of four subsidiaries.

***Selling and Distribution Expenses***

Our selling and distribution expenses increased by RMB148.3 million, or 22.2%, from RMB668.6 million in 2011 to RMB816.9 million in 2012. This increase was primarily due to (i) a 21.5% increase in salaries and compensation for our sales and distribution staff as a result of the increase in the number of our sales and distribution staff; (ii) a 24.2% increase in rental and property management fees as a result of the expansion of our retail and distribution network; and (iii) a 16.1% increase in advertising and promotion expenses as a result of increased promotion activities to enhance our brand recognition.

***Administrative Expenses***

Our administrative expenses increased by RMB42.5 million, or 22.4%, from RMB189.7 million in 2011 to RMB232.2 million in 2012. This increase was primarily due to: (i) increase in the number of our management and administrative staff to meet the demand for our business expansion, and (ii) an increase in average salaries, compensation and welfare payments made to our management and administrative staff.

***Other Expenses***

Our other expenses increased by RMB0.9 million, or 5.1%, from RMB17.5 million in 2011 to RMB18.4 million in 2012. This increase was primarily due to a 4.3% increase in our impairment loss on assets as a result of making provisions for bad debts.

***Finance Costs***

Our finance costs, consisting of interest on bank loans wholly repayable within one year, increased by RMB24.8 million, or 51.5%, from RMB48.2 million in 2011 to RMB73.0 million in 2012. This increase was primarily due to an increase in our bank loans.

### *Income Tax Expense*

Our income tax expense increased by RMB21.4 million, or 25.8%, from RMB82.8 million in 2011 to RMB104.2 million in 2012. Our effective tax rate increased from 27.2% in 2011 to 29.4% in 2012, as a result of making adjustment payment for part of the taxes for the previous year due to tax adjustment by tax authorities. The increase in our income tax expense was primarily due to the increase in the effective tax rate and the increase in profit before tax.

### *Profit for the Year*

As a result of the foregoing, our profit increased by RMB28.3 million, or 12.8%, from RMB221.5 million in 2011 to RMB249.8 million in 2012. Our net profit margin decreased from 3.4% in 2011 to 2.8% in 2012. The decrease in our net profit margin was primarily due to (i) the decrease in our gross profit margin from 18.7% in 2011 to 16.6% in 2012, and (ii) the increase in our finance costs from RMB48.2 million in 2011 to RMB73.0 million in 2012, mainly as a result of the increase in our bank loans.

## LIQUIDITY AND CAPITAL RESOURCES

We operate in a capital-intensive industry and have primarily financed our working capital, capital expenditure and other capital requirements through income generated from our operations and bank borrowings.

### Cash Flows

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Net cash generated from/(used in) operating activities | 226,588 | (79,342) | (15,297) |
| Net cash (used in) investing activities | (97,776) | (65,085) | (107,872) |
| Net cash generated from/(used in) financing activities | (2,935) | 382,081 | (104,627) |
| Net increase/(decrease) in cash and cash equivalents | 125,877 | 237,654 | (227,796) |
| Cash and cash equivalents at beginning of the year | 166,204 | 292,081 | 529,735 |
| Cash and cash equivalents at end of the year | 292,081 | 529,735 | 301,939 |

***Net cash generated from or used in operating activities***

We generate our cash from operating activities primarily from sales of mobile telecommunications devices and accessories. Our cash used in operating activities is primarily for purchase of telecommunications devices and accessories from suppliers, rental expenses and staff salaries and compensation. Our net cash flow generated from operating activities reflects our profit before income tax, as adjusted for non-cash items, such as finance costs and depreciation of items of property, plant and equipment, and the effects of changes in working capital, such as increases or decreases in inventories, receivables and trade and other payables and accruals. Although we had negative net operating cash flow of RMB79.3 million and RMB15.3 million for the years ended December 31, 2012 and 2013, respectively, our Directors believe that our operating cash flow will improve after taking consideration of expected cash generated from our operation, the available banking facilities and the estimated net proceeds from the Global Offering, and will not have a material adverse impact on our financial condition.

For the year ended December 31, 2013, we had net cash outflow from operating activities of RMB15.3 million, primarily due to (i) an increase in trade and bills receivables of RMB512.5 million in connection with growth in sales of mobile phones bundled with contracted call service subscriptions as a result of closer cooperation with mobile carriers; (ii) an increase in inventories of RMB380.0 million and an increase in prepayments, deposits and other receivables of RMB158.0 million in connection with purchase of new products in preparation for the New Year and Chinese New Year holiday season, such as Apple iPhone 5S; and (iii) corporate income tax paid of RMB96.5 million. Cash used in operating activities was partially offset by (i) profit before tax after adjustment for non-cash items of RMB609.3 million; and (ii) an increase in trade and bills payables of RMB465.4 million in connection with the increase in inventories.

For the year ended December 31, 2012, we had net cash outflow from operating activities of RMB79.3 million, primarily due to (i) an increase in inventories of RMB341.5 million in connection with the increase in purchases in preparation for the New Year and Chinese New Year holiday season driven by the launch of new products at the year end, such as Apple iPhone 5 and Samsung Galaxy Note II; (ii) an increase in trade and bills receivables of RMB209.3 million in connection with sales growth as a result of closer cooperation with mobile carriers and wholesale clients; (iii) an increase in prepayments, deposits and other receivables of RMB126.2 million in connection with purchase of new products at the year end, such as Samsung Galaxy Note II, in preparation for the New Year and Chinese New Year holiday season; and (iv) corporate income tax paid of RMB105.5 million. Cash used in operating activities was partially offset by (i) profit before tax after adjustment for non-cash items of RMB495.0 million; (ii) an increase in other payables and accruals of RMB118.3 million in connection with our efforts to get paid before dispatching products for some new clients; and (iii) an increase in trade and bills payables of RMB79.8 million in connection with the increase in inventories.

For the year ended December 31, 2011, we had net cash inflow from operating activities of RMB226.6 million, primarily due to (i) profit before tax after adjustment for non-cash items of RMB412.7 million; and (ii) an increase in trade and bills payables of RMB319.0 million in connection with the increase in inventories at the year end in preparation for the New Year and Chinese New Year holiday season and the credit period granted by some suppliers. Cash generated from operating activities was partially offset by (i) an increase in inventories of RMB283.6 million in connection with the increase in purchases in preparation for the New Year and Chinese New Year holiday season; (ii) an increase in trade and bills receivables of RMB160.4 million in connection with an overall increase in selling prices of mobile phones and closer cooperation with mobile carriers; and (iii) corporate income tax paid of RMB61.9 million.

***Net cash used in investing activities***

Our net cash flow used in investing activities reflects the results of our investing activities for the period, such as purchase of items of property, plant, equipment and intangible assets, proceeds from disposal of items of property, plant and equipment, proceeds from disposal of subsidiaries and acquisition of subsidiaries.

For the year ended December 31, 2013, we had net cash outflow from investing activities of RMB107.9 million, primarily due to purchase of items of property, plant, equipment and intangible assets in connection with renovation of existing stores and purchase of office supplies.

For the year ended December 31, 2012, we had net cash outflow from investing activities of RMB65.1 million, primarily due to purchase of property, plant and equipment and intangible assets in connection with expansion of new stores, renovation of existing stores and purchase of office supplies.

For the year ended December 31, 2011, we had net cash outflow from investing activities of RMB97.8 million, primarily due to (i) purchase of items of property, plant, equipment and intangible assets of RMB82.6 million in connection with renovation of stores and purchase of office supplies; and (ii) acquisition of subsidiaries of RMB15.4 million in connection with our acquisition of several subsidiaries in 2011 to complement our business operations.

***Net cash generated from or used in financing activities***

Our net cash generated from (or used in) financing activities reflects the results of our financing activities for the period, such as bank loans, proceeds from other financing activities, repayment of bank loans, interests paid and payment of other financing activities.

For the year ended December 31, 2013, we had net cash outflow from financing activities of RMB104.6 million, primarily due to (i) repayment of bank loans of RMB3,509.4 million, and (ii) divided paid of RMB200.0 million; partially offset by new bank loans of RMB3,836.8 million.

For the year ended December 31, 2012, we had net cash inflow from financing activities of RMB382.1 million, primarily due to (i) new bank loans of RMB2,783.5 million; partially offset by the repayment of existing bank loans of RMB2,313.0 million, and (ii) interest paid of RMB73.0 million.

For the year ended December 31, 2011, we had net cash outflow from financing activities of RMB2.9 million, primarily due to (i) the repayment of existing bank loans of RMB1,743.6 million, (ii) a decrease of pledged deposits for loans of RMB182.9 million, and (iii) interest paid of RMB48.2 million; partially offset by new bank loans of RMB1,975.1 million.

### Working Capital

Taking into account the financial resources available to our Group, including the expected cash generated from our operations, the available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this Prospectus (the "**Working Capital Statement**"). The Joint Sponsors have obtained a written confirmation from the Company that the working capital available to the Group is sufficient for at least the next 12 months from the date of this Prospectus (the "**Confirmation**"). After due consideration and discussion with the Company's management and based on the Confirmation, the Joint Sponsors were of the view that the Directors gave the Working Capital Statement after due and careful enquiry by the Company.

## CERTAIN BALANCE SHEET ITEMS

### Trade and Bills Receivables

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

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Bills receivable | 200 | 5,918 | 340 |
| Trade receivables | 596,367 | 799,636 | 1,318,133 |
| | 596,567 | 805,554 | 1,318,473 |
| Less: Impairment for trade receivables | (23,516) | (29,662) | (65,974) |
| | 573,051 | 775,892 | 1,252,499 |

We grant different credit periods to our customers ranging from 30 to 90 days. Credit periods are offered to customers of volume sales of telecommunications devices and accessories. We maintain strict control over and closely monitor our outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by management. In view of the fact that 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 unsecured and non-interest-bearing.

Our trade and bills receivables increased by RMB202.8 million, or 35.4%, from RMB573.1 million as of December 31, 2011 to RMB775.9 million as of December 31, 2012. Our trade and bills receivables further increased by RMB476.6 million, or 61.4%, from RMB775.9 million as of December 31, 2012 to RMB1,252.5 million as of December 31, 2013. These increases were primarily due to (i) an increase in receivables from mobile carriers as a result of a longer credit period offered to them; (ii) an increase in receivables from our supermarkets clients as a result of our extension of settlement period with these clients; and (iii) an increase in receivables from our franchisees as a result of increased sales to franchisees. As of March 31, 2014, approximately 81.0% of our trade receivables as of December 31, 2013 were subsequently settled.

Our management regularly monitors the recoverability of our overdue balances of trade and bills receivables, and, when appropriate, provides for impairment of these receivables. During the Track Record Period, we made provisions for impairment of trade and bill receivables based on the age of our receivables. Our provisions for impairment of trade and bill receivables increased from RMB29.7 million as of December 31, 2012 to RMB66.0 million as of December 31, 2013, primarily as a result of an increase in our total trade and bills receivables from RMB805.6 million as of December 31, 2012 to RMB1,318.5 million as of December 31, 2013. 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:

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **(RMB'000)** | **(RMB'000)** | **(RMB'000)** |
| Within 90 days | 449,767 | 634,076 | 875,828 |
| 91 to 180 days | 72,054 | 72,684 | 199,128 |
| 180 to 365 days | 30,105 | 46,758 | 145,604 |
| Over 1 year | 21,125 | 22,374 | 31,939 |
| | 573,051 | 775,892 | 1,252,499 |

The following table sets forth our average trade and bills receivables turnover days during the Track Record Period:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Average trade and bills receivables turnover days[(1)] | 28 | 28 | 29 |

*Note:*

(1) Average trade and bills receivables turnover days equal to the average trade and bills receivables divided by revenue multiplied by 365 days. Average trade and bills receivables equal to trade and bills receivables at the beginning of the year plus trade and bills receivables at the end of the year and divided by two.

Our average trade and bills receivables turnover days remained stable during the Track Record Period.

We endorsed certain bills receivable accepted by banks in the PRC to certain of our suppliers in order to settle the trade payables due to such suppliers. For details, please refer to Note 22 to the "Accountants' Report" included as Appendix I to this Prospectus. According to our PRC legal adviser, since the endorsement of the bills receivable was backed up by a genuine underlying trade and the bills receivable were not classified as non-transferrable, our act of endorsing the relevant bills receivable to settle the trade payables is legal and valid under the PRC Negotiable Instruments Laws (《中華人民共和國票據法》).

**Prepayments, Deposits and Other Receivables**

Our prepayments, deposits and other receivables consist of (i) prepayments; and (ii) deposits and other receivables. The following table sets forth information relating to our prepayments, deposits and other receivables.

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Prepayments | 207,847 | 362,681 | 544,324 |
| Deposits and other receivables | 182,688 | 153,364 | 128,491 |
| | 390,535 | 516,045 | 672,815 |
| Less: Impairment for other receivables | (9,876) | (7,821) | (6,553) |
| | 380,659 | 508,224 | 666,262 |

Our prepayments represent our prepayments to suppliers of mobile telecommunications devices and accessories and prepaid rental payments to our lessors. Our prepayments increased by RMB154.9 million, or 74.5%, from RMB207.8 million as of December 31, 2011 to RMB362.7 million as of December 31, 2012. This increase was primarily due to (i) prepayments for suppliers of Apple and Samsung mobile phones at the year end, and (ii) an increase of prepaid rental payments to lessors as a result of an increase in rental payments and the opening of new stores. Our prepayments increased by RMB181.6 million, or 50.1%, from RMB362.7 million as of December 31, 2012 to RMB544.3 million as of December 31, 2013. This increase was primarily due to prepayments for suppliers of Apple and Samsung mobile phones at the year end.

**Impairment of Trade and Other Receivables**

Our provision policy for impairment of trade and other receivables is based on ongoing evaluation of the collectability and aging analysis of the outstanding receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

Generally, for prepayment for receivables relating to rental of leased properties, we make provision for 1% of the outstanding amount. For receivables from mobile carriers, we make provision for 1% of the outstanding amount. Other than the above, the table below sets forth the provision percentage for our trade and other receivables:

| | Provision % of trade receivables | Provision % of other receivables |
|---|---|---|
| Within 1 year | 5% | 5% |
| 1-2 years | 10% | 10% |
| 2-3 years | 20% | 20% |
| Over 3 years | 100% | 100% |

Based on the above provision policy, our Directors believe that our provision for impairment of trade and bill receivables is adequate.

### Inventories

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

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Merchandise for resale | 930,007 | 1,259,246 | 1,631,916 |
| Consumables | 1,022 | 4,494 | 1,541 |
| | 931,029 | 1,263,740 | 1,633,457 |
| Less: Provision against inventories | (8,755) | (11,541) | (16,390) |
| | 922,274 | 1,252,199 | 1,617,067 |

Our inventories increased by RMB329.9 million, or 35.8%, from RMB922.3 million as of December 31, 2011 to RMB1,252.2 million as of December 31, 2012. This increase was primarily due to (i) an increase in purchases in preparation for the New Year and Chinese New Year holiday season driven by the launch of new products at the year end, such as Apple iPhone 5 and Samsung Galaxy Note II, and (ii) the relatively high prices of smart phones purchased, such as Apple iPhone 5 and Samsung Galaxy Note II. Our inventories increased by RMB364.9 million, or 29.1%, from RMB1,252.2 million as of December 31, 2012 to RMB1,617.1 million as of December 31, 2013. This increase was primarily due to (i) an increase in purchases in preparation for the New Year and Chinese New Year holiday season driven by the launch of new products at the year end, such as Apple iPhone 5S, and (ii) the relatively high prices of smart phones purchased, such as Apple iPhone 5S. As of March 31, 2014, approximately 96.4% of our inventories as of December 31, 2013 were subsequently sold.

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

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Within 30 days | 865,846 | 1,215,400 | 1,412,855 |
| 31 to 60 days | 49,267 | 28,777 | 179,818 |
| 60 to 90 days | 11,056 | 10,669 | 21,809 |
| Over 90 days | 4,860 | 8,894 | 18,975 |
| | 931,029 | 1,263,740 | 1,633,457 |

In determining provision on inventories, our management performs regular review of the carrying amounts of inventories with reference to the aging analysis of inventories and projections of expected future salability of goods, based on their experience and judgment. The net realizable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Our management reassesses these estimates at the end of each reporting period to ensure that the carrying value of inventory is not recorded at a value higher than net realizable value.

For further information on our inventory management system, please see "Business – Inventory, Distribution and Logistics – Inventory management."

The following table sets forth the average inventory turnover days during the Track Record Period:

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| Average inventory turnover days(1) . . . . | 54 | 54 | 47 |

*Note:*

(1) Average inventory turnover days is equal to the average inventory divided by cost of sales and multiplied by 365 days. Average inventory equals inventory at beginning of the year plus inventory at the end of the year and divided by two.

Our inventory turnover days decreased from 54 as of December 31, 2012 to 47 as of December 31, 2013, primarily due to our ability to better manage our inventories and optimize our product offerings.

**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 as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **(RMB'000)** | **(RMB'000)** | **(RMB'000)** |
| Trade payables . . . . . . . . . . . . . . . . . . . | 306,204 | 338,447 | 545,434 |
| Bills payables . . . . . . . . . . . . . . . . . . . . | 366,630 | 354,356 | 533,031 |
| | 672,834 | 692,803 | 1,078,465 |

Our trade payables are non-interest bearing and are normally settled within 30 to 45 days. Our trade and bills payables remained relatively stable as of December 31, 2011 and 2012. Our trade and bills payables increased by RMB385.7 million, or 55.7%, from RMB692.8 million as of December 31, 2012 to RMB1,078.5 million as of December 31, 2013. This increase was primarily due to an increase in our purchase volumes driven by sales growth.

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

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Within 90 days | 594,337 | 571,867 | 1,004,864 |
| 91-180 days | 62,376 | 95,484 | 33,295 |
| 181-365 days | 5,977 | 14,193 | 29,644 |
| Over 2 year | 10,144 | 11,259 | 10,662 |
| | 672,834 | 692,803 | 1,078,465 |

The following table sets forth our average trade and bills payables turnover days during the Track Record Period:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Average trade and bills payables turnover days(1) | 39 | 34 | 29 |

*Note:*

(1) Average trade and bills payables turnover days equal to the average trade and bills payables divided by cost of sales multiplied by 365 days. Average trade and bills payables equal to trade and bills payables at the beginning of the year plus trade and bills payables at the end of the year and divided by two.

Our average trade and bills payables turnover days decreased from 39 as of December 31, 2011 to 34 as of December 31, 2012, and further to 29 as of December 31, 2013, primarily because more suppliers granted us shorter credit periods or required prepayments or current payments for our purchases.

### Other Payables and Accruals

Our other payables and accruals consist of (i) advances from customers; (ii) payroll and welfare payables; (iii) accrued expenses; and (iv) other payables. The following table sets forth information relating to our other payables and accruals as of the dates indicated:

| | As of December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| Advances from customers | 32,176 | 102,768 | 136,076 |
| Payroll and welfare payables | 22,203 | 26,651 | 39,875 |
| Accrued expenses | 8,931 | 21,481 | 40,403 |
| Other payables | 76,716 | 104,700 | 99,854 |
| | 140,026 | 255,600 | 316,208 |

Our advances from customers represent advance payments by customers for their purchases. Our advances from customers increased by RMB70.6 million, or 219.3%, from RMB32.2 million as of December 31, 2011 to RMB102.8 million as of December 31, 2012. Our advances from customers increased by RMB33.3 million, or 32.4%, from RMB102.8 million as of December 31, 2012 to RMB136.1 million as of December 31, 2013. These increase were primarily due to our implementation of the policy of receiving advance payments before dispatching products to some new clients.

Our payroll and welfare payables represent accrued payroll and welfare expenses to our employees. Our payroll and welfare payables remained relatively stable as of December 31, 2011 and 2012. Our payroll and welfare payables increased by RMB13.2 million, or 49.4%, from RMB26.7 million as of December 31, 2012 to RMB39.9 million as of December 31, 2013, primarily due to an increase in salary and compensation for our staff.

Our accrued expenses represent accrued interest expenses on bank loans, rental expenses and advertising expenses. Our accrued expenses increased by RMB12.6 million, or 141.6%, from RMB8.9 million as of December 31, 2011 to RMB21.5 million as of December 31, 2012. This increase was primarily due to (i) an increase in the amount of our bank loans from RMB756.5 million as of December 31, 2011 to RMB1,290.7 million as of December 31, 2012, and (ii) an annual increase in interest rates of our bank loans. Our accrued expenses increased by RMB18.9 million, or 87.9%, from RMB21.5 million as of December 31, 2012 to RMB40.4 million as of December 31, 2013. This increase was primarily due to (i) an increase in the amount of our bank loans from RMB756.5 million as of December 31, 2011 to RMB1,290.7 million as of December 31, 2012, and (ii) an annual increase in interest rates of our bank loans.

Our other payables increased by RMB28.0 million, or 36.5%, from RMB76.7 million as of December 31, 2011 to RMB104.7 million as of December 31, 2012. This increase was primarily due to our receipt of subscription fees for contracted calling plans from subscribers on behalf of the mobile carriers, as a result of our closer cooperation with mobile carriers. Our other payables decreased by RMB4.8 million, or 4.6%, from RMB104.7 million as of December 31, 2012 to RMB99.9 million as of December 31, 2013.

**Net Current Assets Position**

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

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) (unaudited) |
| **Current assets** | | | | |
| Inventories | 922,274 | 1,252,199 | 1,617,067 | 1,643,930 |
| Trade and bills receivables | 573,051 | 775,892 | 1,252,499 | 1,316,880 |
| Prepayments, deposits and other receivables | 380,659 | 508,224 | 666,262 | 521,331 |
| Amount due from a Director | 10,700 | – | – | – |
| Amount due from a related party | – | 826 | 5,300 | – |
| Pledged deposits | 362,996 | 382,172 | 514,070 | 520,865 |
| Cash and cash equivalents | 292,081 | 529,735 | 301,939 | 384,955 |
| **Total current assets** | 2,541,761 | 3,449,048 | 4,357,137 | 4,387,961 |
| **Current liabilities** | | | | |
| Interest-bearing loans | 756,543 | 1,290,701 | 1,698,753 | 1,794,913 |
| Trade and bills payables | 672,834 | 692,803 | 1,078,465 | 983,086 |
| Other payables and accruals | 140,026 | 255,600 | 316,208 | 274,057 |
| Tax payable | 59,380 | 59,688 | 69,340 | 64,725 |
| Amount due to a related party | – | 116 | 1,701 | – |
| **Total current liabilities** | 1,628,783 | 2,298,908 | 3,164,467 | 3,116,781 |
| **Net current assets** | 912,978 | 1,150,140 | 1,192,670 | 1,271,180 |

Our net current assets were approximately RMB913.0 million, RMB1,150.1 million, RMB1,192.7 million and RMB1,271.2 million as of December 31, 2011, 2012 and 2013 and April 30, 2014, respectively.

As of April 30, 2014, we had net current assets of RMB1,271.2 million, consisting of current assets of RMB4,388.0 million and current liabilities of RMB3,116.8 million, which represented an increase of RMB78.5 million, or 6.6%, from our net current assets of RMB1,192.7 million as of December 31, 2013.

As of December 31, 2013, we had net current assets of RMB1,192.7 million, consisting of current assets of RMB4,357.1 million and current liabilities of RMB3,164.5 million, which represented an increase of RMB42.6 million, or 3.7%, from our net current assets of RMB1,150.1 million as of December 31, 2012.

As of December 31, 2012, we had net current assets of RMB1,150.1 million, consisting of current assets of RMB3,449.0 million and current liabilities of RMB2,298.9 million, which represented an increase of RMB237.1 million, or 26.0%, from our net current assets of RMB913.0 million as of December 31, 2011. The improvement was primarily due to improvement in our business performance in the year ended December 31, 2012.

Our Directors confirm that we will settle the amount due to/from a related party as of December 31, 2013 before Listing.

## CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily represented expenditures incurred in relation to purchase of property, plant and equipment, intangible assets and renovation expenses. During the years ended December 31, 2011, 2012 and 2013, we incurred capital expenditures of RMB82.6 million, RMB66.4 million and RMB107.2 million, respectively. We intend to fund our future capital expenditures through a combination of our cash generated from operations, bank borrowings and proceeds from the Global Offering.

## CONTRACTUAL OBLIGATIONS

We lease certain of our office properties under operating lease arrangements. Leases for office properties are for terms ranging from one to five years. The following table sets forth information relating to our total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **(RMB'000)** | **(RMB'000)** | **(RMB'000)** |
| Within a year | 243,855 | 269,320 | 331,281 |
| In the second to fifth years, inclusive | 439,292 | 527,620 | 653,978 |
| | 683,147 | 769,940 | 985,259 |

Other than the above, as of December 31, 2013 and the Latest Practicable Date, we did not have any significant commitments.

## RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into various transactions with related parties, including companies controlled by our Controlling Shareholders and a joint venture. The following table sets forth information relating to our transactions with related parties during the periods indicated:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | (RMB'000) | (RMB'000) | (RMB'000) |
| A joint venture entity | | | |
| Sales of goods | 92 | 96 | 13 |
| Purchase of goods | – | 116 | 51 |
| Loans provided by companies controlled by the Controlling Shareholders | 8,566 | 4,000 | – |

The transaction with a joint venture entity represents trade receivables and payables from Hollard – D. Phone (Beijing) Technology Development Co., Ltd. (和德信通(北京)科技發展公司) in connection with purchase of mobile phone insurances. We expect to continue transactions with this entity. Our Directors are of the opinion that such related party transactions were based on normal commercial terms and conducted on an arm's length basis.

Loans provided by companies controlled by our Controlling Shareholders represent various short-term and temporary loans obtained from our shareholders for our business needs. For the years ended December 31, 2011, 2012 and 2013, the total amount of such loans was RMB8.6 million, RMB4.0 million and nil, respectively. During the Track Record Period, such loans were all unsecured, interest-free and repayable on demand. For more information regarding the loans provided to us by companies controlled by our Controlling Shareholders, please see "Business – Legal and Administrative Proceedings and Compliance."

In addition, our Controlling Shareholders have guaranteed bank loans made to us during the Track Record Period. For more information regarding loans guaranteed by our Controlling Shareholders, please see "– Indebtedness – Bank Borrowings" in this section.

## INDEBTEDNESS

### Bank Borrowings

During the Track Record Period and up to April 30, 2014, all of our bank borrowings were short term in nature and repayable within one year. The following table sets forth our outstanding borrowing as of the dates indicated:

| | As of December 31, | | | As of April 30, |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) |
| Bank loans: | | | | |
| Unsecured, repayable within one year. . . . . . . . | 130,543 | 190,407 | 271,000 | 418,336 |
| Secured and guaranteed by controlling shareholders, repayable within one year . . . . . . . . . . . . . . . . | 346,000 | 376,000 | 485,949 | 384,773 |
| Guaranteed by controlling shareholders, repayable within one year. . . . . . . . | 280,000 | 724,294 | 941,804 | 991,804 |
| | 756,543 | 1,290,701 | 1,698,753 | 1,794,913 |
| The bank loans bear interest at rates per annum in the range of . . . . . . . . . . . . . . | 4.37% to 9.25% | 5.60% to 8.42% | 5.60% to 7.80% | 4.39% to 7.80% |

During the Track Record Period, we entered into various loan agreements with banks to finance our business operations and expansion. These bank loans were repayable within one year or on demand. These bank loans were variable-rate bank loans which carry interest at the People's Bank of China benchmark rate plus a premium. We used these bank loans mainly to purchase mobile telecommunications devices and accessories. These bank loans are secured by pledge of assets, including time deposits or property, plant and equipment, trade receivables, and/or guaranteed by our Controlling Shareholders. Our bank loans increased by RMB534.2 million, or 70.6%, from RMB756.5 million as of December 31, 2011 to RMB1,290.7 million as of December 31, 2012. Our bank loans increased by RMB408.1 million, or 31.6%, from RMB1,290.7 million as of December 31, 2012 to RMB1,698.8 million as of December 31, 2013. These increases were primarily due to (i) our need for purchasing more mobile telecommunications devices and accessories as a result of our sales growth driven by our business expansion, and (ii) the financing need resulting from some suppliers not granting credit periods to us and requiring prepayments or current payments. As of April 30, 2014, being the latest practicable date for our indebtedness statement, our total credit facilities amounted to RMB2,188.3 million, of which RMB166.7 million were unutilized.

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

For more information regarding loans guaranteed by Controlling Shareholders, please see the section headed "Relationship with our Controlling Shareholders."

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not have any material default in payment of trade and non-trade payables and bank borrowings, nor did we breach any financial covenants. Save as disclosed herein, the agreements under our banking borrowings do not contain any covenant that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors also confirm that as of the Latest Practicable Date, we did not have any plan to raise material external debt financing. Except as disclosed in "Financial Information – Indebtedness" above, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of April 30, 2014, being the latest practicable date for our indebtedness statement.

## KEY FINANCIAL RATIOS

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

| | As of December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| Current ratio | 1.6 | 1.5 | 1.4 |
| Gearing ratio | 29.5% | 35.8% | 49.2% |
| Net debt-to-equity ratio | 41.9% | 55.9% | 96.8% |

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| Return on Equity | 22.3% | 20.5% | 19.2% |

Current ratio is our current assets divided by our current liabilities at the end of each financial period. Our current ratio remained relatively steady during the Track Record Period.

Gearing ratio is net debt divided by net debt and total equity at the end of each financial period and multiplied by 100%. Net debt includes interest-bearing bank loans, less cash and cash equivalents. Our gearing ratio was 29.5%, 35.8% and 49.2% as of December 31, 2011, 2012 and 2013, respectively. Our gearing ratio increased from 29.5% as of December 31, 2011 to 35.8% as of December 31, 2012, primarily due to a 63.8% increase in our net debt from RMB464.5 million as of December 31, 2011 to RMB761.0 million as of December 31, 2012. The increase in our net debt was primarily due to a 70.6% increase in our interest-bearing bank loans from RMB756.5 million as of December 31, 2011 to RMB1,290.7 million as of December 31, 2012. Our gearing ratio increased from 35.8% as of December 31, 2012 to 49.2% as of December 31, 2013, primarily due to a 83.5% increase in our net debt from RMB761.0 million as of December 31, 2012 to RMB1,396.8 million as of December 31, 2013. The increase in our net debt was primarily due to a 31.6% increase in our interest-bearing bank loans from RMB1,290.7 million as of December 31, 2012 to RMB1,698.8 million as of December 31, 2013. The increase in our interest-bearing bank loans was primarily due to (i) our need for purchasing more mobile telecommunications devices and accessories as a result of our sales growth driven by our business expansion, and (ii) the financing need resulting from some suppliers not granting credit periods to us and requiring prepayments or current payments.

Net debt-to-equity ratio equals net debt divided by total equity as at the end of the period and multiplied by 100%. Our net debt-to-equity ratio was 41.9%, 55.9% and 96.8% as of December 31, 2011, 2012 and 2013, respectively. Our net debt-to-equity ratio increased from 41.9% as of December 31, 2011 to 55.9% as of December 31, 2012, primarily due to a 63.8% increase in our net debt from RMB464.5 million as of December 31, 2011 to RMB761.0 million as of December 31, 2012. The increase in our net debt was primarily due to a 70.6% increase in our interest-bearing bank loans from RMB756.5 million as of December 31, 2011 to RMB1,290.7 million as of December 31, 2012. Our net debt-to-equity ratio increased from 55.9% as of December 31, 2012 to 96.8% as of December 31, 2013, primarily due to a 83.5% increase in our net debt from RMB761.0 million as of December 31, 2012 to RMB1,396.8 million as of December 31, 2013. The increase in our net debt was primarily due to a 31.6% increase in our interest-bearing bank loans from RMB1,290.7 million as of December 31, 2012 to RMB1,698.8 million as of December 31, 2013. The reason for the increase in our interest-bearing bank loans was set forth above.

Return on equity is profit for the year and total comprehensive income attributable to owners of the company divided by the average shareholders' equity of the beginning and the end of each financial period and multiplied by 100%. Our return on equity for the years ended December 31, 2011, 2012 and 2013 was 22.3%, 20.5% and 19.2%, respectively. Our return on equity decreased during the Track Record Period because the percentage growth in net profit is lower than that of the average shareholders' equity.

## LISTING EXPENSES

We incurred listing expenses of approximately RMB3.4 million for the year ended December 31, 2013, which were charged to our administrative expenses. We estimate we will further incur listing expenses (excluding commissions and incentive fees (if any) to be payable to the Underwriters, the SFC transaction levy and the Stock Exchange trading fee) of approximately RMB48.2 million for the year ending December 31, 2014 in connection with the Global Offering, of which approximately RMB28.7 million will be charged to our administrative expenses and approximately RMB14.5 million will be capitalized. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending December 31, 2014.

## QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks, including credit risk and liquidity risk.

### Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to both fair value and cash flow interest rate risks. Our exposure to market risk for changes in interest rates relates primarily to our bank borrowings with a floating interest rate.

At present, we do not intend to seek to hedge our exposure to interest rate fluctuations.

### Credit risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, therefore, our exposure to bad debts is not significant.

With respect to credit risk arising from our other financial assets, which comprise cash and cash equivalents and other receivables, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within us as the customer bases of our trade receivables are widely dispersed in different sectors and industries.

**Liquidity risk**

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e g, trade and bills receivables) and projected cash flows from operations.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

## CONTINGENT LIABILITIES

As of December 31, 2013 and as of the Latest Practicable Date, we did not have any contingent liabilities.

## OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, we have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging services with us.

## DIVIDEND POLICY

Our Directors, subject to approval by our Shareholders, may declare dividends after taking into account, among other things, our general business condition and strategics, results of operations, cash flows and financial condition, operating and capital requirements, interests of our Shareholders, taxation conditions, the amount of distributable profits based on PRC GAAP or IFRS, whichever is lower, our Articles of Association, the PRC Company Law, applicable laws and regulations and other factors that our Directors deem relevant. In particular, under applicable PRC laws and our Articles of Association, we can only distribute dividends out of our after-tax profit after the following allocations have been made: (i) recovery of accumulated losses, if any; (ii) mandatory allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit, unless the common reserve fund reaches 50% of our registered capital or above; and (iii) allocations to discretionary common reserve fund, subject to the Shareholders' approval at the Shareholders meeting.

In June 2013, we declared and paid dividends in the amount of RMB200.0 million. You should note that historical dividend distributions are not indicative of our future dividend distribution policy. There is no assurance that we will be able to declare dividends of such amount or any amount in any year. In addition, the declaration and/or payment of dividends may be limited by legal restrictions and/or by financing agreements that we may enter into in the future.

## DISTRIBUTABLE RESERVES

As of December 31, 2013, our distributable reserves were RMB778.3 million.

## DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this Prospectus, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Listing as if the Listing had taken place on December 31, 2013.

It is based on our net tangible assets as of December 31, 2013 contained in the "Unaudited Pro Forma Financial Information" in Appendix II to this Prospectus and adjusted as described below:

| | Audited consolidated net tangible assets of our Group attributable to equity holders of our Company as of December 31, 2013[1] | Estimated net proceeds from the Global Offering[2] | Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company as of December 31, 2013 | Unaudited pro forma adjusted net tangible assets per Share | |
|---|---|---|---|---|---|
| | (RMB'000) | (RMB'000) | (RMB'000) | RMB | HK$ |
| Based on an Offer Price of HK$5.30 per H Share | 1,365,468 | 631,984 | 1,997,452 | 3.00 | 3.78 |
| Based on an Offer Price of HK$7.10 per H Share | 1,365,468 | 862,844 | 2,228,312 | 3.34 | 4.21 |

*Notes:*

(1) As of December 31, 2013, our audited consolidated net tangible assets attributable to equity holders of our Company were equal to equity attributable to equity holders of our Company less the intangible assets.

(2) The estimated net proceeds from the Global Offering are based on hypothetical Offer Prices of HK$5.30 and HK$7.10, respectively, per Offer Share assuming no exercise of the Over-allotment Option, after deduction of underwriting commission and estimated expenses payable by us in connection with the Global Offering.

(3) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 666,667,000 Shares expected to be in issue immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option).

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK$5.30 and HK$7.10, respectively, per H Share, the unaudited pro forma adjusted net tangible assets per Share will be HK$3.83 per Share and HK$4.31 per Share, respectively.

## DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that they have performed sufficient due diligence on our Company to ensure that, up to the date of this Prospectus, there had been no material adverse change in our financial or trading conditions since December 31, 2013, and there had been no event since December 31, 2013 which would materially affect the information shown in "Accountants' Report" set out in Appendix I to this Prospectus.

### Recent Developments

Based on our unaudited consolidated financial statements for the three months ended March 31, 2014, which have been reviewed by our reporting accountants with reference to the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", we recorded revenue of RMB3,440.7 million, gross profit of RMB473.0 million and a gross profit margin of 13.7% for the three months ended March 31, 2014. Our revenue for the three months ended March 31, 2014 increased by 13.7% as compared to that for the three months ended March 31, 2013. The increase in our revenue was primarily due to (i) increases in retail, wholesale and franchise sales of mobile telecommunications devices and accessories driven by increases in sales volume; and (ii) an increase in service income from mobile carriers. Our gross profit margin increased slightly from 13.4% for the three months ended March 31, 2013 to 13.7% for the three months ended March 31, 2014. The slight increase in our gross profit margin was primarily due to the increase in the proportion of service income from mobile carriers as a result of increased commissions received from carriers for contracted call service subscriptions, which commanded relatively high gross profit margin. In the three months ended March 31, 2014, we recorded net cash generated from operating activities in the amount of RMB144.1 million.

Our Directors confirm that, since December 31, 2013 and up to the date of this Prospectus, there had been no material adverse change in our financial or trading conditions, and there had been no event which would materially affect the information shown in "Accountants' Report" set out in Appendix I to this Prospectus.

## FUTURE PLANS

For a detailed description of our future plans, see "Business – Our Strategies."

## USE OF PROCEEDS

We estimate that we will receive net proceeds of the Global Offering, after deducting the underwriting commission (not including incentive fees (if any)) and estimated expenses payable by us in relation to the Global Offering in the amount of:

- approximately HK$796.6 million, if the Over-allotment Option is not exercised or HK$925.1 million, if the Over-allotment Option is exercised in full (assuming an Offer Price of HK$5.30 per Offer Share, being the low-end of the proposed Offer Price range);

- approximately HK$942.0 million, if the Over-allotment Option is not exercised or HK$1,092.4 million, if the Over-allotment Option is exercised in full (assuming an Offer Price of HK$6.20 per Offer Share, being the mid-point of the proposed Offer Price range); or

- approximately HK$1,087.5 million, if the Over-allotment Option is not exercised or HK$1,259.7 million, if the Over-allotment Option is exercised in full (assuming an Offer Price of HK$7.10, being the high-end of the proposed Offer Price range).

We intend to use these net proceeds for the following purposes, assuming an Offer Price of HK$6.20 per Offer Share, being the mid-point of the proposed Offer Price range and assuming no exercise of the Over-allotment Option:

- approximately 56% or HK$527.5 million will be used to expand our retail and distribution network as follows:

  – approximately 28% or HK$263.8 million will be used to set up approximately 300 new standalone outlets in the PRC during the period from 2014 to 2016;

  – approximately 15% or HK$141.3 million will be used to set up approximately 150 store-in-store outlets in shopping malls in the PRC during the period from 2014 to 2016;

  – approximately 13% or HK$122.5 million will be used for potential acquisitions of regional telecommunications retail chains in Heilongjiang, Gansu and Jilin provinces and in Ningxia Hui autonomous region. As of the Latest Practicable Date, we did not enter into any definitive acquisition agreement or have any proposal for acquisition and did not identify any target retail chain for any potential acquisition, nor did we incur any capital commitment with respect to any potential acquisition;

- approximately 14% or HK$131.9 million will be used for repayment of bank borrowings which carry different interest rates between 6.0% and 7.8% per annum and will mature on various dates between June 2014 and January 2015, respectively. The borrowed funds were used for working capital purposes;

- approximately 9% or HK$84.8 million will be used to upgrade our information system to further improve our operational management capability;

- approximately 7% or HK$65.9 million will be used to upgrade and refurbish our existing outlets and establish new call centers and new after-sales services system in the PRC;

- approximately 6% or HK$56.5 million will be used to undertake multi-functional mobile Internet projects. See "Business – Our Strategies – Improve our O2O platform and further develop our mobile Internet services"; and

- approximately 8% or HK$75.4 million will be used for working capital and other general corporate purposes.

In the event that the Offer Price per Offer Share is not finally determined to be mid-point of the Offer Price range stated in this Prospectus, the amount of proceeds for each use set out above will be increased or reduced, as the case may be, on a pro-rata basis.

To the extent our net proceeds are not sufficient to fund the purposes set out above, we intend to fund the balance through a variety of means, including cash generated from operations and bank financing.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits with authorized financial institutions and/or licensed banks in Hong Kong.

## HONG KONG UNDERWRITERS

### Joint Lead Managers

Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch
DBS Asia Capital Limited
Standard Chartered Securities (Hong Kong) Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Hong Kong Public Offering

#### *Hong Kong Underwriting Agreement*

The Hong Kong Underwriting Agreement was entered into on June 24, 2014. As described in the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and subject to the terms and conditions of this Prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming and remaining unconditional and not having been terminated in accordance with its terms.

#### *Grounds for Termination*

The Joint Global Coordinators for themselves and on behalf of the Hong Kong Underwriters shall be entitled, after consultation with our Company, to the extent that is reasonably practicable and at their sole discretion, by written notice to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

(i) there shall develop, occur, exist or come into effect:

   (a) any event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (taken as a whole), Japan or Singapore (each a "Relevant Jurisdiction"); or

(b) any change, or any development involving a prospective change, or any event or circumstance likely to result in any change or development involving a prospective change, in any financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any Relevant Jurisdiction; or

(c) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

(d) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of our Company listed or quoted on a stock exchange or an over-the-counter market; or

(e) any general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authority, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in or affecting any Relevant Jurisdiction; or

(f) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing Laws, in each case, in or affecting any Relevant Jurisdiction; or

(g) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or

(h) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(i) any executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(j) the chairman of the Board or the general manager of our Company vacating his or her office; or

(k) an authority or a political body or organization in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any executive Director; or

(l) a contravention by any member of our Group of the Listing Rules or applicable laws; or

(m) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of our H Shares (including the H Shares which may be issued upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or

(n) non-compliance of this Prospectus (or any other documents used in connection with the contemplated offer and sale of our H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(o) the issue or requirement to issue by our Company of any supplement or amendment to this Prospectus (or to any other documents used in connection with the contemplated offer and sale of our H Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or SFC; or

(p) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (i) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition (financial or otherwise), or performance of our Group as a whole; or (ii) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or (iii) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (iv) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has come to the notice of the Joint Global Coordinators:

(a) that any statement contained in any of this Prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this Prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or

(b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this Prospectus, constitute a material omission from any of this Prospectus, the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(c) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or

(d) any event, act or omission which gives or is likely to give rise to any material liability of our Company or any of our Controlling Shareholders pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement; or

(e) any material adverse change, or any development involving a prospective adverse change, in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or

(f) any material breach of, or any event or circumstance rendering untrue or incorrect in any material respect, any of the representations, warranties, agreements and undertakings of our Company or any of our Controlling Shareholders; or

(g) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, our H Shares to be issued or sold (including any additional H Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(h) our Company withdraws this Prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

***Lock-up***

*Undertakings to the Stock Exchange pursuant to the Listing Rules*

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company will not, any time within six months from the Listing Date, issue any Shares or other securities convertible into equity securities (whether or not of a class already listed) of our Company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), that he or it will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with applicable requirements of the Listing Rules:

(a) in the period commencing on the date of this Prospectus and ending on the date which is six months from the Listing Date (the "**LR First Six-Month Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or it is shown by this Prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) ("Parent Shares"); or

(b) during the period of six months commencing on the date on which the LR First Six-Month Period expires (the "**LR Second Six-Month Period**"), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be our Controlling Shareholder.

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the LR First Six-month Period and the LR Second Six-month Period, he or it will:

(a) if he or it pledges or charges any of our Shares beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, immediately informs us of such pledge or charge together with the number of Shares so pledged or charged; and

(b) if he or it receives indications, either verbal or written, from the pledgee or charge that any of his or its pledged or charged Shares will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

*Undertakings Pursuant to the Hong Kong Underwriting Agreement*

Undertakings by our Company

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date falling six months after the Listing Date (the "**First Six-Month Period**"), our Company has undertaken to each of the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors not to, and will procure each other member of our Group will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules and only after the consent of any relevant PRC authority (if so required) has been obtained:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of our Company, as applicable), or deposit any H Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or other securities of our Company, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to enter into any transaction described in (i) or (ii) or (iii) above,

in each case, whether any of the transactions specified in sub-paragraphs (i) to (iii) above is to be settled by delivery of H Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of such H Shares or other securities will be completed within the First Six-month Period).

In the event that, during the six-month period commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), our Company enters into any of the transactions specified in sub-paragraphs (i) to (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertaking by our Controlling Shareholders

Each of the Controlling Shareholders has undertaken to us, the Joint Global Coordinators, the Hong Kong Underwriters and the Joint Sponsors that, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules and only after the consent of any relevant PRC authority (if so required) has been obtained, none of our Controlling Shareholders will, at any time during the First Six-Month Period:

(i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares), or deposit any H Shares or other securities of our Company with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares); or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or

(iv) offer to or agree to or announce any intention to effect any transaction specified in (i) to (iii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of H Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such H Shares or other securities will be completed within the First Six-Month Period).

During the Second Six-Month Period, our Controlling Shareholders will not enter into any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, it will cease to be a Controlling Shareholder of our Company.

Until the expiry of the Second Six-Month period, in the event that any of our Controlling Shareholders enters into any of the transactions specified in sub-paragraphs (i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

**International Offering**

***International Underwriting Agreement***

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set forth therein, severally agree to purchase the International Offer Shares being offered pursuant to the International Offering, or procure purchasers for such International Offer Shares.

It is expected that our Company will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the date on which trading of the Offer Shares commences on the Hong Kong Stock Exchange until Tuesday, July 29, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 25,000,000 additional Shares, representing approximately 15% of the initial Offer Shares, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any.

Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

**Indemnity**

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach of the Hong Kong Underwriting Agreement by us. It is expected that we will also indemnify the International Underwriters for certain losses which they may suffer.

**Commission and Expenses**

The Joint Global Coordinators will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters (but not the Hong Kong Underwriters). We may also pay in our sole discretion an incentive fee of 1.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering to the Joint Global Coordinators.

Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK$6.20, being the mid-point of the Offer Price range of HK$5.30 to HK$7.10 per Share, the fees and commissions in connection with the Hong Kong Public Offering and the International Offering (excluding incentive fees (if any)), together with the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to amount to approximately HK$91.3 million in aggregate.

**Underwriters' Interests in our Company**

Save for their respective obligations under the Underwriting Agreements and save as otherwise disclosed in this Prospectus, none of the Underwriters is interested legally or beneficially in any shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any members of our Group in the Global Offering.

**Sponsors' Independence**

Each of the Joint Sponsors satisfies the independence criteria applicable to Sponsors set out in Rule 3A.07 of the Listing Rules.

## THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering of 166,667,000 Shares comprises:

(i) the Hong Kong Public Offering of 16,667,000 Shares (subject to reallocation) in Hong Kong, as described below in the paragraph headed "The Hong Kong Public Offering"; and

(ii) the International Offering of an aggregate of 150,000,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares within Hong Kong) in offshore transactions in reliance on Regulation S, and to QIBs in the United States in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

The 166,667,000 Shares being offered by our Company under the Global Offering will represent about 25% of our Company's enlarged share capital immediately after completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Share Option Scheme).

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in Offer Shares under the International Offering, but may not apply in both the Hong Kong Public Offering and the International Offering.

References in this Prospectus to "applications", "Application Forms", "application monies" or the "procedure for application" relate solely to the Hong Kong Public Offering.

## THE HONG KONG PUBLIC OFFERING

### Number of Offer Shares Initially Offered

Our Company is initially offering 16,667,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering.

The Hong Kong Public Offering is open to the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund Managers), whose ordinary business involves dealing in shares and other securities, and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed "Conditions of the Hong Kong Public Offering" below.

**Allocation**

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in such a ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available for subscription under the Hong Kong Public Offering (after taking into account any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 8,333,500 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK$5.0 million or less (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). The Hong Kong Offer Shares in pool B will consist of 8,333,500 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK$5.0 million and up to the total value of pool B (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "subscription price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 8,333,500 Hong Kong Offer Shares, being the number of Hong Kong Offer Shares initially allocated to each pool, are liable to be rejected.

**Reallocation**

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times or (iii) 100 times or more than the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 50,001,000 Offer Shares (in the case of (i)), 66,667,000 Offer Shares (in the case of (ii)) and 83,334,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may, at its discretion, reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Offer Shares from the Hong Kong Public Offering to the International Offering in such proportions as the Joint Global Coordinators deems appropriate.

**Applications**

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he, or any person(s) for whose benefit he is making the application, has not applied for, taken up or indicated an interest in, and will not apply for, take up or indicate an interest in, any Offer Shares under the International Offering. Such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been, or will be, placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$7.10 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and Allocation" below, is less than the maximum Offer Price of HK$7.10 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for Hong Kong Offer Shares" in this Prospectus.

## THE INTERNATIONAL OFFERING

### Number of Offer Shares Initially Offered

The International Offering will consist of an initial offering of 150,000,000 Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the International Offer Shares will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

### Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States as defined in Rule 144A, as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund Managers), whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell his/its Shares after the listing of our Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our Company's and our Shareholders' benefit as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require investors who have been offered Offer Shares under the International Offering and who have made applications under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such applications are excluded from any allotment of Offer Shares under the Hong Kong Public Offering.

### Reallocation

The total number of Offer Shares to be sold and issued pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed "The Hong Kong Public Offering – Reallocation" in this section, any exercise of the Over-allotment Option and/or any reallocation of unsold Offer Shares originally included in the Hong Kong Public Offering.

## OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) at any time from the Listing Date until Tuesday, July 29, 2014, being the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 25,000,000 additional Shares, representing approximately 15% of the initial Offer Shares, at the same price per Share under the International Offering, to cover, among other things, over-allocations in the International Offering (if any). In the event that the Over-allotment Option is exercised, a press announcement will be made.

## STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, underwriters may bid for or purchase securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements of the relevant jurisdictions. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Citigroup Global Markets Asia Limited, as stabilizing manager (the "**Stabilizing Manager**"), its affiliates or any persons acting for it (on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of our Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it to conduct any such stabilizing action. Such stabilizing action, if taken, will be required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering and conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any persons acting for it, and may be discontinued at any time. The number of Shares that may be over-allocated will not be greater than the number of Shares that may be sold upon exercise of the Over-allotment Option, being an aggregate of 25,000,000 additional Shares, which is 15% of the Shares initially available under the Global Offering. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of our Company's enlarged issued share capital on completion of the Global Offering.

Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of our Shares; (iii) purchasing or agreeing to purchase our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing or agreeing to purchase our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling or agreeing to sell our Shares in order to liquidate any position established as a result of the abovementioned purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in our Shares;

- there is no certainty as to the extent to which, and the time or period for which, the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;

- liquidation and selling of any such long position in the open market by the Stabilizing Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;

- no stabilizing action can be taken to support the price of our Shares for longer than the stabilization period which will begin on the Listing Date and is expected to expire on Tuesday, July 29, 2014, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;

- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and

- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

## OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it may cover such over-allocation by (among other methods) using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market or exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including those in relation to stabilization and the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed 25,000,000 Shares, being the number of Shares which may be issued and allotted by our Company upon full exercise of the Over-allotment Option and representing 15% of the Offer Shares initially available under the Global Offering.

## PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective professional and institutional investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering that they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Monday, June 30, 2014 and in any event no later than Monday, July 7, 2014, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company. The number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Joint Global Coordinators (on behalf of the Underwriters) and our Company. The Offer Price per Offer Share under the Hong Kong Public Offering will be fixed at the Hong Kong dollar amount which, when including the 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee payable thereon, is (subject to any necessary rounding) effectively equivalent to the Hong Kong dollar price per Offer Share under the International Offering. The SFC transaction levy and the Stock Exchange trading fee otherwise payable by investors on Offer Shares purchased by them in the International Offering will be paid by us.

The Offer Price will not be more than HK$7.10 per Offer Share and is expected to be not less than HK$5.30 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this Prospectus.

The Joint Global Coordinators (on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notices of the reduction. Upon issue of such notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such announcement(s) will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics and any other financial information in this Prospectus which may change as a result of any such reduction. In the absence of any such announcement, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon by our Company and the Joint Global Coordinators (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds from the Global Offering accruing to us (after deduction of underwriting commission and estimated expenses payable by us in relation to the Global Offering) are estimated to be approximately HK$942.0 million, assuming an Offer Price of HK$6.20 per Offer Share, being the approximate mid-point of the proposed Offer Price range of HK$5.30 to HK$7.10.

The final Offer Price, the level of indications of interest in the Global Offering and the basis of allotment of Offer Shares available under the Hong Kong Public Offering are expected to be announced on Monday, July 7, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

## HONG KONG UNDERWRITING AGREEMENT AND INTERNATIONAL UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed "Underwriting" in this Prospectus.

## CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue (including the Shares that may be sold pursuant to any exercise of the Over-allotment Option) and our Shares being offered pursuant to the Global Offering (subject only to allotment);

(ii) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and

(iii) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this Prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Monday, July 7, 2014, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of Share Certificates and Refund Monies". In the meantime, all application monies will be held in separate bank accounts with the receiving bank of our Company or any other banks in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. in Hong Kong on Tuesday, July 8, 2014 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" has not been exercised.

## DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, July 8, 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, July 8, 2014. The H Shares will be traded in board lots of 500 H Shares each.

## 1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the designated **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

## 2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number, and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at its discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

## 3. APPLYING FOR HONG KONG OFFER SHARES

### Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a Prospectus during normal business hours between 9:00 a.m. to 5:00 p.m. from Wednesday, June 25, 2014 to Monday, June 30, 2014:

(i) Any of the following addresses of the Hong Kong Underwriters:

**Citigroup Global Markets Asia Limited**

50/F Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

**UBS AG, Hong Kong Branch**

52/F Two International
Finance Centre
Finance Street
Central
Hong Kong

**DBS Asia Capital Limited**

17th Floor, The Center
99 Queen's Road
Central
Hong Kong

**Standard Chartered Securities (Hong Kong) Limited**

15/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

(ii) any of the branches of the following receiving bank:

**Standard Chartered Bank (Hong Kong) Limited**

| | Branch Name | Address |
|---|---|---|
| **Hong Kong** | Hennessy Road Branch | 399 Hennessy Road, Wanchai |
| | Causeway Bay Branch | G/F to 2/F, Yee Wah Mansion, 38-40A Yee Wo Street, Causeway Bay |
| **Kowloon** | Kwun Tong Branch | G/F, 414 Kwun Tong Road, Kowloon |
| | Mongkok Branch | Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok |
| | Yaumatei Branch | G/F - 1/F, Ming Fong Bldg., 564 Nathan Road, Yaumatei |
| | Lok Fu Shopping Centre Branch | Shop G201, G/F., Lok Fu Shopping Centre |
| | Mei Foo Stage I Branch | G/F, 1C Broadway, Mei Foo Sun Chuen Stage I, Lai Chi Kok |
| **New Territories** | Tuen Mun Branch | Portions of Shops G & H and the whole of Shops I & F, G/F, Forward Mansion, 26A Yan Ching Street, Tuen Mun, New Territories |

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Wednesday, June 25, 2014 until 12:00 noon on Monday, June 30, 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

**Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a Banker's cashier order attached and marked payable to Horsford Nominees Limited – Beijing Digital Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Wednesday, June 25, 2014 – 9:00 a.m. to 5:00 p.m.
- Thursday, June 26, 2014 – 9:00 a.m. to 5:00 p.m.
- Friday, June 27, 2014 – 9:00 a.m. to 5:00 p.m.
- Saturday, June 28, 2014 – 9:00 a.m. to 1:00 p.m.
- Monday, June 30, 2014 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, June 30, 2014, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

**4. TERMS AND CONDITIONS OF AN APPLICATION**

Please follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

(i) **undertake** to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) **agree** to comply with the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) **confirm** that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;

(iv) **confirm** that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;

(v) **confirm** that you are aware of the restrictions on the Global Offering in this Prospectus;

(vi) **agree** that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this Prospectus (and any supplement to it);

(vii) **undertake** and **confirm** that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) **agree** to disclose to our Company, our H Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Joint Global Coordinators and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this Prospectus and the Application Form;

(x) **agree** that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) **agree** that your application will be governed by the laws of Hong Kong;

(xii) **represent**, **warrant** and **undertake** that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) **warrant** that the information you have provided is true and accurate;

(xiv) **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) **authorize** our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) **understand** that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) **warrant** that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) **warrant** that (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

**Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH WHITE FORM eIPO SERVICE

**General**

Individuals who meet the criteria in "2. Who can apply" in this section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the designated **White Form eIPO** Service Provider to apply on the terms and conditions in this Prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

**Time for Submitting Applications under the White Form eIPO**

You may submit your application through the **White Form eIPO** at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, June 25, 2014 until 11:30 a.m. on Monday, June 30, 2014 and the latest time for completing full payment of application monies in respect of such applications will be at 12:00 noon on Monday, June 30, 2014 or such later time under the "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

**No Multiple Applications**

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

**Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

**Environmental Protection**

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2.00 for each "Beijing Digital Telecom Co., Ltd." **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of "Source of DongJiang – Hong Kong Forest" project initiated by Friends of the Earth (HK).

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**
Customer Service Center
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a Prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our H Share Registrar.

**Giving Electronic Application Instructions to HKSCC via CCASS**

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this Prospectus and have relied only on the information and representations in this Prospectus in causing the application to be made, save as set out in any supplement to this Prospectus;

- agree that none of our Company, the Joint Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this Prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our H Share Registrar, receiving bank, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

**Effect of Giving Electronic Application Instructions to HKSCC via CCASS**

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this Prospectus.

**Minimum Purchase Amount and Permitted Numbers**

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 500 Hong Kong Offer Shares. Instructions for more than 500 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

**Time for Inputting Electronic Application Instructions**

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- Wednesday, June 25, 2014 – 9:00 a.m. to 8:30 p.m.[(1)]
- Thursday, June 26, 2014 – 8:00 a.m. to 8:30 p.m.[(1)]
- Friday, June 27, 2014 – 8:00 a.m. to 8:30 p.m.[(1)]
- Saturday, June 28, 2014 – 8:00 a.m. to 1:00 p.m.[(1)]
- Monday, June 30, 2014 – 8:00 a.m.[(1)] to 12:00 noon

*Note:*

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, June 25, 2014 until 12:00 noon on Monday, June 30, 2014 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, June 30, 2014, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

**No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

**Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

**Personal Data**

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, our H Share Registrar, the receiving bank, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

## 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, June 30, 2014.

## 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

## 9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 500 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure of the Global Offering – Pricing and Allocation."

## 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, June 30, 2014. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, June 30, 2014 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this Prospectus, an announcement will be made in such event.

## 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, July 7, 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on our Company's website at *www.dixintong.com* and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at *www.dixintong.com* and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Monday, July 7, 2014;
- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, July 7, 2014 to 12:00 midnight on Sunday, July 13, 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, July 7, 2014 to Thursday, July 10, 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, July 7, 2014 to Wednesday, July 9, 2014 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

## 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

### (i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this Prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus.

If any supplement to this Prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, the designated **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

## 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$7.10 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" in this Prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be without interest and will be made on Monday, July 7, 2014.

## 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Monday, July 7, 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on Tuesday, July 8, 2014 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this Prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

**Personal Collection**

***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, July 7, 2014 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Monday, July 7, 2014, by ordinary post and at your own risk.

***(ii) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, July 7, 2014, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, July 7, 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 7, 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

***(iii) If you apply through the White Form eIPO***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, July 7, 2014, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, July 7, 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

***(iv) If you apply via Electronic Application Instructions to HKSCC***

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, July 7, 2014, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Monday, July 7, 2014. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, July 7, 2014 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, July 7, 2014. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, July 7, 2014.

## 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

25 June 2014

The Directors
Beijing Digital Telecom Co., Ltd.
Citigroup Global Markets Asia Limited
UBS Securities Hong Kong Limited

Dear Sirs,

We set out below our report on the financial information of Beijing Digital Telecom Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statement of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2011, 2012 and 2013 (the "Relevant Periods"), and the consolidated statement of financial position of the Group and the statements of financial position of the Company as at 31 December 2011, 2012 and 2013, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in Section II below, for inclusion in the Prospectus of the Company dated 25 June 2014 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was established as a joint stock company with limited liability on 31 May 2001 in the People's Republic of China (the "PRC" or Mainland China, which excludes, for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan).

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The consolidated financial statements of the Group for the years ended 31 December 2011, 2012 and 2013 prepared under accounting principles generally accepted in the PRC ("PRC GAAP") were audited by Ernst & Young Hua Ming LLP, the PRC.

For the purpose of this report, the Directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2011, 2012 and 2013 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

**Directors' responsibility**

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants.

**Opinion in respect of the Financial Information**

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, 2012 and 2013 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

## I. FINANCIAL INFORMATION

### Consolidated statement of profit or loss and other comprehensive income

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2011 | 2012 | 2013 |
| | Notes | RMB'000 | RMB'000 | RMB'000 |
| **REVENUE** | 7 | 6,513,501 | 8,802,689 | 12,812,024 |
| Cost of sales | | (5,297,597) | (7,339,689) | (11,074,062) |
| Gross profit | | 1,215,904 | 1,463,000 | 1,737,962 |
| Other income and gains | 7 | 12,295 | 31,490 | 34,819 |
| Selling and distribution expenses | | (668,575) | (816,866) | (952,644) |
| Administrative expenses | | (189,707) | (232,244) | (286,318) |
| Other expenses | | (17,452) | (18,363) | (56,127) |
| Finance costs | 8 | (48,161) | (73,038) | (107,334) |
| **PROFIT BEFORE TAX** | 9 | 304,304 | 353,979 | 370,358 |
| Income tax expense | 12 | (82,799) | (104,177) | (96,166) |
| **PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME** | | 221,505 | 249,802 | 274,192 |
| Attributable to: | | | | |
| Owners of the parent | | 221,566 | 252,121 | 266,441 |
| Non-controlling interests | | (61) | (2,319) | 7,751 |
| | | 221,505 | 249,802 | 274,192 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | | |
| Basic and diluted (RMB) | 15 | 0.44 | 0.50 | 0.53 |

Details of the dividends for the Relevant Periods are disclosed in note 14 to the Financial Information.

**Consolidated statement of financial position**

| | Notes | As at 31 December 2011 RMB'000 | 2012 RMB'000 | 2013 RMB'000 |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 16 | 127,515 | 142,292 | 170,436 |
| Goodwill | 17 | 56,652 | 56,652 | 57,302 |
| Other intangible assets | 18 | 911 | 884 | 885 |
| Deferred tax assets | 19 | 10,537 | 12,217 | 22,230 |
| | | 195,615 | 212,045 | 250,853 |
| **CURRENT ASSETS** | | | | |
| Inventories | 21 | 922,274 | 1,252,199 | 1,617,067 |
| Trade and bills receivable | 22 | 573,051 | 775,892 | 1,252,499 |
| Prepayments, deposits and other receivables | 23 | 380,659 | 508,224 | 666,262 |
| Due from a Director | 25 | 10,700 | – | – |
| Due from a related party | 26 | – | 826 | 5,300 |
| Pledged deposits | 24 | 362,996 | 382,172 | 514,070 |
| Cash and cash equivalents | 24 | 292,081 | 529,735 | 301,939 |
| | | 2,541,761 | 3,449,048 | 4,357,137 |
| **CURRENT LIABILITIES** | | | | |
| Interest-bearing loans | 27 | 756,543 | 1,290,701 | 1,698,753 |
| Trade and bills payable | 28 | 672,834 | 692,803 | 1,078,465 |
| Other payables and accruals | 29 | 140,026 | 255,600 | 316,208 |
| Due to a related party | 26 | – | 116 | 1,701 |
| Tax payable | | 59,380 | 59,688 | 69,340 |
| | | 1,628,783 | 2,298,908 | 3,164,467 |
| **NET CURRENT ASSETS** | | 912,978 | 1,150,140 | 1,192,670 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS** | | 1,108,593 | 1,362,185 | 1,443,523 |
| **EQUITY** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Issued capital | 30 | 500,000 | 500,000 | 500,000 |
| Reserves | 31 | 605,093 | 857,214 | 923,655 |
| | | 1,105,093 | 1,357,214 | 1,423,655 |
| **Non-controlling interests** | | 3,500 | 4,971 | 19,868 |
| Total equity | | 1,108,593 | 1,362,185 | 1,443,523 |

**Consolidated statement of changes in equity**

| | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Issued capital | Capital reserve* | Statutory reserve funds* | Retained profits* | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Note 30) | (Note 31) | (Note 31) | | | | |
| At 1 January 2011 | 500,000 | 37,041 | 33,653 | 312,690 | 883,384 | 12,890 | 896,274 |
| Total comprehensive income for the year | – | – | – | 221,566 | 221,566 | (61) | 221,505 |
| Acquisition of non-controlling interests | – | (1,027) | – | – | (1,027) | (5,967) | (6,994) |
| Equity-settled arrangements | – | 1,170 | – | – | 1,170 | – | 1,170 |
| Dividends paid to non-controlling shareholders | – | – | – | – | – | (3,362) | (3,362) |
| Transfer from retained profits | – | – | 22,151 | (22,151) | – | – | – |
| At 31 December 2011 and 1 January 2012 | 500,000 | 37,184 | 55,804 | 512,105 | 1,105,093 | 3,500 | 1,108,593 |
| Total comprehensive income for the year | – | – | – | 252,121 | 252,121 | (2,319) | 249,802 |
| Capital contribution by non-controlling shareholders | – | – | – | – | – | 3,790 | 3,790 |
| Transfer from retained profits | – | – | 24,980 | (24,980) | – | – | – |
| At 31 December 2012 and 1 January 2013 | 500,000 | 37,184 | 80,784 | 739,246 | 1,357,214 | 4,971 | 1,362,185 |
| Total comprehensive income for the year | – | – | – | 266,441 | 266,441 | 7,751 | 274,192 |
| Capital contribution by non-controlling shareholders | – | – | – | – | – | 7,146 | 7,146 |
| Dividends paid to shareholders | – | – | – | (200,000) | (200,000) | – | (200,000) |
| Transfer from retained profits | – | – | 27,419 | (27,419) | – | – | – |
| At 31 December 2013 | 500,000 | 37,184 | 108,203 | 778,268 | 1,423,655 | 19,868 | 1,443,523 |

* These reserve accounts comprise the consolidated reserves of RMB605,093,000, RMB857,214,000, RMB923,655,000 as at 31 December 2011, 2012, 2013, respectively, in the consolidated statement of financial position.

**Consolidated statement of cash flows**

| | Notes | Year ended at 31 December 2011 RMB'000 | 2012 RMB'000 | 2013 RMB'000 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | 304,304 | 353,979 | 370,358 |
| Adjustments for: | | | | |
| Finance costs | 8 | 48,161 | 73,038 | 107,334 |
| Provision for impairment of trade receivables | 9 | 4,365 | 6,426 | 37,497 |
| Provision/(reversal) for impairment of other receivables | 9 | 2,769 | (1,387) | (1,268) |
| Provision for impairment of inventories | 9 | 8,755 | 11,541 | 16,390 |
| Depreciation | 9 | 41,961 | 53,918 | 77,637 |
| Amortisation of intangible assets | 9 | 442 | 706 | 493 |
| Loss/(gain) on disposal of subsidiaries | 9 | 548 | (3,506) | – |
| Loss on disposal of property, plant and equipment | 9 | 258 | 326 | 899 |
| Equity-settled arrangements | | 1,170 | – | – |
| Increase in trade and bills receivable | | (160,366) | (209,267) | (512,522) |
| Increase in prepayments, deposits and other receivables | | (33,241) | (126,178) | (157,950) |
| Increase in inventories | | (283,631) | (341,466) | (379,987) |
| Increase in trade and bills payable | | 319,010 | 79,834 | 465,418 |
| Increase in other payables and accruals | | 33,199 | 118,253 | 59,820 |
| (Increase)/decrease in due from a Director | | (10,700) | 10,700 | – |
| (Increase)/decrease in due from a related party | | 13,492 | (826) | (4,474) |
| Increase/(decrease) in due to a related party | | (2,015) | 116 | 1,585 |
| Cash generated from operations | | 288,481 | 26,207 | 81,230 |
| Income tax paid | | (61,893) | (105,549) | (96,527) |
| **NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES** | | 226,588 | (79,342) | (15,297) |

| | Year ended at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant, equipment | (81,764) | (65,718) | (106,681) |
| Purchases of items of other intangible assets | (826) | (679) | (494) |
| Proceeds from disposal of items of property, plant and equipment | 180 | 112 | – |
| Proceeds from disposal/dissolution of subsidiaries | – | 1,200 | – |
| Acquisition of subsidiaries | (15,366) | – | (697) |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | (97,776) | (65,085) | (107,872) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | 1,975,132 | 2,783,518 | 3,836,832 |
| Capital contribution from non-controlling shareholders | – | 3,790 | 7,146 |
| Increase of pledged deposits | (182,915) | (19,176) | (131,898) |
| Repayment of bank loans | (1,743,629) | (2,313,013) | (3,509,373) |
| Interest paid | (48,161) | (73,038) | (107,334) |
| Dividends paid | (3,362) | – | (200,000) |
| **NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES** | (2,935) | 382,081 | (104,627) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | 125,877 | 237,654 | (227,796) |
| Cash and cash equivalents at beginning of year | 166,204 | 292,081 | 529,735 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 292,081 | 529,735 | 301,939 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 292,081 | 529,735 | 301,939 |
| **CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENTS OF FINANCIAL POSITION** | 292,081 | 529,735 | 301,939 |

**Statement of financial position**

| | Notes | 2011 RMB'000 | 2012 RMB'000 | 2013 RMB'000 |
|---|---|---|---|---|
| | | As at 31 December | | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 16 | 55,652 | 54,910 | 52,478 |
| Intangible assets | 18 | 910 | 884 | 464 |
| Investments in subsidiaries | 20 | 393,267 | 410,757 | 441,410 |
| Deferred tax assets | 19 | 776 | 382 | 1,281 |
| | | 450,605 | 466,933 | 495,633 |
| **CURRENT ASSETS** | | | | |
| Inventories | 21 | 42,288 | 53,302 | 120,355 |
| Trade and bills receivable | 22 | 124,977 | 199,197 | 300,845 |
| Prepayments, deposits and other receivables | 23 | 28,672 | 197,151 | 113,680 |
| Due from a Director | 25 | 10,700 | – | – |
| Due from related parties | 26 | 8,227 | 7,962 | 13,210 |
| Due from subsidiaries | 26 | 925,554 | 969,539 | 1,334,452 |
| Pledged deposits | 24 | 117,180 | 175,110 | 158,180 |
| Cash and cash equivalents | 24 | 92,186 | 104,303 | 105,473 |
| | | 1,349,784 | 1,706,564 | 2,146,195 |
| **CURRENT LIABILITIES** | | | | |
| Interest-bearing loans | 27 | 473,456 | 900,810 | 1,323,574 |
| Trade and bills payable | 28 | 162,369 | 265,387 | 321,595 |
| Other payables and accruals | 29 | 85,728 | 55,055 | 56,152 |
| Tax payable | | 2,183 | 4,493 | 700 |
| Due to related parties | 26 | 2,719 | 3,214 | 2,500 |
| Due to subsidiaries | 26 | 452,549 | 291,284 | 368,550 |
| | | 1,179,004 | 1,520,243 | 2,073,071 |
| **NET CURRENT ASSETS** | | 170,780 | 186,321 | 73,124 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS** | | 621,385 | 653,254 | 568,757 |
| **EQUITY** | | | | |
| Issued capital | 30 | 500,000 | 500,000 | 500,000 |
| Reserves | 31 | 121,385 | 153,254 | 68,757 |
| Total equity | | 621,385 | 653,254 | 568,757 |

## II. NOTES TO FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

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

During the Relevant Periods, the Group was principally engaged in the sale of mobile telecommunications devices and accessories and the provision of related services.

In the opinion of the Directors, the Controlling Shareholders of the Company are Mr. Liu Songshan, Mr. Liu Donghai, Ms. Liu Hua, Ms. Liu Wencui and Ms. Liu Yongmei, who are siblings.

As at the date of this report, the Company had direct and indirect interests in the following principal subsidiaries, all of which are private limited liability companies incorporated and operating in the PRC, the particulars of which are set out below:

| Name of the principal subsidiaries | | Registered and paid-in capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| | | RMB | % | % | |
| Beijing Dphone Electronic Communication Technology Co., Ltd.* (北京迪信通電子通信技術有限公司) | (21) | 10,000,000 | 100 | – | (1) |
| Beijing Chaoxunfa Technology Trading Co., Ltd.* (北京超迅發科貿有限責任公司) | (21) | 10,000,000 | 100 | – | (1) |
| Beijing Dixin Chuangfa Trading Co., Ltd.* (北京迪信創發商貿有限公司) | (21) | 10,000,000 | 100 | – | (1) |
| Beijing Shengduo Trading Co., Ltd.* (北京勝多商貿有限責任公司) | (21) | 10,000,000 | 100 | – | (1) |
| Jiangsu Chuangfa Trading Co., Ltd.* (江蘇創發商貿有限責任公司) | (5) | 5,000,000 | – | 100 | (1) |
| Jiangsu Dphone Communication Technology Co., Ltd.* (迪信通通訊科技江蘇有限公司) | (6) | 20,000,000 | – | 100 | (1) |
| Shanghai Chuanda Communication Technology Co., Ltd.* (上海川達通信技術有限公司) | (7) | 10,000,000 | 100 | – | (1) |
| Shanghai Dixin Chuangfa Communication Technology Development Co., Ltd.* (上海迪信創發通信技術發展有限公司) | (8) | 20,000,000 | 100 | – | (1) |
| Shanghai Dixin Electronic Communication Technology Co., Ltd.* (上海迪信電子通信技術有限公司) | (9) | 20,000,000 | 100 | – | (1) |
| Shanghai Dixin South Communication Technology Co., Ltd.* (上海迪信南方通信技術有限公司) | (10) | 20,000,000 | 100 | – | (1) |
| Hefei Dphone Communication Technology Co., Ltd.* (合肥迪信通通信技術有限公司) | (11) | 1,000,000 | 100 | – | (1) |
| Shenyang Tongliansihai Electronic Communication Technology Co., Ltd.* (瀋陽通聯四海電子通信技術有限公司) | (21) | 1,000,000 | 100 | – | (1) |
| Changsha Dphone Electronic Science and Technology Information Co., Ltd.* (長沙迪信通電子科技信息有限公司) | (21) | 10,500,000 | 100 | – | (1) |
| Wuhan Yitongda Communication Equipment Co., Ltd.* (武漢易通達通訊器材有限公司) | (21) | 500,000 | – | 100 | (1) |

| Name of the principal subsidiaries | | Registered and paid-in capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| | | RMB | % | % | |
| Chengdu Chuangfa Communication Equipment Co., Ltd.* (成都創發通訊器材有限公司) | (21) | 500,000 | 100 | – | (1) |
| Guangxi Dphone Electronic Communication Technology Co., Ltd.* (廣西迪信通電子通信技術有限公司) | (21) | 15,000,000 | 100 | – | (1) |
| Yunnan Dphone Electronic Communication Technology Co., Ltd.* (雲南迪信通電子通信技術有限公司) | (12) | 5,000,000 | – | 100 | (1) |
| Ningbo Haishu Dphone Electronic Communication Technology Co., Ltd.* (寧波海曙迪信通電子通信技術有限公司) | (13) | 10,000,000 | 100 | – | (1) |
| Sichuan Yijialong Communication Technology Chain Co., Ltd.* (四川億佳隆通訊連鎖有限公司) | (14) | 5,000,000 | 100 | – | (1) |
| Nanjing Yijialong Communication Technology Co., Ltd.* (南京億家隆通信技術有限公司) | (15) | 500,000 | 100 | – | (1) |
| Jinan Dixin Electronic Communication Technology Co., Ltd.* (濟南迪信電子通信技術有限公司) | (16) | 10,500,000 | 100 | – | (1) |
| Qingdao Dphone Communication Technology Co., Ltd.* (青島迪信通通信技術有限公司) | (17) | 5,000,000 | – | 100 | (1) |
| Zhengzhou Dphone Electronic Communication Technology Co., Ltd.* (鄭州迪信通電子通信技術有限公司) | (18) | 13,000,000 | 100 | – | (1) |
| Henan Dphone Electronic Communication Technology Co., Ltd.* (河南迪信通電子通信技術有限公司) | (19) | 20,000,000 | 100 | – | (1) |
| Guangdong Dphone Trading Co., Ltd.* (廣東迪信通商貿有限公司) | (21) | 10,000,000 | 100 | – | (1) |
| Ningbo Hi-tech Zone Chaofa Technology Co., Ltd.* (寧波高新區超發科技有限公司) | (20) | 10,000,000 | 100 | – | (1) |
| Hebei Dixin Electronic Communication Equipment Co., Ltd.* (河北迪信電子通信設備有限公司) | (21) | 3,000,000 | 100 | – | (1) |
| Wenzhou Dphone Electronic Communication Technology Co., Ltd.* (溫州迪信通電子通信技術有限公司) | (21) | 2,000,000 | 100 | – | (1) |
| Henan Dphone Trading Co., Ltd.* (河南迪信通商貿有限公司) | (21) | 10,000,000 | 60 | – | (1) |
| Chengdu Chaoxunfa Communication Equipment Co., Ltd.* (成都超訊發通訊器材有限公司) | (21) | 2,000,000 | 100 | – | (1) |
| Fujian Dphone Trading Co., Ltd.* (福建迪信通商貿有限公司) | (21) | 10,000,000 | 100 | – | (1) |
| Beijing Tailongji Trading Co., Ltd.* (北京市泰龍吉貿易有限公司) | (21) | 10,000,000 | 100 | – | (2) |
| Shenzhen Hua'aotong Electronic Technology Co., Ltd.* (深圳市華奧通電子有限公司) | (21) | 20,000,000 | – | 100 | (3) |

*Notes:*

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

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

(3) Research and development and manufacture of telecommunication devices and accessories.

(4) The statutory financial statements of the Company for the year ended 31 December 2011 and the year ended 31 December 2012 prepared in accordance with the relevant accounting principles applicable to enterprises in the PRC ("PRC GAAP") were audited by Zhongxi Certified Public Accountants Co., Ltd. For the year ended 31 December 2013 the statutory financial statements of the Company were audited by Ernst&Young Hua Ming LLP.

(5) The statutory financial statements of Jiangsu Chuangfa Trading Co., Ltd. for the year ended 31 December 2012 prepared in accordance with PRC GAAP were audited by Suqian Gongxing Certified Public Accountants Co., Ltd..

(6) The statutory financial statements of Jiangsu Dphone Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Suqian Gongxing Certified Public Accountants Co., Ltd..

(7) The statutory financial statements of Shanghai Chuanda Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Shanghai Huihe Certified Public Accountants (Partnership) and Shanghai Qianyi Certified Public Accountants Co., Ltd., respectively.

(8) The statutory financial statements of Shanghai Dixin Chuangfa Communication Technology Development Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Shanghai Huihe Certified Public Accountants (Partnership) and Shanghai Qianyi Certified Public Accountants Co., Ltd., respectively.

(9) The statutory financial statements of Shanghai Dixin Electronic Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Shanghai Shenzhou Datong Certified Public Accountants Co., Ltd..

(10) The statutory financial statements of Shanghai Dixin South Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Shanghai Huihe Certified Public Accountants (Partnership) and Shanghai Qianyi Certified Public Accountants Co., Ltd., respectively.

(11) The statutory financial statements of Hefei Dphone Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Anhui Anhe Certified Public Accountants (Partnership).

(12) The statutory financial statements of the Yunnan Dphone Electronic Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Kunming Tianhong Certified Public Accountants Co., Ltd..

(13) The statutory financial statements of Ningbo Haishu Dphone Electronic Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Zhejiang Puhua Certified Public Accountants Co., Ltd. and Ningbo Donghua Certified Public Accountants Co., Ltd., respectively.

(14) The statutory financial statements of Sichuan Yijialong Communication Technology Chain Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Sichuan Boda Certified Public Accountants Co., Ltd..

(15) The statutory financial statements of Nanjing Yijialong Communication Technology Co., Ltd. for the year ended 31 December 2012 prepared in accordance with PRC GAAP were audited by Jiangsu Tianning Certified Public Accountants Co., Ltd..

(16) The statutory financial statements of Jinan Dixin Electronic Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Shandong New Honest Certified Public Accountants Ltd..

(17) The statutory financial statements of Qingdao Dphone Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Shandong Zhitong Certified Public Accountants Co., Ltd..

(18) The statutory financial statements of Zhengzhou Dphone Electronic Communication Technology. Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Henan Xinhexin Certified Public Accountants (Partnership).

(19) The statutory financial statements of Henan Dphone Electronic Communication Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Henan Xinhexin Certified Public Accountants (Partnership).

(20) The statutory financial statements of Ningbo Hi-tech Zone Chaofa Technology Co., Ltd. for the years ended 31 December 2011 and 2012 prepared in accordance with PRC GAAP were audited by Ningbo Zhengde Certified Public Accountants Co., Ltd. and Ningbo Donghua Certified Public Accountants Co., Ltd., respectively.

(21) No audited financial statements have been prepared since their incorporation.

(22) Except for the statutory financial statement of subsidiaries listed above, no statutory auditor was appointed to audit or review the financial statements of the subsidiaries for filing with the relevant authorities.

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

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

## 2. BASIS OF PRESENTATION

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

This Financial Information includes the financial statements of the Company and its subsidiaries for the Relevant Periods. 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 in the accounting policy for subsidiaries below. 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.

## 3. ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the Financial Information:

| | |
|---|---|
| IFRS 9 | *Financial Instruments*[3] |
| IFRS 9 and IFRS 7 and IAS 39 Amendments | Amendments to IFRS 9 *Financial Instruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39*[3] |
| IFRS 10, IFRS 12 and IAS 27 (2011 Revised) Amendments | Amendments to IFRS 10, IFRS 12 and IAS 27 (2011 Revised) – *Investment Entities*[1] |
| IFRS 14 | *Interim standards on regulatory deferral accounts*[4] |
| IAS 19 Amendments | *Defined Benefit Plans: Employee Contributions*[2] |
| IAS 32 Amendments | Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1] |
| IAS 36 Amendments | Amendments to IAS 36 *Impairment of Assets and – Recoverable Amount Disclosures for Non-Financial Assets*[1] |
| IAS 39 Amendments | Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1] |
| IFRIC 21 | *Levies*[1] |
| *Annual Improvements 2010-2012 Cycle* | Amendments to a number of IFRSs issued in December 2013[2] |
| *Annual Improvements 2011-2013 Cycle* | Amendments to a number of IFRSs issued in December 2013[2] |
| IFRS 15 | *Revenue from Contracts with Customers*[5] |

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but is available for adoption
4 Effective for annual periods beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2017

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies and are unlikely to have any significant impact on the Group's results of operations and financial position.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

A subsidiary is an entity (including a structured entity) controlled by the Company and/or its other subsidiaries. The Group controls an investee 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., the existing rights that give the Group the current ability to direct the relevant activities of the investee).

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

**Investment in a joint venture**

The Group's investment in a joint venture is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

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

The results of joint venture are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investment in joint venture is treated as non-current assets and are stated at cost less any impairment losses.

**Business combinations and goodwill**

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

**Impairment of non-financial assets**

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

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

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

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

**Related parties**

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

| | |
|---|---|
| Buildings | 20-40 years |
| Motor vehicles | 5-10 years |
| Office equipment and others | 3-5 years |
| Leasehold improvements | 1-5 years |

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

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

**Intangible assets (other than goodwill)**

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

***Software copyrights***

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

**Operating leases**

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

**Investments and other financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and bills and other receivables, an amount due from a Director and amounts due from related parties.

***Subsequent measurement***

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

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

***Available-for-sale financial investments***

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

**Derecognition of financial assets**

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

- the rights to receive cash flows from the asset have expired; or

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

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

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

***Financial assets carried at amortised cost***

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and bills payable, other payables, interest-bearing bank borrowings and amount due to related parties.

***Subsequent measurement***

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

***Loans and borrowings***

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

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

**Derecognition of financial liabilities**

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

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

**Offsetting of financial instruments**

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

**Inventories**

Inventories comprise merchandise purchased for resale and consumables and are stated at the lower of cost and net realisable value. Cost is determined on the first in, first out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

**Provisions**

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

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

**Income tax**

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

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Government grants**

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

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

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) promotion income from mobile carriers, when the Group is entitled to receive according to the underlying contract terms;

(c) income from the rendering of services, in the period in which the services are rendered;

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

(e) rental income, on a time proportion basis over the lease terms.

**Pension schemes**

The employees of the Group in the Mainland of the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% to 22% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

**Foreign currencies**

This Financial Information is presented in Renminbi ("RMB"), which is the Group's functional and presentation currency. The functional currency of the Group's subsidiaries is RMB and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

**Vendor rebate**

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accruals basis according to the expected entitlement earned up to the reporting date for each relevant supplier contract. Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

**Estimation uncertainty**

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

*(i) Useful lives of property, plant and equipment*

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

*(ii) Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill was RMB56,652,000, RMB56,652,000 and RMB57,302,000 as at 31 December 2011, 2012 and 2013, respectively. Further details are given in note 17 to the financial statements.

*(iii) Impairment of trade receivables*

The provision policy for impairment of trade receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in note 22 to the Financial Information.

*(iv) Impairment of non-financial assets (other than goodwill)*

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

*(v) Net realisable value of inventories*

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

*(vi) Deferred tax assets*

Deferred tax assets are recognised for deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 19 to the Financial Information.

## 6. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into a business unit based on its products and services and has one reportable operating segment which is the sale of mobile telecommunications devices and accessories and the provision of related services in the PRC. Management monitors the results of the Group's operating results of its business as a whole for the purpose of making decisions about resources allocation and performance assessment.

**Information about major customers**

During the Relevant Periods, the Group had no customer from whom the revenue earned individually accounted for more than 10% of the Group's total revenue for each of the years during the Relevant Period.

**Geographical information**

Since the Group solely operates in the PRC and all of the non-current assets of the Group are located in the PRC, no geographical segment information as required by IFRS 8 Operating Segments is presented.

## 7. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered, after allowances for returns, trade discounts and various types of government surcharges, where applicable.

An analysis of revenue, other income and gains is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| **Revenue** | | | |
| Sales of mobile telecommunications devices and accessories | 6,162,814 | 8,406,194 | 12,186,395 |
| Included: | | | |
| Retail of mobile telecommunications devices and accessories | 4,261,320 | 5,693,802 | 6,862,902 |
| Sales of telecommunications devices and accessories to franchisees | 1,061,939 | 1,340,285 | 1,976,843 |
| Wholesale of mobile telecommunications devices and accessories | 839,555 | 1,372,107 | 3,346,650 |
| Service income from mobile carriers | 257,227 | 329,208 | 496,205 |
| Other service fee income | 93,460 | 67,287 | 129,424 |
| | 6,513,501 | 8,802,689 | 12,812,024 |
| **Other income and gains** | | | |
| Interest income | 5,023 | 7,978 | 11,107 |
| Government grants *(note (a))* | 4,359 | 16,140 | 17,997 |
| Gain on disposal of subsidiaries | – | 3,506 | – |
| Gain on disposal of items of property, plant and equipment | 33 | 62 | 90 |
| Others | 2,880 | 3,804 | 5,625 |
| | 12,295 | 31,490 | 34,819 |

*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. And there are no unfulfilled conditions and other contingencies attached to the government grants.

### 8. FINANCE COSTS

An analysis of finance costs is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest on bank loans wholly repayable within one year | 48,161 | 73,038 | 107,334 |

### 9. PROFIT BEFORE TAX

The Group's profit for the Relevant Periods is arrived at after charging/(crediting):

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cost of inventories sold and services provided | 5,297,597 | 7,339,689 | 11,074,062 |
| Depreciation *(note 16)* | 41,961 | 53,918 | 77,637 |
| Amortisation of intangible assets *(note 18)* | 442 | 706 | 493 |
| Lease payments under operating leases | 240,182 | 297,394 | 324,674 |
| Auditors' remuneration | 2,880 | 3,105 | 5,155 |
| Employee benefit expense (including Directors' remuneration as set out in note 10) | | | |
| Wages and salaries | 296,041 | 346,765 | 420,460 |
| Pension scheme contributions | 16,113 | 32,274 | 45,557 |
| | 312,154 | 379,039 | 466,017 |
| Provision for impairment of trade receivables *(note 22)* | 4,365 | 6,426 | 37,497 |
| Provision/(reversal) for impairment of other receivables *(note 23)* | 2,769 | (1,387) | (1,268) |
| Write-down of inventories to net realisable value *(note 21)* | 8,755 | 11,541 | 16,390 |
| Loss on disposal of property, plant and equipment | 258 | 326 | 899 |
| Loss/(gain) on disposal/dissolution of subsidiaries | 548 | (3,506) | – |

### 10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive officer's remuneration during the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Fees | – | – | – |
| Other emoluments: | | | |
| Salaries, allowances and benefits in kind | 2,085 | 2,359 | 2,151 |
| Pension scheme contributions | 309 | 356 | 396 |
| | 2,394 | 2,715 | 2,547 |

**(a) Independent non-executive Directors**

The fees paid to independent non-executive Directors were as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Mr. Lv Tingjie | 75 | 129 | 60 |
| Mr. Li Zunnong | 74 | 130 | 61 |
| Mr. Leng Rongquan | 75 | 129 | 60 |
| Mr. Ding Zhigang (i) | 74 | 130 | 5 |
| Mr. Gao Shengping (ii) | – | – | 119 |
| | 298 | 518 | 305 |

There were no other emoluments payable to the independent non-executive Directors during Relevant Periods.

*Notes:*

(i) Mr. Ding Zhigang resigned as an independent non-executive Director on 12 April 2012.

(ii) Mr. Gao Shengping was appointed as an independent non-executive Director on 12 April 2012.

**(b) Executive Directors, non-executive Directors and the chief executive officer**

| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2011 | | | | |
| Executive Directors: | | | | |
| Mr. Liu Songshan (i) | – | 396 | 64 | 460 |
| Mr. Liu Donghai (i) | – | 332 | 65 | 397 |
| Ms. Liu Wencui | – | 363 | 54 | 417 |
| Mr. Liu Yajun | – | 332 | 64 | 396 |
| | – | 1,423 | 247 | 1,670 |
| Non-executive Directors: | | | | |
| Ms. Liu Hua | – | 363 | 62 | 425 |
| Mr. Xu Xiaofeng (ii) | – | – | – | – |
| Mr. Wang Lin (ii) | – | – | – | – |
| | – | 363 | 62 | 425 |
| | – | 1,786 | 309 | 2,095 |
| 2012 | | | | |
| Executive Directors: | | | | |
| Mr. Liu Songshan | – | 400 | 72 | 472 |
| Mr. Liu Donghai | – | 360 | 72 | 432 |
| Ms. Liu Wencui | – | 360 | 71 | 431 |
| Mr. Liu Yajun | – | 360 | 71 | 431 |
| | – | 1,480 | 286 | 1,766 |
| Non-executive Directors: | | | | |
| Ms. Liu Hua | – | 360 | 71 | 431 |
| Mr. Xu Xiaofeng (ii) | – | – | – | – |
| Mr. Su Qi (ii) | – | – | – | – |
| Mr. Wang Lin (ii) | – | – | – | – |
| | – | 360 | 71 | 431 |
| | – | 1,840 | 357 | 2,197 |

| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2013 | | | | |
| Executive Directors: | | | | |
| Mr. Liu Songshan | – | 400 | 79 | 479 |
| Mr. Liu Donghai | – | 360 | 80 | 440 |
| Ms. Liu Wencui | – | 364 | 79 | 443 |
| Mr. Liu Yajun | – | 360 | 80 | 440 |
| | – | 1,484 | 318 | 1,802 |
| Non-executive Directors: | | | | |
| Ms. Liu Hua | – | 360 | 79 | 439 |
| Mr. Su Qi | – | – | – | – |
| Mr. Wang Lin | – | – | – | – |
| | – | 360 | 79 | 439 |
| | – | 1,844 | 397 | 2,241 |

*Notes:*

(i) Mr. Liu Songshan resigned as chief executive officer on 15 March 2011 and Mr. Liu Donghai was appointed as the chief executive officer of the Group thereafter.

(ii) There was no arrangement under which a Director or the chief executive officer waived or agreed to waive any remuneration during the Relevant Periods.

## 11. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the Relevant Periods is as follows:

| | Number of employees | | |
|---|---|---|---|
| | Year ended 31 December | | |
| | 2011 | 2012 | 2013 |
| Directors and the chief executive officer | 4 | 4 | 4 |
| Non-Director and non-chief executive officer | 1 | 1 | 1 |
| | 5 | 5 | 5 |

Details of Directors' remuneration are set out in note 10 above.

Details of the remuneration of the above highest paid employees who are neither a Director nor chief executive officer of the Group are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Salaries, allowances and benefits in kind | 403 | 400 | 400 |
| Pension scheme contributions | 56 | 72 | 79 |
| | 459 | 472 | 479 |

The number of non-Director and non-chief executive highest paid individuals whose remuneration fell within the following band is as follows:

| | Number of employees | | |
|---|---|---|---|
| | Year ended 31 December | | |
| | 2011 | 2012 | 2013 |
| Nil to HK$1,000,000 | 1 | 1 | 1 |

## 12. INCOME TAX EXPENSE

The provision for PRC current income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which became effective on 1 January, 2008, except for Beijing Ziyunbaoguang Technology Co., Ltd., a subsidiary of the Company which was granted a tax concession and was taxed at a preferential rate 15% for the year ended 31 December 2011. The major components of income tax expense are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Current tax | | | |
| Income tax in the PRC for the year | 84,713 | 105,857 | 106,179 |
| Deferred tax *(note 19)* | (1,914) | (1,680) | (10,013) |
| Total tax charge for the year | 82,799 | 104,177 | 96,166 |

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before tax | 304,304 | 353,979 | 370,358 |
| Tax at an applicable tax rate of 25% | 76,076 | 88,495 | 92,590 |
| Adjustments in respect of current tax of previous periods | 2,911 | 7,734 | 616 |
| Tax concession for a subsidiary | (302) | – | – |
| Expenses not deductible for tax | 3,129 | 7,055 | 2,960 |
| Others | 985 | 893 | – |
| Tax charge at the Group's effective rate | 82,799 | 104,177 | 96,166 |

## 13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for Relevant Periods includes a profit of RMB54,546,000, RMB31,869,000, RMB115,503,000 during the years ended 31 December 2011, 2012 and 2013 respectively, which has been dealt with in the financial statements of the Company.

## 14. DIVIDENDS

Pursuant to the resolution of a meeting of the board of Directors on 20 April 2013, the Company proposed a dividend in an amount of RMB200,000,000. which was also subsequently approved by the Company's shareholders at an extraordinary shareholders' meeting on 20 April 2013.

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

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

The Group had no potential dilutive ordinary shares in issue during the Relevant Periods. The calculation of basic earnings per share is based on:

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| **Earnings** | | | |
| Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation | 221,566 | 252,121 | 266,441 |
| **Shares** | | | |
| Weighted average number of ordinary shares | 500,000,000 | 500,000,000 | 500,000,000 |

## 16. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2011** | | | | | |
| At 31 December 2010 and at 1 January 2011: | | | | | |
| Cost or valuation | 28,467 | 34,804 | 38,935 | 21,799 | 124,005 |
| Accumulated depreciation and impairment | (4,169) | (6,254) | (26,458) | (8,836) | (45,717) |
| Net carrying amount | 24,298 | 28,550 | 12,477 | 12,963 | 78,288 |
| At 1 January 2011, net of accumulated depreciation | 24,298 | 28,550 | 12,477 | 12,963 | 78,288 |
| Additions | 27,300 | 47,951 | 8,768 | 7,222 | 91,241 |
| Acquisition of a subsidiary | – | – | 325 | 60 | 385 |
| Disposals | – | – | (3,154) | (289) | (3,443) |
| Depreciation provided during the year | (2,162) | (31,424) | (6,130) | (2,245) | (41,961) |
| Depreciation transferred due to disposals | – | – | 2,841 | 164 | 3,005 |
| At 31 December 2011, net of accumulated depreciation and impairment | 49,436 | 45,077 | 15,127 | 17,875 | 127,515 |
| At 31 December 2011: | | | | | |
| Cost or valuation | 55,767 | 82,755 | 45,754 | 28,955 | 213,231 |
| Accumulated depreciation and impairment | (6,331) | (37,678) | (30,627) | (11,080) | (85,716) |
| Net carrying amount | 49,436 | 45,077 | 15,127 | 17,875 | 127,515 |

**Group**

| | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2012** | | | | | |
| At 31 December 2011 and at 1 January 2012: | | | | | |
| Cost or valuation | 55,767 | 82,755 | 45,754 | 28,955 | 213,231 |
| Accumulated depreciation and impairment | (6,331) | (37,678) | (30,627) | (11,080) | (85,716) |
| Net carrying amount | 49,436 | 45,077 | 15,127 | 17,875 | 127,515 |
| At 1 January 2012, net of accumulated depreciation | 49,436 | 45,077 | 15,127 | 17,875 | 127,515 |
| Additions | – | 53,611 | 12,129 | 4,156 | 69,896 |
| Disposals | – | – | (2,936) | (836) | (3,772) |
| Depreciation provided during the year | (2,897) | (41,057) | (7,321) | (2,643) | (53,918) |
| Depreciation transfered due to disposals | – | – | 1,909 | 662 | 2,571 |
| At 31 December 2012, net of accumulated depreciation and impairment | 46,539 | 57,631 | 18,908 | 19,214 | 142,292 |
| At 31 December 2012: | | | | | |
| Cost or valuation | 55,767 | 136,366 | 54,947 | 32,275 | 279,355 |
| Accumulated depreciation and impairment | (9,228) | (78,735) | (36,039) | (13,061) | (137,063) |
| Net carrying amount | 46,539 | 57,631 | 18,908 | 19,214 | 142,292 |

**Group**

| | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2013** | | | | | |
| At 31 December 2012 and at 1 January 2013: | | | | | |
| Cost or valuation | 55,767 | 136,366 | 54,947 | 32,275 | 279,355 |
| Accumulated depreciation and impairment | (9,228) | (78,735) | (36,039) | (13,061) | (137,063) |
| Net carrying amount | 46,539 | 57,631 | 18,908 | 19,214 | 142,292 |
| At 1 January 2013, net of accumulated depreciation | 46,539 | 57,631 | 18,908 | 19,214 | 142,292 |
| Additions | 7,491 | 79,059 | 15,213 | 4,930 | 106,693 |
| Disposals | – | – | (8,343) | (1,173) | (9,516) |
| Disposal of a subsidiary | – | – | (8) | – | (8) |
| Depreciation provided during the year | (3,157) | (63,404) | (8,525) | (2,551) | (77,637) |
| Depreciation transfered due to disposals | – | – | 7,524 | 1,088 | 8,612 |
| At 31 December 2013, net of accumulated depreciation and impairment | 50,873 | 73,286 | 24,769 | 21,508 | 170,436 |
| At 31 December 2013: | | | | | |
| Cost or valuation | 63,258 | 215,425 | 61,809 | 36,032 | 376,524 |
| Accumulated depreciation and impairment | (12,385) | (142,139) | (37,040) | (14,524) | (206,088) |
| Net carrying amount | 50,873 | 73,286 | 24,769 | 21,508 | 170,436 |

At 31 December 2013, the Group had not obtained the building ownership certificates for certain buildings in Mainland China with a net book value of approximately RMB7,490,900.

Certain of the Group's building with a net carrying amount of approximately RMB22,945,000, RMB21,593,000, RMB20,241,000 was pledged to secure general banking facilities granted to the Group (note 27) as at 31 December 2011, 2012 and 2013, respectively.

**Company**

| | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2011** | | | | | |
| At 31 December 2010 and at 1 January 2011: | | | | | |
| Cost or valuation | 28,467 | – | 2,144 | 3,821 | 34,432 |
| Accumulated depreciation and impairment | (4,169) | – | (642) | (720) | (5,531) |
| Net carrying amount | 24,298 | – | 1,502 | 3,101 | 28,901 |
| At 1 January 2011, net of accumulated depreciation | 24,298 | – | 1,502 | 3,101 | 28,901 |
| Additions | 27,300 | – | 1,487 | 1,033 | 29,820 |
| Disposals | – | – | (5) | (75) | (80) |
| Depreciation provided during the year | (2,162) | – | (382) | (481) | (3,025) |
| Depreciation transfered due to disposals | – | – | 3 | 33 | 36 |
| At 31 December 2011, net of accumulated depreciation and impairment | 49,436 | – | 2,605 | 3,611 | 55,652 |
| At 31 December 2011: | | | | | |
| Cost or valuation | 55,767 | – | 3,626 | 4,779 | 64,172 |
| Accumulated depreciation and impairment | (6,331) | – | (1,021) | (1,168) | (8,520) |
| Net carrying amount | 49,436 | – | 2,605 | 3,611 | 55,652 |

**Company**

| | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2012** | | | | | |
| At 31 December 2011 and at 1 January 2012: | | | | | |
| Cost or valuation | 55,767 | – | 3,626 | 4,779 | 64,172 |
| Accumulated depreciation and impairment | (6,331) | – | (1,021) | (1,168) | (8,520) |
| Net carrying amount | 49,436 | – | 2,605 | 3,611 | 55,652 |
| At 1 January 2012, net of accumulated depreciation | 49,436 | – | 2,605 | 3,611 | 55,652 |
| Additions | – | – | 1,980 | 1,757 | 3,737 |
| Disposals | – | – | (8) | – | (8) |
| Depreciation provided during the year | (2,897) | – | (968) | (611) | (4,476) |
| Depreciation transfered due to disposals | – | – | 5 | – | 5 |
| At 31 December 2012, net of accumulated depreciation and impairment | 46,539 | – | 3,614 | 4,757 | 54,910 |
| At 31 December 2012: | | | | | |
| Cost or valuation | 55,767 | – | 5,598 | 6,536 | 67,901 |
| Accumulated depreciation and impairment | (9,228) | – | (1,984) | (1,779) | (12,991) |
| Net carrying amount | 46,539 | – | 3,614 | 4,757 | 54,910 |

**Company**

| | Buildings | Leasehold improvements | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2013** | | | | | |
| At 31 December 2012 and at 1 January 2013: | | | | | |
| Cost or valuation | 55,767 | – | 5,598 | 6,536 | 67,901 |
| Accumulated depreciation and impairment | (9,228) | – | (1,984) | (1,779) | (12,991) |
| Net carrying amount | 46,539 | – | 3,614 | 4,757 | 54,910 |
| At 1 January 2013, net of accumulated depreciation | 46,539 | – | 3,614 | 4,757 | 54,910 |
| Additions | – | – | 420 | 1,848 | 2,268 |
| Disposals | – | – | (670) | – | (670) |
| Depreciation provided during the year | (3,157) | – | (692) | (817) | (4,666) |
| Depreciation transfered due to disposals | – | – | 636 | – | 636 |
| At 31 December 2013, net of accumulated depreciation and impairment | 43,382 | – | 3,308 | 5,788 | 52,478 |
| At 31 December 2013: | | | | | |
| Cost or valuation | 55,767 | – | 5,348 | 8,384 | 69,499 |
| Accumulated depreciation and impairment | (12,385) | – | (2,040) | (2,596) | (17,021) |
| Net carrying amount | 43,382 | – | 3,308 | 5,788 | 52,478 |

The Company's building with a net carrying amount of approximately RMB22,945,000, RMB21,593,000, RMB20,241,000 was pledged to secure general banking facilities granted to subsidiaries of the Company as at 31 December 2011, 2012 and 2013, respectively.

## 17. GOODWILL

**Group**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| | **RMB'000** | **RMB'000** | **RMB'000** |
| **At 1 January:** | | | |
| Cost | 56,344 | 56,652 | 56,652 |
| Net carrying amount | 56,344 | 56,652 | 56,652 |
| Cost at 1 January, net of accumulated impairment | 56,344 | 56,652 | 56,652 |
| Acquisition of subsidiaries | 351 | – | 650 |
| Disposal of subsidiaries | (43) | – | – |
| At 31 December | 56,652 | 56,652 | 57,302 |

**Impairment testing of goodwill**

The carrying amounts of goodwill allocated to each of the cash-generating units which are the subsidiaries of the Company are as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Changsha 958598 Electronic Communication Equipment Co., Ltd. | 490 | 490 | 490 |
| Shenyang Tongliansihai Electronic Communication Technology Co., Ltd. | 381 | 381 | 381 |
| Sichuan Yijialong Communication Technology Chain Co., Ltd. | 34,650 | 34,650 | 34,650 |
| Luoyang Dphone Electronic Communication Technology Co., Ltd. | 5,739 | 5,739 | 5,739 |
| Shangqiu Dphone Electronic Communication Technology Co., Ltd. | 1,729 | 1,729 | 1,729 |
| Xiamen Dphone Electronic Communication Technology Co., Ltd.. | 495 | 495 | 495 |
| Yunnan Dphone Electronic Communication Technology Co., Ltd.. | 7,792 | 7,792 | 7,792 |
| Wuhan Yitongda Communication Equipment Co., Ltd. | 1,235 | 1,235 | 1,235 |
| Xi'an Dphone Electronic Communication Technology Co., Ltd.. | 3,790 | 3,790 | 3,790 |
| Beijing Jinyitongda Communication Equipment Maintenance Co., Ltd. | 351 | 351 | 351 |
| Xinyang Beixing Science Trading Co., Ltd. | – | – | 650 |
| Total | 56,652 | 56,652 | 57,302 |

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the Directors which cover a period of five years. The pre-tax discount rates applied to the cash flow projections range from 14% to 16%, 15% to 17%, 16% to 18% as at 31 December 2011, 2012 and 2013, respectively.

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period is 3% as at 31 December 2011, 2012 and 2013, respectively. The Directors of the Company believe that this growth rate is conservative and reliable for the purpose of this impairment testing.

Assumptions were used in the value in use calculation of the cash-generating units noted above for 31 December 2011, 2012 and 2013. The following describes each key assumption on which management has based on in the preparation of cash flow projections to undertake impairment testing of goodwill:

| | |
|---|---|
| Revenue: | the bases used to determine the future earnings potential are historical sales and average and expected growth rates of the market in the PRC. |
| Gross margins: | the gross margins are based on the average gross margin achieved in the past three years and expected trend in the future. |
| Expenses: | the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level. |
| Discount rates: | the discount rates used are before tax and reflect management's estimate of the risks specific to each unit. In determining appropriate discount rates for each unit, regard has been given to the applicable borrowing rate of the Group during Relevant Periods. |

The values assigned to the key assumptions on market development, gross margins, expenses and discount rates are consistent with external information sources.

## 18. OTHER INTANGIBLE ASSETS

**Group**

| | Software copyrights |
|---|---|
| | RMB'000 |
| **31 December 2011:** | |
| Cost at 1 January 2011, net of accumulated amortisation | 527 |
| Additions | 826 |
| Amortisation provided during the year | (442) |
| At 31 December 2011 | 911 |
| At 31 December 2011: | |
| Cost | 1,582 |
| Accumulated amortisation | (671) |
| Net carrying amount | 911 |
| **31 December 2012:** | |
| Cost at 1 January 2012, net of accumulated amortisation | 911 |
| Additions | 679 |
| Amortisation provided during the year | (706) |
| At 31 December 2012 | 884 |
| At 31 December 2012: | |
| Cost | 2,261 |
| Accumulated amortisation | (1,377) |
| Net carrying amount | 884 |
| **31 December 2013:** | |
| Cost at 1 January 2013, net of accumulated amortisation | 884 |
| Additions | 494 |
| Amortisation provided during the year | (493) |
| At 31 December 2013 | 885 |
| At 31 December 2013: | |
| Cost | 2,755 |
| Accumulated amortisation | (1,870) |
| Net carrying amount | 885 |

**Company**

| | Software copyrights |
|---|---|
| | **RMB'000** |
| **31 December 2011:** | |
| Cost at 1 January 2011, net of accumulated amortisation | 525 |
| Additions | 826 |
| Amortisation provided during the year | (441) |
| At 31 December 2011 | 910 |
| At 31 December 2011: | |
| Cost | 1,580 |
| Accumulated amortisation | (670) |
| Net carrying amount | 910 |
| **31 December 2012:** | |
| Cost at 1 January 2012, net of accumulated amortisation | 910 |
| Additions | 679 |
| Amortisation provided during the year | (705) |
| At 31 December 2012 | 884 |
| At 31 December 2012: | |
| Cost | 2,259 |
| Accumulated amortisation | (1,375) |
| Net carrying amount | 884 |
| **31 December 2013:** | |
| Cost at 1 January 2013, net of accumulated amortisation | 884 |
| Additions | 200 |
| Amortisation provided during the year | (620) |
| At 31 December 2013 | 464 |
| At 31 December 2013: | |
| Cost | 2,459 |
| Accumulated amortisation | (1,995) |
| Net carrying amount | 464 |

## 19. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

**Deferred tax assets**

***Group***

| | Provisions |
|---|---|
| | **RMB'000** |
| At 1 January 2011 | 8,623 |
| Deferred tax credited to the statement of profit or loss during the year | 1,914 |
| Gross deferred tax assets at 31 December 2011 and 1 January 2012 | 10,537 |
| Deferred tax credited to the statement of profit or loss during the year | 1,680 |
| Gross deferred tax assets at 31 December 2012 and 1 January 2013 | 12,217 |
| Deferred tax credited to the statement of profit or loss during the year | 10,013 |
| At 31 December 2013 | 22,230 |

***Company***

| | Provisions |
|---|---|
| | RMB'000 |
| At 1 January 2011 | 336 |
| Deferred tax credited to the income statement during the year | 440 |
| Gross deferred tax assets at 31 December 2011 and 1 January 2012 | 776 |
| Deferred tax charged to the income statement during the year | (394) |
| Gross deferred tax assets at 31 December 2012 and 1 January 2013 | 382 |
| Deferred tax credited to the income statement during the year | 899 |
| At 31 December 2013 | 1,281 |

There was no significant unrecognised deferred tax assets in respect of deductible temporary differences, unused tax losses, and unused tax credits as at 31 December 2011, 2012 and 2013.

**20. INVESTMENTS IN SUBSIDIARIES**

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Unlisted shares, at cost | 393,267 | 410,757 | 441,410 |

**21. INVENTORIES**

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Merchandise for resale | 930,007 | 1,259,246 | 1,631,916 |
| Consumable supplies | 1,022 | 4,494 | 1,541 |
| | 931,029 | 1,263,740 | 1,633,457 |
| Less: provision against inventories | (8,755) | (11,541) | (16,390) |
| | 922,274 | 1,252,199 | 1,617,067 |

The Group's inventories in the amount of RMB57,272,000, RMB137,803,000 and RMB72,996,000 are carried at fair value less cost to sell as at 31 December 2011,2012 and 2013, respectively.

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Merchandise for resale | 42,393 | 53,519 | 121,571 |
| Less: provision against inventories | (105) | (217) | (1,216) |
| | 42,288 | 53,302 | 120,355 |

The Company's inventories in the amount of RMB5,047,000, RMB20,409,000 and RMB7,736,000 are carried at fair value less cost to sell as at 31 December 2011, 2012 and 2013, respectively.

## 22. TRADE AND BILLS RECEIVABLE

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Bills receivable | 200 | 5,918 | 340 |
| Trade receivables | 596,367 | 799,636 | 1,318,133 |
| | 596,567 | 805,554 | 1,318,473 |
| Less: impairment for trade receivables | (23,516) | (29,662) | (65,974) |
| | 573,051 | 775,892 | 1,252,499 |

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

**Endorsed bills receivable**

The Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with an aggregate carrying amount of RMB315,429,000, RMB586,777,000 and RMB457,315,000 as at 31 December 2011, 2012 and 2013 respectively. The Derecognised Bills have maturities ranging from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables.

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase the Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are immaterial.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Derecognized Bills. No gains or losses were recognized from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the Relevant Periods.

**Trade receivables factoring**

As part of its normal business, the Group entered into a trade receivables factoring arrangement (the "Arrangement") and transferred certain trade receivables to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss if any trade debtors have defaulted. In the opinion of the Directors, the Group has retained substantially all risk and rewards regarding to the trade receivables. Accordingly, it has not derecognized the full carrying amounts, the proceeds from the arrangement is recorded as bank borrowings. The original carrying value of trade receivables transferred under the Arrangement that have not been settled as at 31 December 2011, 2012 and 2013 amounted to RMB35,000,000, RMB60,000,000 and RMB60,000,000, respectively, and the proceeds from the Arrangement in the same amounts are recorded as bank borrowings.

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Bills receivable | 110,543 | 191,407 | 271,000 |
| Trade receivables | 15,130 | 7,964 | 31,617 |
| | 125,673 | 199,371 | 302,617 |
| Less: impairment for trade receivables | (696) | (174) | (1,772) |
| | 124,977 | 199,197 | 300,845 |

**Endorsed bills receivable**

The Company endorsed certain Derecognised Bills to certain of its suppliers in order to settle the trade payables due to such suppliers with an aggregate carrying amount of RMB59,325,000, RMB197,899,000 and nil, respectively as at 31 December 2011, 2012 and 2013. The Derecognised Bills have maturities ranging from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognized Bills have a right of recourse against the Company if the PRC banks default. In the opinion of the Directors, the Company has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables.

The maximum exposure to loss from the Company's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Company's Continuing Involvement in the Derecognised Bills are immaterial.

During the Relevant Periods, the Company has not recognised any gain or loss on the date of transfer of the Derecognized Bills. No gains or losses were recognized from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the Relevant Periods.

An aged analysis of the balance of trade and bills receivable as at the end of each of the Relevant Periods, based on the invoice date and net of provisions, is as follows:

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Within 90 days | 449,767 | 634,076 | 875,828 |
| 91 to 180 days | 72,054 | 72,684 | 199,128 |
| 181 to 365 days | 30,105 | 46,758 | 145,604 |
| Over 1 year | 21,125 | 22,374 | 31,939 |
| | 573,051 | 775,892 | 1,252,499 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Within 90 days | 119,066 | 195,563 | 296,365 |
| 91 to 180 days | 3,497 | 1,851 | 2,781 |
| 181 to 365 days | 1,048 | 807 | 687 |
| Over 1 year | 1,366 | 976 | 1,012 |
| | 124,977 | 199,197 | 300,845 |

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

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| At 1 January | 19,151 | 23,516 | 29,662 |
| Impairment losses recognised *(note 9)* | 4,365 | 6,426 | 37,497 |
| Amount written off as uncollectible | – | (280) | (1,185) |
| At 31 December | 23,516 | 29,662 | 65,974 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| At 1 January | 390 | 696 | 174 |
| Impairment losses recognized | 306 | – | 1,598 |
| Impairment losses reversed | – | (522) | – |
| At 31 December | 696 | 174 | 1,772 |

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Neither past due nor impaired | 390,840 | 545,352 | 884,533 |
| Past due but not impaired: | | | |
| Less than 90 days | 99,306 | 102,676 | 198,478 |
| 91 to 180 days | 38,976 | 55,343 | 81,426 |
| 181 to 365 days | 25,769 | 46,758 | 57,294 |
| Over 1 year | 17,960 | 19,845 | 30,428 |
| | 572,851 | 769,974 | 1,252,159 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Neither past due nor impaired | 8,532 | 4,195 | 25,582 |
| Past due but not impaired: | | | |
| Less than 90 days | 3,517 | 1,956 | 2,829 |
| 91 to 180 days | 633 | 466 | 357 |
| 181 to 365 days | 386 | 197 | 125 |
| Over 1 year | 1,366 | 976 | 952 |
| | 14,434 | 7,790 | 29,845 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Prepayments | 207,847 | 362,681 | 544,324 |
| Deposits and other receivables | 182,688 | 153,364 | 128,491 |
| | 390,535 | 516,045 | 672,815 |
| Less: impairment for other receivables | (9,876) | (7,821) | (6,553) |
| | 380,659 | 508,224 | 666,262 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Prepayments | 77 | 167,554 | 61,816 |
| Deposits and other receivables | 30,577 | 30,412 | 34,001 |
| Dividend receivables | – | – | 20,000 |
| | 30,654 | 197,966 | 115,817 |
| Less: impairment for other receivables | (1,982) | (815) | (2,137) |
| | 28,672 | 197,151 | 113,680 |

The movements in the provision for impairment of other receivables are as follows:

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January | 7,883 | 9,876 | 7,821 |
| Impairment losses recognized *(note 9)* | 2,769 | – | 1,322 |
| Impairment losses reversed *(note 9)* | – | (1,387) | (2,590) |
| Amount written off as uncollectible | (776) | (668) | – |
| At 31 December | 9,876 | 7,821 | 6,553 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| At 1 January | 680 | 1,982 | 815 |
| Impairment losses recognized | 1,302 | – | 1,322 |
| Impairment losses reversed | – | (1,167) | – |
| At 31 December | 1,982 | 815 | 2,137 |

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash and bank balances | 292,081 | 529,735 | 301,939 |
| Time deposits | 362,996 | 382,172 | 514,070 |
| | 655,077 | 911,907 | 816,009 |
| Less: pledged time deposits – | | | |
| pledged for bank borrowing | 138,292 | 138,440 | 208,846 |
| pledged for bank acceptance notes | 224,704 | 243,732 | 305,224 |
| Cash and cash equivalents, denominated in RMB | 292,081 | 529,735 | 301,939 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash and bank balances | 92,186 | 104,303 | 105,473 |
| Time deposits | 117,180 | 175,110 | 158,180 |
| | 209,366 | 279,413 | 263,653 |
| Less: pledged time deposits – | | | |
| pledged for bank borrowing | 88,180 | 125,043 | 110,220 |
| pledged for bank acceptance notes | 29,000 | 50,067 | 47,960 |
| Cash and cash equivalents denominated in RMB | 92,186 | 104,303 | 105,473 |

Cash at banks earn interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between three months and one year depending on the immediate cash needs of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 25. DUE FROM A DIRECTOR

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Due from a Director *(i)* | 10,700 | – | – |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Due from a Director *(i)* | 10,700 | – | – |

*Note:*

(i) The amount due from a Director, Mr. Liu Donghai, who is the vice chairman of the Board and one of the Controlling Shareholders, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, is as follows:

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Maximum amount outstanding during the year | 10,700 | 10,700 | – |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Maximum amount outstanding during the year | 10,700 | 10,700 | – |

The amount due from a Director was unsecured, interest-free and repayable on demand.

**26. BALANCES WITH RELATED PARTIES**

The amounts due from/to a related company of the Group and subsidiaries of the Company are trade in nature, interest-free and repayable on demand.

**27. INTEREST-BEARING LOANS**

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Bank loans: | | | |
| Unsecured, repayable within one year | 130,543 | 190,407 | 271,000 |
| Secured and guaranteed by controlling shareholders, repayable within one year | 346,000 | 376,000 | 485,949 |
| Guaranteed by controlling shareholders, repayable within one year | 280,000 | 724,294 | 941,804 |
| | 756,543 | 1,290,701 | 1,698,753 |
| The bank loans bear interest at rates per annum in the range of | 4.37% to 9.25% | 5.60% to 8.42% | 5.60% to 7.80% |

*Notes:*

Certain of the Group's bank loans are secured by:

(i) Pledged of trade receivables with a carrying value of RMB35,000,000, RMB60,000,000 and RMB60,000,000 as at 31 December 2011, 2012 and 2013, respectively, and the loans are also guaranteed by the Controlling Shareholders.

(ii) Pledged deposits, which had an aggregate carrying value of RMB138,292,000, RMB138,440,000 and RMB208,846,000 as at 31 December 2011, 2012 and 2013, respectively, and the loans are also guaranteed by the Controlling Shareholders.

(iii) Mortgages by the Group's properties, which had an aggregate carrying value of RMB22,945,000, RMB21,593,000, RMB20,241,000 as at 31 December 2011, 2012 and 2013, respectively, and the loans are also guaranteed by the Controlling Shareholders.

In addition, certain loans are guaranteed by the Controlling Shareholders, ie. Mr. Liu Donghai (vice chairman of the Board and one of the controlling shareholders) and his spouse, Ms. Zhao Bin, Mr. Liu Songshan (chairman of the Board and one of the controlling shareholders) and his spouse, Ms. She Jing, and Mr. Liu Wencui (executive Director and one of the controlling shareholders), as at the end of each of the Relevant Periods.

**Company**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2011** | **2012** | **2013** |
| | | **RMB'000** | **RMB'000** | **RMB'000** |
| Bank loans: | | | | |
| Unsecured, repayable within one year . | | 110,543 | 190,407 | 271,000 |
| Secured and guaranteed by controlling shareholders, repayable within one year . . . . . . . . . . . . . . . . . . . . . | (i) | 231,583 | 360,077 | 343,771 |
| Guaranteed by controlling shareholders, repayable within one year . . . . . . . . . . . . . . . . . . . . . | | 131,330 | 350,326 | 708,803 |
| | | 473,456 | 900,810 | 1,323,574 |
| The bank loans bear interest at rates per annum in the range of . . . . . . . . . . . | | 4.37% to 9.25% | 6.16% to 8.42% | 5.60% to 7.80% |

*Note:*

(i) Pledged deposits, which had an aggregate carrying value of RMB88,180,000, RMB125,043,000 and RMB110,220,000 as at 31 December 2011, 2012 and 2013, respectively, and the loans are also guaranteed by the Controlling Shareholders.

In addition, certain bank loans are guaranteed by the Controlling Shareholders, ie. Mr. Liu Donghai (vice chairman of the Board and one of the Controlling Shareholders) and his spouse, Ms. Zhao Bin, Mr. Liu Songshan (chairman of the Board and one of the Controlling Shareholders) and his spouse, Ms. She Jing, and Ms. Liu Wencui (executive Director and one of the Controlling Shareholders), as at the end of each of the Relevant Periods.

## 28. TRADE AND BILLS PAYABLE

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2012** | **2013** |
| | **RMB'000** | **RMB'000** | **RMB'000** |
| Trade payables . . . . . . . . . . . . . . . . . . . . . . | 306,204 | 338,447 | 545,434 |
| Bill payables . . . . . . . . . . . . . . . . . . . . . . . | 366,630 | 354,356 | 533,031 |
| | 672,834 | 692,803 | 1,078,465 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade payables | 82,369 | 144,994 | 221,002 |
| Bill payables | 80,000 | 120,393 | 100,593 |
| | 162,369 | 265,387 | 321,595 |

An aged analysis of the outstanding trade and bills payable as at the end of each of the Relevant Periods based on the invoice date is as follows:

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 90 days | 594,337 | 571,867 | 1,004,864 |
| 91 to 180 days | 62,376 | 95,484 | 33,295 |
| 181 to 365 days | 5,977 | 14,193 | 29,644 |
| Over 1 year | 10,144 | 11,259 | 10,662 |
| | 672,834 | 692,803 | 1,078,465 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within 90 days | 149,746 | 254,684 | 217,526 |
| 91 to 180 days | 9,375 | 6,503 | 103,190 |
| 181 to 365 days | 1,197 | 2,337 | – |
| Over 1 year | 2,051 | 1,863 | 879 |
| | 162,369 | 265,387 | 321,595 |

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

## 29. OTHER PAYABLES AND ACCRUALS

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Advances from customers | 32,176 | 102,768 | 136,076 |
| Payroll and welfare payable | 22,203 | 26,651 | 39,875 |
| Accrued expenses | 8,931 | 21,481 | 40,403 |
| Other payables | 76,716 | 104,700 | 99,854 |
| | 140,026 | 255,600 | 316,208 |

**Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Advances from customers | 11,357 | 772 | 2,017 |
| Payroll and welfare payable | 59 | 279 | 339 |
| Accrued expenses | 1,688 | 3,289 | 5,868 |
| Other payables | 72,624 | 50,715 | 47,928 |
| | 85,728 | 55,055 | 56,152 |

## 30. ISSUED CAPITAL

**Group and Company**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Registered, issued and fully paid: | | | |
| 500,000,000 ordinary shares of RMB1 each | 500,000 | 500,000 | 500,000 |

## 31. RESERVES

**Group**

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity.

**Company**

| | Issued capital | Capital reserve | Statutory reserve fund | Retained profits | Total equity |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2011 | 500,000 | 32,035 | 13,340 | 20,294 | 565,669 |
| Total comprehensive income for the year | – | – | – | 54,546 | 54,546 |
| Equity-settled share arrangements | – | 1,170 | – | – | 1,170 |
| Transfer from retained profits | – | – | 5,455 | (5,455) | – |
| At 31 December 2011 and 1 January 2012 | 500,000 | 33,205 | 18,795 | 69,385 | 621,385 |
| Total comprehensive income for the year | – | – | – | 31,869 | 31,869 |
| Transfer from retained profits | – | – | 3,187 | (3,187) | – |
| At 31 December 2012 and 1 January 2013 | 500,000 | 33,205 | 21,982 | 98,067 | 653,254 |
| Total comprehensive income for the year | – | – | – | 115,503 | 115,503 |
| Dividends | – | – | – | (200,000) | (200,000) |
| Transfer from retained profits | – | – | 11,550 | (11,550) | – |
| At 31 December 2013 | 500,000 | 33,205 | 33,532 | 2,020 | 568,757 |

***Statutory reserve funds***

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the Board of Directors, of their profit after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserve funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of the PRC domestic companies is required to transfer 10% of the profit after income tax, as determined in accordance with the PRC accounting regulations, to the statutory common reserve fund, until the balance of the fund reaches 50% of its registered capital of these companies. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve fund may be used to offset against accumulated losses, if any.

***Distributable reserves***

For dividend purposes, the amounts which the PRC companies can legally distribute by way of a dividend are determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

In accordance with the Company Law of the PRC, profit after tax of the PRC companies can be distributed as dividends after the appropriation to the statutory reserve fund as set out above.

**32. BUSINESS COMBINATION**

Particulars of significant business combination during the years ended 31 December 2011, 2012 and 2013 are set out below.

**(i) Acquisition of Beijing Tailongji Trading Co., Ltd.**

On 1 March 2011, the Group acquired the entire interest in Beijing Tailongji Trading Co., Ltd. (北京市泰龍吉貿易有限公司, "Tailongji") at a cash consideration of RMB9,416,000. Tailongji is engaged in the online sale of telecommunications devices and accessories. The Group acquired Tailongji in order to build its online sales platform in accordance with its growth strategy.

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

| | **Fair value recognised on acquisition** |
|---|---|
| | **RMB'000** |
| Property, plant and equipment | 12 |
| Trade receivables | 1,244 |
| Inventories | 7,173 |
| Prepayments, deposits and other receivables | 10,537 |
| Cash and bank balances | 2,703 |
| Trade and bills payable | (3,162) |
| Other payables and accruals | (9,091) |
| Total identifiable net assets at fair value | 9,416 |
| Satisfied by cash | 9,416 |

The contractual amounts of the trade receivables and other receivables as at the date of acquisition amounted to RMB1,244,000 and RMB10,537,000, respectively, which are expected to be fully recoverable.

The Group incurred transaction costs of RMB30,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

| | RMB'000 |
|---|---|
| Cash consideration | 9,416 |
| Cash and bank balances acquired | (2,703) |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | 6,713 |
| Transaction costs of the acquisition included in cash flows from operating activities | (30) |
| | 6,683 |

Since the acquisition, Tailongji contributed RMB126,099,000 to the Group's turnover and RMB661,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year ended 31 December 2011, the revenue and profit of the consolidated entity for the year ended 31 December 2011 would have been RMB6,522,188,000 and RMB221,314,000, respectively.

**(ii) Shenzhen Hua'aotong Electronic Technology Co., Ltd.**

On 22 March 2011, the Group acquired a 100% interest in Shenzhen Hua'aotong Electronic Technology Co., Ltd. (深圳市華奥通電子有限公司, "Shenzhen Hua'aotong") at a cash consideration of RMB19,129,000. Shenzhen Hua'aotong is engaged in the research and development, manufacture and sale of telecommunications devices and accessories. The Group acquired Shenzhen Hua'aotong in order to build up its original brand of telecommunications devices and accessories in accordance with its growth strategy.

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

| | Fair value recognised on acquisition |
|---|---|
| | RMB'000 |
| Property, plant and equipment | 246 |
| Trade receivables | 2,992 |
| Inventories | 4,752 |
| Prepayments, deposits and other receivables | 22,262 |
| Cash and bank balances | 21 |
| Trade and bills payable | (5,863) |
| Other payables and accruals | (5,281) |
| Total identifiable net assets at fair value | 19,129 |
| Satisfied by receivables from original shareholders | 19,129 |

The contractual amounts of the trade receivable and other receivable balances as at the date of acquisition amounted to RMB2,992,000 and RMB20,302,000, respectively, which are expected to be fully recoverable.

The Group incurred transaction costs of RMB30,000 for this acquisition. These transaction costs have been expensed off and are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | RMB'000 |
|---|---|
| Cash consideration | – |
| Cash and bank balances acquired | (21) |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | – |
| Transaction costs of the acquisition included in cash flows from operating activities | (30) |
| | (51) |

Since the acquisition, Shenzhen Hua'aotong contributed RMB58,081,000 to the Group's turnover and RMB234,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year ended 31 December 2011, the revenue and profit of the consolidated entity for the year ended 31 December 2011 would have been RMB6,525,946,000 and RMB221,696,000, respectively.

## 33. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

**Major non-cash transaction**

During the year ended 31 December 2011, the Company acquired Shenzhen Hua'aotong at a consideration of RMB19,129,000 as set out above. The consideration was settled by offsetting an amount due from an original shareholder of Shenzhen Hua'aotong.

## 34. INVESTMENT IN A JOINT VENTURE

Particulars of the Group's joint ventures are as follows:

| Name | Investment cost | Place of registration and business | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| | RMB'000 | | | | | |
| Hollard – D. Phone (Beijing) Technology Development Co., Ltd. | 2,500 | PRC/Mainland China | 50 | 50 | 50 | Technology research and consulting service |

The investment in a joint venture is directly held by the Company.

The Group has discontinued the recognition of its share of losses of a joint venture Hollard – D. Phone (Beijing) Technology Development Co., Ltd. since the beginning of the Relevant Periods because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses/(gain) of this joint venture were RMB969,000, RMB563,000 and (RMB1,777,000) during the years ended 31 December 2011, 2012 and 2013, respectively. The accumulated amounts of the Group's unrecognised share of losses of this joint venture were RMB1,689,000, RMB2,252,000 and RMB475,000 as at 31 December 2011, 2012 and 2013, respectively.

## 35. OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are for terms ranging from one to five years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Within a year | 243,855 | 269,320 | 331,281 |
| In the second to fifth years, inclusive | 439,292 | 527,620 | 653,978 |
| | 683,147 | 796,940 | 985,259 |

## 36. COMMITMENTS

At the end of the Relevant Periods, neither the Group nor the Company had any significant commitments.

## 37. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the Relevant Periods:

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | 2011 | 2012 | 2013 |
| | | RMB'000 | RMB'000 | RMB'000 |
| A joint venture entity: | | | | |
| Sales of goods | (i) | 92 | 96 | 13 |
| Purchases of goods | (i) | – | 116 | 51 |
| Loans provided by companies controlled by the controlling shareholders | (ii) | 8,566 | 4,000 | – |

*Notes:*

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

(ii) The loans were unsecured, interest-free and repayable on demand.

(b) Other transactions with related parties

The Company's Controlling Shareholders have guaranteed bank loans made to the Group as at the end of each of the Relevant Periods, as detailed in note 27.

(c) Outstanding balances with related parties:

Details of the Group's outstanding balances with related parties are set out in notes 25 and 26.

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Salaries, allowances, bonuses and other expenses | 4,922 | 4,762 | 5,412 |
| Equity-settled equity arrangements | 1,170 | – | – |
| | 6,092 | 4,762 | 5,412 |

Further details of Directors' and the chief executive officer's emoluments are included in note 10.

## 38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

**Group**

***Financial assets***

| | Loans and receivables as at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade and bills receivable | 573,051 | 775,892 | 1,252,499 |
| Financial assets included in prepayments, deposits and other receivables | 172,812 | 145,543 | 121,938 |
| Due from a Director | 10,700 | – | – |
| Due from a related party | – | 826 | 5,300 |
| Pledged deposits | 362,996 | 382,172 | 514,070 |
| Cash and cash equivalents | 292,081 | 529,735 | 301,939 |
| | 1,411,640 | 1,834,168 | 2,195,746 |

***Financial liabilities***

| | Financial liabilities at amortised cost as at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade and bills payable | 672,834 | 692,803 | 1,078,465 |
| Financial liabilities included in other payables and accruals | 76,716 | 104,700 | 99,854 |
| Due to a related party | – | 116 | 1,701 |
| Interest-bearing loans | 756,543 | 1,290,701 | 1,698,753 |
| | 1,506,093 | 2,088,320 | 2,878,773 |

**Company**

*Financial assets*

| | Loans and receivables as at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade and bills receivable | 124,977 | 199,197 | 300,845 |
| Financial assets included in prepayments, deposits and other receivables | 28,595 | 29,597 | 31,864 |
| Due from a Director | 10,700 | – | – |
| Due from related parties | 8,227 | 7,962 | 13,210 |
| Due from subsidiaries | 925,554 | 969,539 | 1,334,452 |
| Pledged deposits | 117,180 | 175,110 | 158,180 |
| Cash and cash equivalents | 92,186 | 104,303 | 105,473 |
| | 1,307,419 | 1,485,708 | 1,944,024 |

*Financial liabilities*

| | Financial liabilities at amortised cost as at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Trade and bills payable | 162,369 | 265,387 | 321,595 |
| Financial liabilities included in other payables and accruals | 72,624 | 50,715 | 47,928 |
| Due to related parties | 2,719 | 3,214 | 2,500 |
| Due to subsidiaries | 452,549 | 291,284 | 368,550 |
| Interest-bearing loans | 473,456 | 900,810 | 1,323,574 |
| | 1,163,717 | 1,511,410 | 2,064,147 |

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY

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

The fair value of interest-bearing bank loans has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of interest-bearing loans at the end of each of the Relevant Periods approximated to their corresponding carrying amount due to their short term maturities.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivable and trade and bills payable as well as other receivables and payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

**Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings).

***Group***

| | Increase/(decrease) in basis points | Increase/(decrease) in profit before tax |
|---|---|---|
| | | RMB'000 |
| 2013 . . . . . . . . . . . . . . . . . . . . . . . . | 100 | (8,341) |
| | (100) | 8,341 |
| 2012 . . . . . . . . . . . . . . . . . . . . . . . . | 100 | (5,153) |
| | (100) | 5,153 |
| 2011 . . . . . . . . . . . . . . . . . . . . . . . . | 100 | (2,390) |
| | (100) | 2,390 |

**Foreign currency risk**

The Group has no transactional currency exposures.

**Credit risk**

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Company's and the Group's other financial assets, which comprise cash and cash equivalents and other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Company's and the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the Financial Information.

**Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

***Group***

| 31 December 2011 | On demand | Less than 3 months | 3 to 12 months | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing loans | – | 602,650 | 166,124 | 768,774 |
| Trade and bills payable | 22,475 | 650,359 | – | 672,834 |
| Financial liabilities included in other payables and accruals | 21,943 | 47,370 | 7,403 | 76,716 |
| | 44,418 | 1,300,379 | 173,527 | 1,518,324 |

| 31 December 2012 | On demand | Less than 3 months | 3 to 12 months | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing loans | – | 863,837 | 453,250 | 1,317,087 |
| Trade and bills payable | 38,650 | 654,153 | – | 692,803 |
| Financial liabilities included in other payables and accruals | 46,400 | 49,941 | 8,359 | 104,700 |
| Due to a related party | – | 116 | – | 116 |
| | 85,050 | 1,568,047 | 461,609 | 2,114,706 |

| 31 December 2013 | On demand | Less than 3 months | 3 to 12 months | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing loans | – | 942,985 | 797,326 | 1,740,311 |
| Trade and bills payable | 29,644 | 1,015,526 | 33,295 | 1,078,465 |
| Financial liabilities included in other payables and accruals | 5,323 | 80,658 | 13,873 | 99,854 |
| Due to a related party | – | 1,701 | – | 1,701 |
| | 34,967 | 2,040,870 | 844,494 | 2,920,331 |

The maturity profile of the Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

***Company***

| 31 December 2011 | On demand | Less than 3 months | 3 to 12 months | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing loans | – | 373,997 | 107,034 | 481,031 |
| Trade and bills payable | 375 | 161,994 | – | 162,369 |
| Other payables and accruals | 408 | 72,164 | 52 | 72,624 |
| Due to related parties | – | 2,719 | – | 2,719 |
| Due to subsidiaries | – | 452,549 | – | 452,549 |
| | 783 | 1,063,423 | 107,086 | 1,171,292 |

| 31 December 2012 | On demand | Less than 3 months | 3 to 12 months | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing loans | – | 563,147 | 356,155 | 919,302 |
| Trade and bills payable | 650 | 264,737 | – | 265,387 |
| Other payables and accruals | 971 | 49,705 | 39 | 50,715 |
| Due to related parties | – | 3,214 | – | 3,214 |
| Due to subsidiaries | – | 291,284 | – | 291,284 |
| | 1,621 | 1,172,087 | 356,194 | 1,529,902 |

| 31 December 2013 | On demand | Less than 3 months | 3 to 12 months | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing loans | – | 768,496 | 634,295 | 1,402,791 |
| Trade and bills payable | 879 | 217,526 | 103,190 | 321,595 |
| Other payables and accruals | 2,509 | 23,439 | 21,980 | 47,928 |
| Due to related parties | – | 2,500 | – | 2,500 |
| Due to subsidiaries | – | 368,550 | – | 368,550 |
| | 3,388 | 1,380,511 | 759,465 | 2,143,364 |

**Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank loans, less cash and cash equivalents. Capital represents total equity.

At the end of each of the Relevant Periods, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at the end of each of the Relevant Periods are as follows:

***Group***

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Interest-bearing loans | 756,543 | 1,290,701 | 1,698,753 |
| Less: cash and cash equivalents | (292,081) | (529,735) | (301,939) |
| Net debt | 464,462 | 760,966 | 1,396,814 |
| Total equity | 1,108,593 | 1,362,185 | 1,443,523 |
| Net debt and total equity | 1,573,055 | 2,123,151 | 2,840,337 |
| Gearing ratio | 30% | 36% | 49% |

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2013.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

The information set forth in this Appendix does not form part of the Accountants' Report prepared by the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" and "Appendix I – Accountants' Report".

The following unaudited pro forma financial information is prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purpose only, and is set out here to provide the investors with further information about how the proposed listing might have affected the consolidated net tangible assets of the Group as if the Global Offering had occurred on December 31, 2013.

## A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effect of the Listing as if the Listing had taken place on December 31, 2013.

It is based on our net tangible assets as of December 31, 2013 contained in the "Accountants' Report" in Appendix I to this Prospectus and adjusted as described below:

| | Audited consolidated net tangible assets of our Group attributable to equity holders of our Company as at December 31, 2013(1) | Estimated net proceeds from the Global Offering(2) | Unaudited pro forma adjusted net tangible assets attributable to equity holders of our Company as at December 31, 2013(3) | Unaudited pro forma adjusted net tangible assets per Share | |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB | HK$ |
| Based on an Offer Price of HK$5.30 per H Share | 1,365,468 | 631,984 | 1,997,452 | 3.00 | 3.78 |
| Based on an Offer Price of HK$7.10 per H Share | 1,365,468 | 862,844 | 2,228,312 | 3.34 | 4.21 |

*Notes:*

(1) As of December 31, 2013, our audited consolidated net tangible assets attributable to equity holders of our Company were equal to equity attributable to equity holders of our Company less the intangible assets.

(2) The estimated net proceeds from the Global Offering are based on hypothetical Offer Prices of HK$5.30 and HK$7.10, respectively, per Offer Share assuming no exercise of the Over-allotment Option, after deduction of underwriting commission and estimated expenses payable by us in connection with the Global Offering.

(3) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 666,667,000 Shares expected to be in issue immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option).

## B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

EY 安永
Building a better working world

**To the Directors of Beijing Digital Telecom Co., Ltd.**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Beijing Digital Telecom Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2013, and related notes as set out in Appendix II to the prospectus issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 31 December 2013 as if the transaction had taken place at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 31 December 2013, on which an accountants' report has been published.

**Directors' responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Reporting Accountant's responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

*Certified Public Accountants*
Hong Kong

25 June 2014

## TAXATION IN THE PRC

### Corporate Income Tax

The Corporate Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "**EIT Law**") and the Implementation Rules for the EIT Law (中華人民共和國企業所得稅法實施條例), both of which came into force on January 1, 2008, impose a uniform corporate income tax rate of 25% on enterprises, both domestic and with foreign investment.

On 26 December 2007, the State Council promulgated the Notice of the State Council on Transitional Preferential Policy For Implementing Corporate Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知), whereby enterprises enjoying preferential tax rates under the relevant tax laws and administrative regulations and the enterprises income preferential tax policy as stipulated by competent documents with administrative regulatory force are subject to the following measures during transition:

(1) As from January 1, 2008, enterprises that have enjoyed preferential tax rates shall be taxed at rates to be increased from the current rate to the full rate under the EIT Law within a period of 5 year. Among them, for enterprises enjoying corporate income tax of 15%, the tax rate of 18%, 20%, 22%, 24% and 25% will take effect in 2008, 2009, 2010, 2011 and 2012, respectively; for enterprises enjoying enterprises income tax of 24%, the tax rate of 25% takes effect from 2008 onwards.

(2) As from January 1, 2008, enterprises enjoying fixed-term preferential tax treatment under relevant enterprises income tax, such as the "2 years tax exemption and 3 years 50% tax reduction" and the "5 years tax exemption and 5 years 50% tax reduction" will continue to enjoy the preferential tax treatment until expiry of the relevant fixed term according to relevant tax law, administrative regulations and preferential measures stipulated in the relevant document after the promulgation of the EIT Law. For enterprises not yet enjoyed preferential tax treatment, as profits have not yet been realized, the relevant term for enjoying preferential tax treatment shall be calculated commencing from 2008.

The enterprises entitled to benefit from the transitional preferential policies referred to above shall be enterprises established prior to March 16, 2007 that are registered with an administrative authority such as the administration of industry and commerce.

### Business Tax

Pursuant to the Provisional Regulation on Business Tax of the PRC (中華人民共和國營業稅暫行條例) promulgated on December 13, 1993 by the State Council and amended on November 5, 2008, and the Implementation Rules for Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例實施細則) promulgated on December 18, 2008 and amended on October 28, 2011, all entities and individuals that engage in provision of taxable service, transfer of intangible asset or sale of immovable property within the territory of the PRC shall pay the business tax in accordance with PRC laws and regulations. The business tax rates vary from 3 to 20 percent based on the taxable items.

**Value-added Tax**

Pursuant to the Provisional Regulations on Value Added Tax of the PRC (中華人民共和國增值稅暫行條例) promulgated by the State Council on December 13, 1993 and amended on November 5, 2008, and its implementation rules which were revised on October 28, 2011, all entities and individuals in the PRC engaging in the sale of goods, processing and repair and replacement services, and import of goods are required to pay value added tax for the added value derived from the process of manufacture, sale or services. Except for some limited circumstances in which the value added tax rate is 13%, the general rate of value added tax is 17% for those engaging in sale of goods, processing and repair and replacement services, and import of goods.

**City Maintenance and Construction Tax and Educational Surtax**

Pursuant to the Circular of the State Council on Unifying the System of City Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign Invested Enterprise and Individual (國務院關於同意內外資企業和個人城市維護建設稅和教育費附加制度的通知) promulgated on October 18, 2010, the Provisional Regulations on City Maintenance and Construction Tax of the PRC (中華人民共和國城市維護建設稅暫行條例) promulgated in 1985, the Tentative Provisions on Levy of Educational Surtax (徵收教育費附加的暫行規定) promulgated in 1986 by the State Council, and rules, regulations and policies on city maintenance and construction tax and educational surtax promulgated since 1985 by the State Council and the competent financial departments shall also be applicable to foreign invested enterprises, foreign enterprises and foreigners from 1 December 2010.

In accordance with the Provisional Regulations on City Maintenance and Construction Tax of the PRC promulgated on February 8, 1985 and amended on January 8, 2011, any enterprise or individual liable for consumption tax, value added tax and business tax shall also be required to pay city maintenance and construction tax. City maintenance and construction tax shall be based on the amount of consumption tax, value added tax and business tax actually paid by the taxpayer and shall be levied simultaneously. The rate of city maintenance and construction tax shall be 7% for the taxpayer in the city, and shall be 5% for the taxpayer in the county or town, and shall be 1% for the taxpayer not in the city, county or town.

Pursuant to the Tentative Provisions on Levy of Educational Surtax promulgated on April 28, 1986 and last amended on January 8, 2011, unless those entities pay rural educational surtax in accordance with the Circular of the State Council on Raising Education Funds for Rural School (國務院關於籌措農村學校辦學經費的通知), any other entities or individuals liable for consumption tax, value added tax and business tax shall also be required to pay educational surtax. The educational surtax rate is 3%, and the educational surtax shall be based on the amount of consumption tax, value added tax and business tax actually paid by the taxpayer and shall be levied simultaneously.

### Land Use Tax

Pursuant to the Provisional Regulations Governing Land Use Tax in Cities and Towns of the PRC (中華人民共和國城鎮土地使用稅暫行條例) promulgated on September 27, 1988 and first amended on December 31, 2006 and then on 8 January 2011, entities and individuals which use land within the boundaries of cities, counties, towns operated under an organisational system and mining industrial districts must pay land use tax. Calculation of land use tax shall be based on the actual area of land used by the taxpayer and shall be levied in accordance with the stipulated tax rate.

### Stamp Tax

In accordance with the Provisional Regulations of the PRC on Stamp Tax (中華人民共和國印花稅暫行條例) promulgated on 6 August 1988 and amended on January 8, 2011, and the Detailed Rules of Implementation of the Provisional Regulations of the PRC on Stamp Tax (中華人民共和國印花稅暫行條例實施細則) promulgated on September 29, 1988, all enterprises and individuals creating and obtaining taxable documents within the PRC shall pay stamp tax. The list of taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents contractual in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by the Ministry of Finance. The items and rates of stamp tax shall be implemented in accordance with the List of Items and Rates of Stamp Tax (印花稅稅目稅率表) attached in the Provisional Regulations of the PRC on Stamp Tax.

## TAXES APPLICABLE TO SHAREHOLDERS OF COMPANIES

### Dividend-related Tax

According to the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation rules, an individual is ordinarily subject to a PRC individual income tax levied at a flat rate of 20%. For a foreign individual shareholder who is not a PRC resident, pursuant to the Circular on the Individual Income Tax Matters after the Repeal of Circular Guo Shui Fa No. [1993]045 (Guo Shui Han No. [2011]348) issued by the State Administration of Taxation ("**SAT**") on 28 June 2011 (國家稅務總局關於國稅發 [1993]045 號文件廢止後有關個人所得稅徵管問題的通知(國稅函 [2011]348 號)), the receipt of dividends on the H-Shares is subject to a withholding tax ranging from 5% to 20% (usually 10%) depending on the applicable tax treaty between the PRC and the jurisdiction in which the foreign national resides. For foreign residents of jurisdictions that have not entered a tax treaty with the PRC, the tax rate on dividends is 20%.

Under the EIT Law and its implementation rules, non-resident enterprises having no office or premises inside the PRC or whose income has no actual connection to its office or premises inside the PRC are subject to corporate income tax at the rate of 10% on their income derived from the PRC. Under the Circular on Issues Concerning Withholding and Remitting

Corporate Income Tax for Dividends Received by Overseas Non-resident Enterprise Shareholders of H-Shares from Chinese Resident Enterprises (Guo Shui Han No. [2008]897 (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知 (國稅函 [2008]897 號)) issued by the SAT on November 6, 2008, corporate income tax at a flat rate of 10% is levied on dividends on H-shares received by any overseas enterprise shareholders that are non-PRC residents. The Response to Issues Concerning Corporate Income Tax over Dividend of B-Shares and Other Shares Received by Nonresident Enterprises (Guo Shui Han No. [2009]394) (關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆(國稅函 [2009]394 號)) issued by the SAT on July 24, 2009 further provides that any PRC resident enterprise that publicly issues A-shares, B-shares or overseas shares on stock exchanges in or outside the PRC, such as H Shares, shall withhold corporate income tax at the rate of 10% from dividends distributed by them to non-resident enterprises.

Investors who do not reside in the PRC but reside in jurisdictions that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to a reduction or exemption of the withholding tax imposed on dividends received from a PRC-resident enterprise. The PRC currently has treaties for the avoidance of double taxation with a number of jurisdictions, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. The PRC also has an arrangement for the avoidance of double taxation with Hong Kong.

**Share Transfer-related Tax**

Under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法) and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. Under the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (Cai Shui Zi [1998] No. 61) (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知 (財稅字 [1998]61 號)) issued by the Ministry of Finance and the SAT on March 30, 1998, from January 1, 1997 onwards, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. After the latest amendment to the Individual Income Tax Law of the PRC on September 1, 2011 and the latest amendments to its implementation rules on September 1, 2011, the SAT has not stated whether it will continue to exempt from individual income tax income derived by individuals from the transfer of listed shares. However, the Ministry of Finance, the SAT and the CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2009] No. 167) (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知 (財稅[2009]167 號)) on December 31, 2009, which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on November 10, 2010). As at the Latest Practicable Date, no legislation has expressly provided that individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, such as our H Shares, and in practice the taxation administrations do not collect individual income tax on such income.

Under the EIT Law and its implementation rules, non-resident enterprises are generally subject to corporate income tax at the rate of 10% with respect to their income derived from the sale of shares of PRC companies. However, as at the Latest Practicable Date, no legislation has expressly provided that corporate income tax shall be collected from non-resident enterprises on their income derived from sale of the shares in PRC companies listed on overseas stock exchanges, while the possibility cannot be entirely excluded that taxation administrations will collect corporate income tax on such income in practice.

Overseas investors that reside in jurisdictions that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to exemption from any income tax imposed by the PRC tax authorities on their income derived from sale of the shares in PRC-resident companies depending on the specific provisions as set forth in the applicable tax treaties. The PRC has an arrangement for the avoidance of double taxation with Hong Kong. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), a PRC resident enterprise which distributes dividends to its Hong Kong shareholders shall pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds not less than 25% equity of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be not more than 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity of the aforesaid enterprise, the tax levied shall be not more than 10% of the distributed dividends.

In addition, pursuant to the Circular of the State Administration of Taxation on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaty (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by the SAT on February 20, 2009, all of the following requirements shall be satisfied where a tax resident of the counterparty to the tax treaty needs to be entitled to such tax treatment specified in the tax treaty for the dividends paid to it by a Chinese resident company: (a) such a tax resident who obtains dividends shall be a company as provided in the tax treaty; (b) the equity interests and voting shares of the Chinese resident company directly owned by such a tax resident reach a specified percentage; (c) the capital ratio of the Chinese resident company directly owned by such a tax resident reaches the percentage specified in the tax treaty at any time within 12 months prior to acquiring the dividends.

Pursuant to the Administrative Measures for Non-residents to Enjoy Treatment under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)) which came into effect on October 1, 2009, where a non-resident enterprise (as defined under the PRC tax laws) wishes to enjoy the tax treatment under the tax treaty, it shall apply for approval to or file with the competent tax authority for record because the preferential tax treatment is not automatically applicable. Without approval or record filing, the non-resident enterprise shall not enjoy the tax treatment in the tax treaty.

## FOREIGN EXCHANGE CONTROL IN THE PRC

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. The State Administration of Foreign Exchange ("**SAFE**"), under the authority of the People's Bank of China ("**PBOC**"), administers all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the Regulation of Foreign Exchange of the PRC (中華人民共和國外匯管理條例) (the "**Foreign Exchange Regulations**") which became effective on April 1, 1996. The Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. The Foreign Exchange Regulations were subsequently amended on January 14, 1997 and on August 1, 2008. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the "**Settlement Regulations**") which took effect on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯暫行規定) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On July 21, 2005, the PBOC announced that the PRC would implement the managed floating exchange rate regime with effect from the same day, and exchange rates are determined based on market supply and demand with reference to a basket of currencies. The exchange rate of RMB is no longer pegged to the US dollar. The PBOC will announce the closing prices of foreign currencies (such as the US dollar) to RMB in the interbank foreign exchange markets after the closing of the markets on each working day, so as to determine the central parity for RMB trading on the next working day.

On August 5, 2008, the State Council promulgated the amended the Regulations on Foreign Exchange Administration of the PRC (中華人民共和國外匯管理條例) (the "**Amended Regulations on Foreign Exchange**") which made significant changes on the Supervisory system for foreign exchange in the PRC. Firstly, the Amended Regulations on Foreign Exchange adopted balanced treatment on the inflow and outflow of foreign capital. Incomes in foreign currencies overseas can be remitted to the PRC or remained overseas, and foreign currencies of capital account items and funds for settlement in foreign currencies can only be used according to the purposes approved by relevant competent authorities and foreign exchange administration. Secondly, the Amended Regulations on Foreign Exchange improved the RMB exchange mechanism based on market supply and demand. Thirdly, the Amended Regulations on Foreign Exchange enhanced the monitoring of cross-border capital flow in foreign currencies, whereby the state could implement necessary protection or controlling measures when material imbalance of income and expenses related to cross-border trading arise or might arise, or serious crises in the domestic economy occur or might occur. Fourthly, the Amended Regulations on Foreign Exchange enhanced the regulation and administration on foreign currency trading, and granted extensive authorisation to the SAFE to enhance its Supervisory and administrative capacity.

Foreign exchange revenue in respect of current account items may be retained or sold to financial institutions operating a foreign exchange sale or settlement business. Before retaining foreign exchange revenue under the capital account or selling it to any financial institution operating a foreign exchange sale or settlement business, the approval of the competent foreign exchange administrative authorities shall be obtained, unless otherwise provided by the State.

Enterprises that require foreign exchange for recurring activities such as trading and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents. Where an enterprise requires foreign exchange for the payment of dividends, such as the distribution of profits by a foreign-invested enterprise to its foreign investor, then, subject to the due payment of taxes on such dividends, the amount required for the payment of dividends may be withdrawn from funds in foreign exchange accounts maintained with designated banks and, where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks.

Convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from the SAFE must be obtained.

When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

According to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Exchange Control Administration on Oversea Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知) issued by SAFE on January 28, 2013, after shares of domestic companies get listed on foreign stock exchange, domestic shareholders of such companies, who would like to dispose of, or purchase, shares trading on the foreign stock exchange, shall apply to the relevant local foreign exchange administration of the city where they reside for registering of their shares of such companies trading on the foreign stock exchange.

Pursuant to Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) promulgated by SAFE on October 21, 2005 and becoming effective on November 1, 2005 ("**Notice 75**"), a PRC domestic resident engaged in financing by way of equity issue or convertible bond outside the PRC with the assets or interests within the PRC through overseas special purpose vehicle shall apply to register with the local branch of foreign exchange administration for foreign exchange registration of overseas investments. PRC domestic resident refers to a resident with PRC passport or PRC identification card or an individual who does not have a legal status in the PRC but "habitually" resides in the PRC for economic reasons.

As advised by Zhong Lun Law Firm, our PRC legal advisers, the Company is a joint stock limited liability company established in the PRC but not an overseas special purpose vehicle as defined under Notice 75. Therefore, Notice 75 is not applicable to our Shareholders and our Shareholders do not have to apply for foreign exchange registration according to Notice 75.

## PRC LAWS AND REGULATIONS

### The PRC legal system

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) (hereinafter referred to as the "Constitution") and is made up of written laws, administrative regulations, local regulations and rules, autonomy regulations and separate rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC Government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the "Legislation Law"), the National People's Congress ("NPC") and the standing committee of the NPC (the "Standing Committee") are empowered to exercise the legislative power of the State. The NPC enacts and amends basic laws governing criminal offences, civil affairs, the State organs and other matters. The Standing Committee enacts and amends laws other than those that shall be formulated by the NPC, and during the period of adjournment of the NPC, the Standing Committee may partially supplement and amend the laws enacted by the NPC, but not in contradiction to the basic principles of such laws. The State Council is the highest organ of state administration and enacts administrative regulations based on the Constitution and laws. The people's congresses at the provincial level and their standing committees may, in light of the specific circumstances and actual needs of their respective administrative areas, enact local regulations, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, the PBOC, the National Audit Office of the PRC as well as other state organs endowed with administrative functions directly under the State Council may, according to laws, administrative regulations, decisions and orders of the State Council, formulate ministerial rules within their authorities. The people's governments of the provinces, autonomous regions, and municipal cities directly under the central government and the comparatively larger cities may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipal cities. The people's congresses of the national autonomous regions have the power to enact autonomous regulations and separate regulations on the basis of the political, economic and cultural characteristics of the local nationalities that reside in the area.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The significance of laws is greater than that of administrative regulations, local regulations, and rules. The significance of administrative regulations is greater than that of local regulations and rules. The significance of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The significance of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee has the power to annul any administrative regulation that contravenes the Constitution and laws, to annul any local regulation that contravenes the Constitution, laws or administrative regulations, and to annul any autonomous regulation or local regulation which has been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipal cities directly under the Central Government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipal cities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at the lower level.

The power to interpret laws is vested in the Standing Committee by the Constitution. According to Resolutions of the Standing Committee on Improving Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, in cases where the scope of provisions of laws or decrees needs to be further defined or additional stipulations need to be made, the Standing Committee shall provide interpretations or make stipulations by means of decrees. Interpretation of questions involving the specific application of laws and decrees in court trials shall be provided by the Supreme People's Court. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and supervisory authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipal cities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the supervisory authorities under the people's governments of provinces, autonomous regions and municipal cities directly under the Central Government.

**The PRC judicial system**

According to the Constitution and the Law of Organisation of the People's Courts of the PRC (《中華人民共和國人民法院組織法》) (hereinafter referred to as the "Law of Organisation of the People's Courts"), the People's Courts consist of the Supreme People's Court, the local people's courts, the military courts and other special people's courts.

The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts, and other special divisions, such as the intellectual property division, where necessary.

The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over the litigation proceedings of people's courts at the same level or below. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the people's courts at all levels.

The people's courts have adopted a "second instance as final" appellate system. A party may appeal against a judgment or ruling by the people's court of first instance to the people's court at the next higher level prior to the judgment or the ruling of the first instance is legally effective. The judgment or the ruling of the second instance by the people's court at the next higher level is final and legally binding. First judgments or rulings by the Supreme People's Court are final as well. However, in the case that the Supreme People's Court or the people's court at a higher level finds definite error(s) in the legally effective judgment or ruling by the people's court at a lower level, or the presiding judge of the people's court finds definite error(s) in the legally effective judgment by the court over which he/she presides, the case may then be retried in accordance with the judicial supervisory procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (hereinafter referred to as the "Civil Procedure Law") sets forth provisions for the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a local court in the defendant's place of domicile. The parties to a contract may, by express agreement, select a court of jurisdiction where civil actions may be brought, provided that the court of jurisdiction is located in the places which have actual connection with the dispute, including either the plaintiff's or the defendant's place of domicile, or the place of execution or implementation, or the place of the object of the action, and provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. Should the judicial system of a foreign country limits the litigation rights of PRC citizens or enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country.

If any party to a civil action refuses to comply with a legally effective judgment or ruling by a people's court or an effective award by an arbitration tribunal in the PRC, the other party may apply to the people's court for the compulsory enforcement of the judgment, ruling or award. However, specific time limits are imposed on the right to apply for such compulsory enforcement. The time limit for the submission of an application for enforcement shall be two years. The suspension or termination of the time limit for the submission of an application for enforcement shall be governed by the provisions on the suspension or termination of the statute of limitation.

When a party applies to a people's court for enforcing an effective judgment or ruling by a people's court against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognised and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court's judgment or ruling based on the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons related to the public interests.

**The PRC Company Law, Special Regulations and Mandatory Provisions**

On December 29, 1993, the Company Law of the PRC was adopted by the standing committee of the Eighth NPC, which came into effect on July 1, 1994 and was amended for the first time on December 25, 1999, the second time on August 28, 2004, the third time on October 27, 2005 and the fourth time on December 28, 2013. The newly amended Company Law of the PRC (hereinafter referred to as the new "Company Law") was implemented on March 1, 2014.

The Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (hereinafter referred to as the "Special Provisions") were adopted at the 22nd Standing Committee Meeting of the State Council on July 4, 1994. The Special Provisions was formulated according to the then applicable Article 85 and Article 155 of the Company Law and applies to the overseas share issue and listing of joint stock limited companies.

The Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be Listed Overseas (hereinafter referred to as the "Mandatory Provisions") were promulgated by the former Securities Commission of the State Council and the State Economic System Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association (which are summarized in Appendix V to this Prospectus).

### *1. General provisions*

A "joint stock limited company" (hereinafter referred to as "a company") is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company must conduct its business in accordance with law. A company may invest in other limited liability companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liability associated with the debts of the invested enterprises.

### *2. Incorporation*

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC.

A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, unless otherwise provided, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

The Company Law provides that for companies incorporated by way of promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the relevant administrative bureau for industry and commerce. For companies incorporated by way of public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administrative bureau for industry and commerce.

The latest revision of the Company Law no longer imposes restrictions on minimum amount or requirements for payment deadlines of paid-up registered capital. However, if there are laws, administrative regulations and other requirements imposed by the State Council provide for payment deadlines of paid-up registered capital or minimum amount of a joint stock company with limited liability, such laws, administrative regulations and requirements shall prevail.

For companies incorporated by way of subscription, the promoters shall convene an inaugural meeting within 30 days after the issued shares have been completely paid up, and shall give notice to all subscribers or make a public announcement of the date of the inaugural meeting 15 days prior to the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the inaugural meeting include adopting the draft articles of association proposed by the promoters and electing the board of directors and the board of supervisors of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administrative bureau for industry and commerce and a business licence has been issued.

The promoters of a company shall individually and jointly be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

### *3. Share capital*

The promoters of a company may make capital contributions in cash, or in kind that can be valued in currency and transferable according to laws such as intellectual property rights or land-use rights based on their appraised value.

There is no limit under the Company Law as to the percentage of shares held by an individual shareholder in a company. If capital contribution is made other than in cash by the promoters of the company, valuation and verification of the properties contributed must be carried out and converted into shares.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency.

Pursuant to the Special Regulations and the Mandatory Provisions, oversea listed shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan are defined as overseas-listed-foreign-invested shares, and those issued to investors within the PRC other than the aforementioned areas are defined as domestic shares. Qualified Foreign Institutional Investors ("QFII") approved by China Securities Regulatory Commission (hereinafter referred to as "CSRC") may hold domestic listed shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specified by the State Council based on the Special Regulations. The share offering price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council.

No modification registration shall be made to the registrar of shareholders within twenty (20) days prior to the shareholders' meeting being held or within five (5) days prior to the benchmark date set for the purpose of distribution of dividends. However, if there are laws that provide for the change of registers of members for a listed company, such provisions shall prevail.

### 4. *Increase in capital*

Pursuant to the Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting. Except for above-mentioned conditions of obtaining approval at the general meeting required by the Company Law, the Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organisation; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The public offer requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

### 5. *Reduction of share capital*

A company may reduce its registered capital in accordance with the following procedures stipulated by the Company Law:

- the company shall prepare a balance sheet and an inventory of assets;
- the reduction of general meeting registered capital must be approved by shareholders in the general meeting;
- the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within 30 days once the resolution approving the reduction in capital being passed;
- creditors of the company may require the company to clear its debts or provide guarantees covering the debts within the statutory time limit; and
- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

### 6. *Repurchase of shares*

A company shall not purchase its own shares other than for the following purposes:

- to reduce the registered capital by cancelling its shares or to merge with another company holding its shares;
- to grant shares as a reward to the staff of the company;
- to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting; or
- other purposes permitted by laws and administrative regulations.

The shares repurchased by the company as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profits of the company, and the shares repurchased shall be transferred to the staff of the company within one year. The Mandatory Provisions stipulate that upon obtaining approvals from relevant supervisory authorities in accordance with the articles of association of the company, a company may, for the aforementioned purposes, repurchase its issued shares by way of a general offer to its shareholders or purchase on a stock exchange or through on-market contract.

### 7. *Transfer of shares*

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares may be transferred by endorsement or in any other manner specified in applicable laws and regulations. Bearer shares are transferred by delivering the shares to relevant transferees.

Shares held by the promoter(s) of a company shall not be transferred within one (1) year from the date of incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one (1) year from the date of its shares being listed on a stock exchange.

Directors, supervisors and senior executives of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer share of the company held by each of them within one (1) year from the listing date.

### *8. Shareholders*

The articles of association of a company set forth the shareholders' rights and obligations and are binding on all the shareholders. Pursuant to the Company Law and the Mandatory Provisions, a shareholder's rights include:

- the right to attend in person or appoint a representative to attend the general meeting and to vote in respect of the amount of shares held;

- the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association;

- the right to inspect the company's articles of association, shareholders' registers, records of short-term debentures, minutes of general meeting, board resolutions, supervisor resolutions and financial accounting reports, and to put forward proposals or raise questions on the business operations of the company;

- if a resolution approved by the general meeting or by the board of directors violates any law or regulation, or infringes on the shareholders' lawful rights and interests, the right to institute an action in a people's court demanding that the illegal infringing action be stopped;

- the right to receive dividends based on the number of shares held;

- the right to obtain surplus assets of the company upon its termination in proportion to shares he/she holds; to claim against other shareholders who abuse their rights of shareholders for the damages; and

- any other shareholders' rights specified in the articles of association.

The obligations of shareholders include: abide by the articles of association of the company; pay the subscription monies in respect of shares subscribed for; be liable for debts and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up; no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; no abuse of the independent status of the company as a legal person and its joint stock companies with limited liability as to damage the interests of the creditors of the company; and any other obligation specified in the articles of association of the company.

### *9. General meeting*

The general meeting is the organ of authority of a company, which exercises its functions and powers in accordance with the Company Law. The general meeting exercises the following functions and powers:

- to decide on operational policies and investment plans of the company;
- to elect or remove the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;
- to review and approve reports of the board of supervisors or the supervisors;
- to review and approve annual financial budgets and financial accounts proposed by the company;
- to review and approve proposals for profit distribution and for recovery of losses of the company;
- to decide on increase and reduction of the registered capital of the company;
- to decide on bond issuances of the company;
- to decide on merger, division, dissolution and liquidation of the company and other issues;
- to amend the articles of association of the company; and
- other functions and powers specified in the articles of association of the company.

The annual general meeting must be convened once a year. An extraordinary general meeting shall be held within two months after the occurrence of any of the following circumstances:

- the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the articles of association of the company;
- the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;
- as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;
- when deemed necessary by the board of directors;
- as suggested by the board of supervisors; or
- other matters required by the articles of association.

The general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors.

The notice to convene an annual general meeting and an extraordinary general meeting shall be given 20 days and 15 days respectively before the general meeting pursuant to the Company Law, and 45 days before the general meeting pursuant to the Special Regulations and the Mandatory Provisions, stating the matters to be reviewed at the general meeting. Under the Special Regulations and the Mandatory Provisions, shareholders intending to attend are required to send written confirmations of their attendance to the company 20 days before the general meeting.

According to the Special Regulations, at the annual general meeting of the company, shareholders with 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be reviewed at the general meeting, which if within the functions and powers of the general meeting, are required to be added to the agenda of the general meeting. Shareholders present at the general meeting possess one vote for each share they hold. However, the company shall have no vote for any of its own shares the company holds. Resolutions proposed at the general meeting shall be approved by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the general meeting, except that such resolutions as merger, division or reduction of registered capital, the issue of bonds or short-term debentures, the change in the form of the company or the amendment to the articles of association, shall be approved by shareholders with more than two-thirds of the voting rights cast by shareholders present (including those represented by proxies) at the general meeting.

A shareholder may entrust a proxy to attend a general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorisation scope. There is no specific provisions in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class.

Holders of domestic invested shares and holders of overseas-listed-foreign invested shares are deemed to be different classes of shareholders for this purpose.

***10. Directors***

A company shall have a board of directors, which shall consist of 5 to 19 members. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms upon re-election.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. As for extraordinary meetings convened by the board of directors, the way of giving notice and the notice period may be otherwise determined.

Under the Company Law, the board of directors exercises the following functions and powers:

- to convene the general meeting and report on its work to the shareholders;
- to implement the resolution of the general meeting;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

- to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors could be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation for another director to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not act as a director of a company:

- persons without capacity or restricted capacity to undertake civil liabilities;
- persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- persons who are former directors, factory managers or managers of a company or enterprise that has been bankrupt and has been liquidated due to mismanagement, and those persons are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, and less than three years have elapsed since the date of the revocation of the business license; or

- persons who have a relatively large amount of debt due and outstanding; or other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in Appendix V to this Prospectus).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises the following functions and powers (including but not limited to):

- to preside over general meetings and convene and preside over meetings of the board of directors;

- to check on the implementation of the resolutions of the board of directors.

The legal representative of a company, in accordance with the company's articles of association, is the chairman. The Special Regulations provide that a company's directors, supervisors, managers and other senior management bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this Prospectus) contains further elaborations of such duties.

***11. Supervisors***

A company shall have a board of supervisors composed of not less than three members. Each term of office of a supervisor is three years, and the supervisors may hold consecutive terms upon re-election. The board of supervisors is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

The board of supervisors exercises the following functions and powers:

- check the financial affairs of the company;

- supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;

- require the director or senior manager to make corrections if his act is detrimental to the interests of the company;
- propose the convening of extraordinary general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- put forward proposals at general meetings;
- initiate actions against directors or senior management; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

***12. Managers and senior executives***

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings as a non-voting attendant; and
- other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior executives of a company include the deputy manager, financial officers and secretary of the board of directors as specified in the articles of association of the company. The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior executives of a company have been incorporated in the Articles of Association (a summary of which is set out in Appendix V to this Prospectus).

### *13. Duties of directors, supervisors, managers and senior executives*

Directors, supervisors, managers and other senior executives of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Each director, supervisor, manager and senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

Any directors, supervisors, managers and other senior executives who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior executives of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

### *14. Finance and accounting*

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the responsible financial department of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited and verified as provided by law.

A company shall make available its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders' meeting or the general meeting, the company may make an allocation to a discretionary common reserve from the after-tax profits. If the aggregate balance of the company's statutory surplus reserve is not enough to make up for the losses of the company of the previous year, the current year's profits shall first be used for making good the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

After the losses have been made up and statutory surplus reserves have been set aside, the remaining profits shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association.

The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company on issue, and other amounts required by the financial department of the State Council to be treated the capital reserve.

The company's common reserves shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company, but the capital reserve shall not be used for making up the company's losses. Where the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve shall not be less than 25% of the registered capital before such conversion.

### *15. Appointment and retirement of auditors*

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided at general meetings and shall be filed with the CSRC for record.

### *16. Distribution of profits*

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas-listed-foreign-invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

### *17. Amendments to articles of association*

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. As for matters involving the company's registration, the company shall modify its registration with the companies' registration authority.

### *18. Dissolution and liquidation*

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

(1) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;

(2) the shareholders in a general meeting have resolved to dissolve the company;

(3) the company is dissolved by reason of its merger or demerger;

(4) the company is subject to the revocation of business license, a closure order or dismissal in accordance with laws; or

(5) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (1), (2), (4) and (5) above, a liquidation committee must be formed within 15 days from the date of dissolution. Members of the liquidation committee shall be appointed by the shareholders in the general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment. The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- notify creditors or issue public notices;
- deal with and settle any outstanding business of the company;
- pay any tax overdue;
- settle the company's financial claims and liabilities;
- handle the surplus assets of the company after its debts have been paid off; and
- represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the Shareholders of the company in proportion to the number of Shares held by them.

Upon entering into liquidation procedures, a company shall not engage in operating activities unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the general meeting. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors with respect to any loss arising from his willful or material default.

### *19. Overseas listing*

The shares of a company could be listed on overseas stock exchange after obtaining approval from CSRC. In accordance with the Circular on Relevant Issues Concerning Enterprises' Application for Overseas Listing issued by the China Securities Regulatory Commission ("CSRC") (中國證券監督管理委員會關於企業申請境外上市有關問題的通知, the "1999 Circular") issued in 14 July 1999, domestic companies were required to achieve the following requirements for overseas listings: (a) an annual after-tax profit of at least RMB60,000,000 for the latest year; (b) net assets of not less than RMB400,000,000; (c) a fundraising size of not less than US$50 million based on a reasonably expected price/earnings ratio.

The 1999 Circular was replaced by the Regulatory Guidelines for the Application Documents and Examination Procedures for Overseas Share Issuance and Listing by Joint Stock Companies (關於股份有限公司境外發行股票和上市申報文件及審核程序的監管指引, the "New Guidelines") which was issued on December 20, 2012, and came into force on January 1, 2013. The New Guidelines abolished the foregoing thresholds and stipulate that all joint stock companies legally incorporated under Company Law are entitled to apply to the CSRC for overseas share issuance and listing.

Under the New Guidelines, a PRC domestic company may submit its primary oversea listing application to overseas regulatory authorities and stock exchanges after the CSRC has accepted its oversea listing application for processing, and may submit its official application to overseas regulatory authorities and stock exchanges for hearing after CSRC has examined and approved its oversea listing application. The approval from the CSRC is valid for 12 months from the issuance date.

On January 28, 2013, the SAFE promulgated the Circular on Certain Issues Concerning the Foreign Exchange Administration for Overseas Listings (國家外匯管理局關於境外上市外匯管理有關問題的通知), pursuant to which a domestic company shall go through formalities of foreign exchange registration with the relevant exchange authority for the overseas listing within 15 business days after its initial public offerings.

### *20. Loss of H share certificates*

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a people's court in the event that H share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

### *21. Suspension and termination of listing*

Pursuant to the new Securities Law implemented on January 1, 2006, the trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council under one of the following circumstances:

(1) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;

(2) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;

(3) the company has committed a major breach of the law;

(4) the company has incurred losses for three (3) consecutive years; or

(5) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (1) above, or the company has refused to rectify the situation in the case described in (2) above, or the company fails to become profitable in the next subsequent year in the case described in (4) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

### *22. Merger and demerger*

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

## Securities law and other relevant regulations

The PRC has promulgated a number of regulations that relate to the issue and trading of Shares and disclosure of information by the Company. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for co-coordinating the drafting of securities regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC.

The CSRC is the regulatory body of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis. In 1998, the State Council consolidated the Securities Committee and the CSRC, and the CSRC has taken the original functions of the Securities Committee since then.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies. These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information related to joint stock limited liability companies with domestically listed foreign shares.

The Securities Law took effect on 1 July 1999 and was revised for the first time as at August 28, 2004 and for the second time on October 27, 2005. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a company must obtain prior approval from the State Council's regulatory authorities to list shares outside the PRC. Article 239 of the Securities Law provides that specific measures with respect to shares of companies in the PRC that are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

**Arbitration and enforcement of arbitral awards**

The Arbitration Law of the People's Republic of China (the "Arbitration Law") was passed by the Standing Committee on 31 August 1994 and became effective on 1 September 1995. It is applicable to contract disputes and other property disputes between natural person, legal person and other organisations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in a company's Articles of Association and, in the case of the Listing Rules, also in contracts with each of the directors and supervisors, to the effect that whenever any disputes or claims arise between holders of H Shares and the company; holders of H Shares and the directors, supervisors, manager or other senior executives; or holders of H Shares and holders of domestic shares, with respect to any disputes or claims in relation to the companies affairs or as a result of any rights or obligations arising under its Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration. Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim shall comply with the arbitration. Disputes with respect to the definition of shareholders and disputes related to a company's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties.

## HONG KONG LAWS AND REGULATIONS

### Summary of Material Differences Between Hong Kong and PRC Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and supplemented by common law and rules of equity that apply to Hong Kong. The Company, which is a joint stock limited company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

***(1) Corporate existence***

Under Hong Kong company law, a company having share capital, is incorporated and will acquire an independent corporate existing after the company registrar of Hong Kong issuing a certificate of incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association does not contain such preemptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. There are no requirements of minimum registered capital for the incorporation of a joint stock limited company, save for requirements of minimum registered capital otherwise stipulated by laws and regulations and pursuant to the State Council's decisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

***(2) Share capital***

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. The authorized share capital may be larger than its issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital other than registered capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in a general meeting and by the relevant PRC governmental and regulatory authorities when applicable.

Under the PRC Securities Law, a company which is approved by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or nonmonetary assets that may be valued in currency and lawfully transferable. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

***(3) Restrictions on shareholding and transfer of shares***

Under PRC law, the domestic shares ("domestic shares") in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the domestic investors of the PRC. The overseas listed foreign shares ("foreign shares") issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, as well as other qualified institutions.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company transferred each year by its directors, supervisors and senior management during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law except for the six-month lock-up on the company's issue of shares and the 12 month lock-up on the Controlling Shareholders' disposal of shares as described in the section headed "Underwriting" in this Prospectus.

***(4) Financial assistance for acquisition of shares***

Although the PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

***(5) Variation of class rights***

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed regarding variations of class rights. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V to this Prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of a Hong Kong company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions. The Company (as required by the Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic shares are defined in the Articles of Association as different classes of shareholders, provided however that the special procedures for approval by separate class shareholders shall not apply to the following circumstances: (i) the Company issues domestic shares and listed foreign invested shares, separately or simultaneously, once every 12-month period, pursuant to a Shareholders' special resolution, not more than 20% of each of the issued domestic shares and issued overseas listed foreign invested shares existing as of the date of the Shareholders' special resolution; (ii) the plan for the issue of domestic shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) upon approval by CSRC, the shareholders of domestic shares of the Company transfer their shares to overseas investors and such shares are listed and traded in foreign markets.

### *(6) Directors*

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration made by directors of the interests in material contracts; restrictions on directors' authority in making major dispositions; restrictions on companies providing certain benefits, prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law provides restrictions on interested directors voting on the resolution at a meeting of the board of directors when such resolution relates to an enterprise which the director is interested or connected. The Mandatory Provisions, however, contain requirements and restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix V.

### *(7) Board of Supervisors*

Under the PRC Company Law, the board of directors and managers of a joint stock limited company is subject to the supervision and inspection of a Board of Supervisors but there is no mandatory requirement for the establishment of a Board of Supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

### *(8) Derivative action by minority shareholders*

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have committed a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by the shareholders in a general meeting, or by the board of directors, that violates any law or infringes the lawful rights and interests of the shareholders. The PRC Company Law also provides that the shareholder can initiate proceedings if the director or senior management of the Company violates the law, administrative regulation or articles of association of the Company and thus infringe the shareholder's interest. The Mandatory Provisions further provide remedies to the company against directors, supervisors and senior management in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against the directors and supervisors in default.

### *(9) Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of the Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that where any company encounters any serious difficulty in its operations or management so as that the interests of the shareholders will face serious loss if the company continues to exist and such difficulty cannot be resolved by any other means, the shareholders holding ten percent or more of the voting rights of all the issues shares of the company may plead the people's court to dissolve the company. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders which is prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company.

### *(10) Notice of shareholders' meetings*

Under the PRC Company Law, notice of an annual general meeting and an extraordinary general meeting must be given not less than 20 days and 15 days before the meeting, respectively. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively. The notice period for an annual general meeting is 21 days.

### *(11) Quorum for shareholders' meetings*

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum.

The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify its shareholders by public announcement and the shareholders' general meeting may be held thereafter.

### *(12) Voting*

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

### *(13) Financial disclosure*

A company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statements of changes in financial position and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by way of public subscription under the PRC Company Law must publish its financial position. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

### *(14) Information on directors and shareholders*

The PRC Company Law gives the shareholders of a company the right to inspect the Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders of a company have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

### *(15) Receiving agent*

Under both the PRC Company Law and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while that under the PRC law is two years. The Mandatory Provisions require that the company should appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

***(16) Corporate reorganization***

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily pursuant to section 237 of the Companies (Winding up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 673, Division 2 of Part 13 of the Companies Ordinance which requires the sanction of the court. Under PRC Company Law, the merger, demerger, dissolution, liquidation or change to the forms of a company has to be approved by shareholders at general meeting.

***(17) Arbitration of disputes***

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC at the claimant's choice.

***(18) Mandatory deductions***

Under the PRC Company Law, a company shall draw 10% of the profits as its statutory reserve fund before it declare any dividends after taxation. The company may not required to deposit the statutory reserve fund if the aggregate amount of the statutory reserve fund has accounted for 50% of the company's registered capital. After the company has drawn statutory reserve fund from the after-tax profits, it may, upon a resolution made by the shareholders, draw a discretionary reserve fund from the after-tax profits. There are no such requirements under Hong Kong law.

***(19) Remedies of a company***

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, remedies of the company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or senior management) have been in compliance with the Listing Rules.

***(20) Dividends***

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

***(21) Fiduciary duties***

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, senior management owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

***(22) Closure of register of shareholders***

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

**Listing Rules**

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

***(1) Compliance adviser***

A company seeking listing on the Stock Exchange is required to appoint a compliance adviser acceptable to the Stock Exchange for the period from its listing date up to the date of the despatch of its first full year's annual report, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company.

It must act as the company's principal channel of communication with the Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

***(2) Accountants' report***

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under International Standards on Auditing or China Auditing Standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises.

***(3) Process agent***

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

***(4) Public shareholdings***

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("foreign shares") which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of such foreign shares held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalization at the time of listing of not less than HK$50,000,000. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalization at the time of listing of over HK$10,000,000,000.

***(5) Independent non-executive directors and supervisors***

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the directors are aware, if any.

Any general mandate given to the directors to repurchase the foreign shares must not exceed 10% of the total amount of existing issued foreign shares of the Company.

### *(6) Mandatory provisions*

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the board of supervisors of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this Prospectus.

### *(7) Redeemable shares*

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the foreign shares are adequately protected.

### *(8) Pre-emptive rights*

Except in the circumstances mentioned below, the directors of a company are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Company's articles of association, prior to (1) authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorization, allotment, issue or grant so as materially to dilute the percentage equity interest of the company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in general meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as of the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC; or where upon approval by securities supervision or administration authorities of State Counsel, the shareholders of domestic invested shares of the Company transfer its shares to overseas investors and such shares are listed and traded in foreign markets.

### *(9) Supervisors*

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange.

The Company is required to obtain the approval of its shareholders at a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year.

The remuneration and assessment committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

***(10) Amendment to the Articles of Association***

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the Mandatory Provisions of the Hong Kong Listing Rules and the Mandatory Provisions or the PRC Company Law.

***(11) Documents for inspection***

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last certificates year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return led with the Beijing Administration for Industry and Commerce; and
- for Shareholders only, copies of minutes of meetings of shareholders.

***(12) Receiving agents***

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

***(13) Statements in H share certificates***

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each shareholder of the Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the Company and each shareholder of the Company that the H Shares are freely transferable by the holder thereof; and

- authorizes the Company to enter into a contract on his behalf with each Director, Supervisors, Managers and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligation to shareholders as stipulated in the Articles of Association.

***(14) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association***

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

***(15) Contract between the Company and its Directors, officers and Supervisors***

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;

- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;

- the award of the arbitral body is final and shall be binding on the parties thereto;

- the agreement to arbitrate is made by the Director or offer with the Company on its own behalf and on behalf of each shareholder; and

- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award. The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

***(16) Subsequent listing***

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

***(17) English translation***

All notices or other documents required under the Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

***(18) General***

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Company's listing.

**Other Legal and Regulatory Provisions**

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

**Securities Arbitration Rules**

The Articles of Association provide that certain claims arising from the Articles of Association, PRC Company Law and other applicable laws shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and China Taiwan.

*This Appendix contains a summary of the principal provisions of the Articles of Association, which were considered and passed at the general meeting held on February 27, 2014, and will become effective upon listing of our H Shares on the Hong Kong Stock Exchange. The principal objective of this Appendix is to summarize the Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important.*

## 1. DIRECTORS AND OTHER SENIOR EXECUTIVES

### A. Power to allot and issue shares

There is no provision in the Articles of Association empowering the Board to allot or issue shares.

Whenever the Company intends to allot or issue shares, the Board shall be responsible for formulating a proposal for approval by shareholders at a general meeting by way of a special resolution. Subject to the approval by the CSRC of the plans of the Company to issue overseas listed foreign shares or domestic shares and the authorization by shareholders at a general meeting, the Board of the Company may arrange for a separate issuance of such shares.

### B. Power to dispose of the assets of the Company or any of its subsidiaries

In the case of the disposal by the Board of any of the Company's fixed assets, the Board shall not, without the approval of shareholders at a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the expected value of the fixed assets contemplated to be disposed of and the realized value of fixed assets that have been disposed of within four months immediately preceding the proposed disposal exceeds 33% of the total value of the Company's fixed assets as shown in the latest balance sheet reviewed by shareholders at a general meeting.

The validity of the transactions regarding the disposal by the Company of its fixed assets shall not be affected by a breach of the above-mentioned provisions contained in the Articles of Association.

### C. Compensation or payments for loss of office

The Company shall, with the approval of shareholders at a general meeting, enter into a contract in writing with each Director and Supervisor wherein his emoluments shall be stipulated. The aforesaid emoluments shall include:

(a) emoluments in respect of his service as Director, Supervisor or senior executives of the Company;

(b) emoluments in respect of his services as Director, Supervisor or senior executives of any of the Company's subsidiaries;

(c) emoluments in respect of the provision of other services in connection with the management of the Company or any of its subsidiaries;

(d) compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for any benefit due to him in respect of the above matters.

Any contracts between the Company and its Directors or Supervisors with respect to their remuneration shall provide that the Directors and Supervisors shall, subject to the prior approval of shareholders at a general meeting, be entitled to receive compensation or other payment with respect to his loss of office or retirement in the event that the Company is to be acquired by others. For the purposes of this paragraph, the acquisition of the Company means either of the following circumstances:

(a) an offer is made to all shareholders of the Company;

(b) an offer is made such that the offeror will become the Controlling Shareholder (as defined in the Articles of Association) of the Company.

If the relevant Director or Supervisor fails to comply with the above requirements, any sum to be received by him shall be vested in those persons who have sold their shares as a result of the offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and shall not be paid out of the sum to be received by him.

**D. Loans to Directors, Supervisors and other officers**

The Company shall not directly or indirectly provide a loan or loan guarantee to the Directors, Supervisors, general manager and other senior executives of the Company and its parent company, or to any of their respective connected persons.

The following cases are not subject to the aforesaid prohibition:

(a) the provision of a loan or loan guarantee by the Company to its subsidiaries;

(b) the provision of a loan or loan guarantee or any other funds by the Company to any of its Directors, Supervisors, general manager and other senior executives to pay any expenses incurred by them for the benefit of the Company or for the purpose of performance of his duties in accordance with an employment contract approved by shareholders at a general meeting;

(c) the Company may provide a loan or a loan guarantee to its Directors, Supervisors, general manager and other senior executives or their respective connected persons (as defined in the Articles of Association) where the ordinary course of its business includes the provision of loans and loan guarantees, provided that such loans or loan guarantees shall be provided on normal commercial terms.

A loan provided by the Company in breach of the prohibition described above shall be forthwith repaid by the recipient of the loan regardless of the terms of the loan.

A loan guarantee provided in breach of the prohibition referred to above shall be unenforceable against the Company unless:

(a) the loan is provided to a connected person of any of the Directors, Supervisors, general manager and other senior executives of the Company or it parent company and the lender has no knowledge of the relevant circumstances at the time of making the loan;

(b) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

In the above provisions, the guarantee includes undertaking responsibilities as a guarantor or providing properties to secure the obligor's performance of obligations.

**E. Financial assistance for purchasing the shares of the Company or any of Subsidiaries**

Neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to a person who would acquire or propose to acquire shares in the Company. The said person includes any person who has directly or indirectly incurred any liability as a result of the acquisition of shares in the Company.

Neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to the person mentioned in the foregoing paragraph for the purposes of reducing or releasing his liabilities.

The following cases are not subject to the aforesaid prohibition:

(a) the provision of financial assistance by the Company in good faith and in the interests of the Company, and the principal purpose of that assistance is not to acquire shares of the Company, or that financial assistance is an integral part of a general plan of the Company;

(b) a lawful distribution of the Company's assets in the form of dividend;

(c) the distribution of a dividend by way of an allotment of shares;

(d) a reduction of the Company's registered capital, a repurchase of shares or a reorganization of the share capital structure in accordance with the Articles of Association;

(e) provision of loans by the Company within its scope of business and in the ordinary course of the business, provided that the net assets of the Company shall not be thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company;

(f) the provision of financial assistance by the Company for contribution to employees' share schemes, provided that the net assets of the Company shall not be thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of the distributable profits of the Company.

The above-mentioned "financial assistance" shall include, without limitation to:

(a) gifts;

(b) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the obligor's performance of obligations) or indemnity (other than an indemnity in respect of the Company's own default), or release or waiver of any right;

(c) provisions of a loan or entering into a contract where the Company shall fulfill the obligations prior to other parties, or a change of the party to that loan or contract or the assignment of any rights thereunder;

(d) financial assistance provided by the Company in any other manner when the Company is unable to pay its debts or has no net assets or where its net assets may be thereby reduced to a material extent.

The "assumption of liability" mentioned above shall include obligations assumed by obligor as a result of entering into a contract or making arrangements (whether or not such contract or arrangement is enforceable, and whether or not assumed by him personally or together with any other party) or by any other means whereby his financial position is changed.

## F. Disclosure of interests in contracts with the Company or any of its Subsidiaries

If Directors, Supervisors, general manager and other senior executives of the Company directly or indirectly have material interests in any contracts, transactions, or arrangements executed or contemplated to be executed with the Company (except for the employment contracts between the Company and its Directors, Supervisors, general manager and other senior executives), they shall disclose to the Board the nature and extent of his interest as soon as possible, regardless of whether or not such matters require the approval of the Board under the normal circumstance.

Unless the interested Directors, Supervisors, general manager and other senior executives of the Company have made such disclosure to the Board as required by the preceding paragraph, and the relevant matter has been approved at the Board meeting in which such Directors, Supervisors, general manager and other senior executives have not been counted into the quorum and voted at the meeting, the Company shall be entitled to rescind such contracts, transactions, or arrangements, except as to any other party which is deemed a bona fide party without knowledge of the violation of duties on the part of such Directors, Supervisors, general manager and other senior executives.

Directors, Supervisors, general manager and other senior executives are deemed to be interested in a contract, transaction or arrangement in which their connected persons (as defined in the Articles of Association) have interest.

In the event that, prior to the Company's initial consideration of such contracts, transactions, or arrangements, Directors, Supervisors, general manager and other senior executives of the Company have delivered a written notice to the Board, stating his interests in such future contracts, transactions, or arrangements, the Directors, Supervisors, general manager and other senior executives of the Company shall be deemed to have made the disclosure as provided in the Articles of Association with respect to the statement(s) contained in the notice.

## G. Remuneration

The remuneration of directors shall be approved by shareholders at a general meeting. See "C. Compensation or payments for loss of office" above for details.

## H. Appointment, removal and retirement

The Board of Directors shall consist of nine Directors, of which three are independent Directors. Directors shall be elected and removed by shareholders at a general meeting. The Board of Directors shall have one chairman and one vice chairman. The chairman and vice-chairman shall be elected and removed by a majority of the Directors.

The term of office of the Directors shall be three years and is renewable upon re-election.

The following persons may not serve as Directors, Supervisors, general manager or other senior executives of the Company:

(a) an individual who has no civil capacity or has restricted civil capacity;

(b) persons who have committed the offences of corruption, bribery, trespass of property, misappropriation of property or undermining social economic order, and have been penalized due to the above offences, where less than five years have elapsed since the date of the completion of implementation of the penalty or persons who have committed crimes and have been deprived of their political rights due to such crimes, where less than five years have elapsed since the date of the completion of the implementation of such deprivation;

(c) persons who were former directors, factory chiefs or managers of a company or enterprise which has become insolvent and has been liquidated due to mismanagement and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;

(d) persons who were legal representatives of a company or enterprise which had its business license revoked and were ordered to close down due to a violation of the law and who were personally liable for such revocation, where less than three years have elapsed since the date of the completion of the revocation of such business license;

(e) persons who have a relatively large amount of debts due and outstanding;

(f) persons who have committed criminal offences and are still under investigation by judicial authorities;

(g) persons who are not allowed to be heads of enterprises as stipulated by laws and administrative regulations;

(h) persons who are not natural persons; and

(i) persons who have been convicted of violating the provisions of relevant securities laws and regulations or fraud or acting in bad faith by the relevant authority, where less than five years have elapsed since the date of conviction.

The validity of the conduct of Directors, general managers or senior executives who have acted on behalf of the Company over bona fide third parties shall not be affected due to any irregularities in the appointment, election or qualification of such Directors, general managers or senior executives.

### I. Borrowing powers

The Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by or granted to the Company, other than:

(a) provisions which give the Board the power to formulate proposals for the issuance of debentures by the Company; and

(b) provisions which provide that the issuance of debentures shall be approved by shareholders at a general meeting by way of a special resolution.

### J. Duties

In addition to obligations imposed by laws, administrative regulations or the requirements of the listing rules of the stock exchange on which the shares of the Company are listed, each of the Company's Directors, Supervisors, general manager and other senior executives owes a duty to each shareholder, in exercise of the functions and powers of the Company entrusted to him:

(a) not to cause the Company to operate beyond the scope of business stipulated in its business license;

(b) to act honestly in the best interests of the Company;

(c) not to expropriate in any guise the Company's property, including (without limitation to) usurpation of opportunities beneficial to the Company; and

(d) not to expropriate the individual rights of shareholders, including (without limitation to) rights to distribution and voting rights, save pursuant to a restructuring of the Company proposed at a general meeting for approval in accordance with the Articles of Association.

Each of the Company's Directors, Supervisors, general manager and other senior executives owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Each of the Company's Directors, Supervisors, general manager and other senior executives shall exercise his powers or carry out his duties in accordance with the fiduciary principle and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation to) the discharging of the following obligations:

(a) to act honestly in the best interests of the Company;

(b) to exercise powers within the scope of his powers and not to exceed those powers;

(c) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given at a general meeting, not to delegate the exercise of his discretion;

(d) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;

(e) except in accordance with the Articles of Association or with the informed consent of shareholders given at a general meeting, not to enter into any contracts, transactions or arrangements with the Company;

(f) without the informed consent of shareholders given at a general meeting, not to use the Company's property by any means for his own benefit;

(g) not to exploit his position to accept bribes or other illegal income or expropriate the Company's property by any means, including (without limitation to) opportunities beneficial to the Company;

(h) without the informed consent of shareholders given at a general meeting, not to accept commissions in connection with the Company's transactions;

(i) to abide by the Articles of Association, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company to advance his own private interest;

(j) not to compete with the Company in any form unless with the informed consent of shareholders given at a general meeting;

(k) not to misappropriate the Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of the Company's assets and not to provide a guarantee for debts of a shareholder of the Company or other individual(s) with the Company's assets; and

(l) unless with the informed consent of shareholders given at a general meeting, not to disclose the confidential information of the Company acquired by him during his tenure and not to use such information other than in furtherance of the interests of the Company, save that disclosure of such information to the court or other governmental authorities is permitted if: (i) disclosure is compulsory by the law; (ii) the interests of the public require disclosure; or (iii) the interests of the relevant Directors, Supervisors, general manager and other senior executives require disclosure.

Directors, Supervisors, general manager and other senior executives of the Company shall not cause the following persons or institutions ("Associates") to do what they are prohibited from doing:

(a) the spouse or minor child of such Directors, Supervisors, general manager or other senior executives;

(b) a person acting in the capacity of trustee of such Directors, Supervisors, general manager or other senior executives or any person referred to in sub-paragraph (a) above;

(c) a person acting in the capacity of partner of such Directors, Supervisors, general manager or other senior executives or any person referred to in sub-paragraphs (a) and (b) above;

(d) a company in which such Directors, Supervisors, general manager or other senior executives, alone or jointly with one or more persons referred to in sub-paragraphs (a), (b) and (c) above and other Directors, Supervisors, general managers and other senior executives have a de facto controlling interest; and

(e) the directors, supervisors, general manager and other senior executives of the controlled company referred to in sub-paragraph (d).

The fiduciary duties of the Directors, Supervisors, general manager and other senior executives of the Company do not necessarily cease with the termination of their tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapsed between the termination and the act concerned and the circumstances under which the relationships between them and the Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where Directors, Supervisors, general manager and other senior executives of the Company are in breach of his duties to the Company, the Company shall have the right to:

(a) claim damages from the Directors, Supervisors, general manager and other senior executives in compensation for losses sustained by the Company as a result of such breach;

(b) rescind any contracts or transactions entered into by the Company with the Directors, Supervisors, general manager and other senior executives or with a third party (where such third party knows or should know that there is such a breach of duties by such Directors, Supervisors, general manager and other senior executives);

(c) demand an account of the profits made by the Directors, Supervisors, general manager and other senior executives in breach of their duties;

(d) recover any monies received by the Directors, Supervisors, general manager and other senior executives to the use of the Company, including (without limitation to) commissions; and

(e) demand payment of the interest earned or which may be earned by the Directors, Supervisors, general manager and other senior executives on the monies that should be paid to the Company.

Directors, Supervisors, general manager and other senior executives of the Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders given at a general meeting, saved as otherwise provided in the Articles of Association.

## 2. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company may amend its Articles of Association in accordance with the requirements of law, administrative regulation and the Articles of Association.

The amendments to the Articles of Association involving the contents of the "Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to Be Listed Overseas" (hereinafter referred to as the "Mandatory Provisions") shall become effective upon approvals by the companies approving authority and the securities regulatory authority of the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

## 3. VARIATIONS OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Shareholders holding different class of shares are class shareholders.

The Company may not vary or abrogate rights attached to any class of shares unless approved by a special resolution of shareholders at a general meeting and by holders of shares of that class at a separate general meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the rights of a class of shareholders:

(a) to increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class having voting or equity rights or any other privileges equal or superior to those of the shares of such class;

(b) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or grant a right of exchange of all or part of the shares of another class into the shares of such class;

(c) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of such class;

(d) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;

(e) to add, remove or reduce conversion privileges, options, voting rights, transfer or pre-emptive rights, or rights to obtain securities of the Company attached to shares of that class;

(f) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of such class;

(g) to create a new class of shares having voting or equity rights or privileges equal or superior to those of the shares of such class;

(h) to restrict the transfer or ownership of the shares of such class or add to such restriction;

(i) to issue rights to subscribe for, or convert into, shares of such class or another class;

(j) to increase the rights and privileges of shares of another class;

(k) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden; and

(l) to vary or abrogate provisions set out in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters referred to in paragraphs (b) to (h), (k) to (l) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of class meetings shall require the approval of shareholders present representing more than two thirds of the voting rights of that class voting in favor of such resolutions.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters proposed to be considered at the class meeting and the date and place of the class meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning attendance at the class meeting to the Company 20 days before the date of the class meeting.

If the number of shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches one half or more of the voting shares of such class at the class meeting, the Company may hold the class meeting; if not, the Company shall within five days notify the shareholders, again by public notice, of the matters proposed to be considered, the date and place of the class meeting. The Company may then hold the class meeting after publication of such notice.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Class meetings shall be conducted in procedures as similar as possible to those of general meetings. The provisions of the Articles of Association relating to the procedures for conducting general meetings shall apply to class meetings.

The special procedures for voting at a class meeting shall not apply in the following circumstances:

(a) where, upon approval by a special resolution passed at a general meeting (subject to the unconditional authorization or the terms and conditions stipulated in the resolution), the Company authorizes, allocates or issues domestic shares and overseas listed foreign shares either separately or concurrently once every twelve months, and the number of each of the domestic shares and overseas listed foreign shares so issued does not exceed 20% of the number of the respective outstanding shares;

(b) where such shares are part of a plan of the Company to issue domestic shares or overseas listed foreign shares upon its establishment, which is completed within 15 months from the approval by the securities regulatory authority of the State Council.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "Interested Shareholder(s)" is as follows:

(a) in the case of a repurchase of shares by offers to all shareholders pro rata in accordance with the Articles of Associations, or public dealing on a stock exchange, an "Interested Shareholder" means a "controlling shareholder" within the meaning of the Articles of Association;

(b) in the case of a repurchase of shares by an off-market agreement in accordance with the Articles of Associations, an "Interested Shareholder" means a holder of the shares to which the agreement relates;

(c) in the case of a restructuring of the Company, an "Interested Shareholder" means a shareholder within a class who bears less than a proportionate burden imposed on shareholders of that class or who has an interest different from the interest of shareholders of that class.

## 4. RESOLUTIONS – MAJORITY REQUIRED

Resolutions of general meetings are divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, more than the one half votes represented by shareholders (including proxies) present at the general meeting shall be exercised in favor of the resolution.

To adopt a special resolution, more than the two thirds votes represented by the shareholders (including proxies) present at the general meeting shall be exercised in favor of the resolution.

## 5. VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The shareholders of the Company have the right to attend or appoint a proxy to attend a general meeting and to vote at the meeting. Shareholders (including proxy), when voting at a general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to an additional vote.

## 6. REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

Annual general meetings are held once every year within six months after the financial year end. Annual general meetings shall be convened by the Board.

## 7. ACCOUNTS AND AUDIT

### A. Financial and accounting system

The Company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and PRC accounting standards formulated by the MOFCOM. The Board of the Company shall present before shareholders at every annual general meeting such financial reports as are required by the laws, administrative regulations or regulatory documents promulgated by competent local governments and supervisory authorities to be prepared by the Company.

The Company's financial reports shall be made available for shareholders' inspection at the Company 20 days before the date of every annual general meeting. Each shareholder of the Company shall be entitled to obtain a copy of the financial reports.

The Company shall send the aforesaid financial reports to each of the overseas-listed foreign-invested shareholders by prepaid mail at least 21 days before the date of every annual general meeting to their addresses as shown in the register of shareholders.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either International Financial Reporting Standards, or that of the overseas place where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in the notes to the financial statements. When the Company is to distribute its after-tax profit of a financial year, it is required to make distributions based on the lower of the Company's after-tax profits determined under the two accounting standards.

The Company shall not establish account books other than those required by law.

### B. Appointment and removal of accounting firm

The Company shall engage the independent accounting firm that fulfills the relevant PRC requirements to audit the annual financial report and other financial reports of the Company. The first appointment of an accounting firm of the Company may occur at the inaugural meeting prior to the first annual general meeting. The term of such accounting firm shall terminate upon the conclusion of the first annual general meeting. The term of an accounting firm engaged by the Company shall commence upon the conclusion of an annual general meeting and expire upon the conclusion of next annual general meeting.

Irrespective of the provisions in the contract concluded between the Company and an accounting firm, the general meeting may remove the accounting firm by an ordinary resolution before expiration of the term of the accounting firm. Notwithstanding such provisions, the accounting firm's entitlement to claim for damages arising out of its removal shall not be affected thereby.

The remuneration of an accounting firm or the manner in which its remuneration is determined shall be approved at a general meeting.

In the event that a resolution is passed at a general meeting to engage another accounting firm to fill in any casual vacancy, or to reappoint an accounting firm which was engaged by the Board to fill in any casual vacancy, or to remove an accounting firm prior to the expiration of its term, the following provisions shall apply:

(a) The engagement or removal resolution shall be sent (before a notice of the general meeting is given) to the accounting firm that is proposed to be engaged or to leave its post or the accounting firm which has left in the relevant financial year (including any accounting firm left due to removal, resignation and retirement).

(b) In the event that the accounting firm that is proposed to leave its post makes written representations and requests that the Company shall notify its shareholders of such representations, the Company shall (unless the representations are received too late) take the following measures: (i) to state the representations made by such accounting firm which is to leave its post in the notice of the resolution; (ii) to deliver the notice together a copy of the representations in the manner as provided in the Articles of Association to every shareholder entitled to receive such notice.

(c) In the event that the Company fails to send the accounting firm's representations in the manner set out in Clause (b) above, such accounting firm may require the representations to be read at a general meeting and make further appeal.

(d) A leaving accounting firm has the right to attend the following meetings: (1) the general meeting to which its term would otherwise expire; (2) the general meeting at which another accounting firm is proposed to fill the casual vacancy caused by its removal; (3) the general meeting which is convened as a result of its resignation.

Notice shall be given to the accounting firm in advance should the Company decide to remove such accounting firm or not to reappoint it. Such accounting firm shall be entitled to make representations at a general meeting. Where the accounting firm resigns from its position, it shall clarify any irregularities of the Company to the shareholders at a general meeting.

An accounting firm may resign from its post by depositing a written resignation notice at the Company's residence, which shall become effective on the date of such deposit or on such later date as stated therein. Such notice shall contain the following statements:

(a) a statement to the effect that there are absolutely no circumstances with respect to its resignation which it believes should be brought to the notice of the shareholders or creditors of the Company; or

(b) a statement of any such circumstances.

The Company shall, within 14 days from the receipt of such notice referred to in the preceding paragraph, send a copy of the notice to the relevant competent authorities. If the notice contains any statement(s) referred to in Clause (b) of the preceding paragraph, a copy of such statement(s) shall be made available for inspection by shareholders at the Company's address. A copy of such statement(s) shall also be sent by prepaid mail to all holders of overseas listed foreign shares at their respective addresses shown in the register of shareholders.

Where the accounting firm's resignation notice contains the statement(s) referred to in Clause (b) above, the accounting firm may require the Board to convene an extraordinary general meeting for the purpose of explaining the circumstances with respect to its resignation.

## 8. NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

The general meeting is the organ of authority of the Company and shall exercise its functions in accordance with laws. The Company shall not enter into any contract with any person other than a Director, Supervisor, general manager or senior management officer whereby such person is entrusted with the management of the whole or a material part of business of the Company without the prior approval of shareholders in general meeting.

General meetings are divided into annual general meetings and extraordinary general meetings. Annual general meetings are held once every year within six months from the end of the previous accounting year. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months from the date upon which the circumstance occurs:

(a) when the number of Directors is less than the number required by the Company Law or two-thirds of the number of Directors specified in the Articles of Association;

(b) when unrecovered losses of the Company amount to one third of the total amount of its share capital;

(c) when shareholder(s) who individually or jointly hold(s) ten percent or more or more of the Company's issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting; and

(d) when the Board considers necessary or upon the request of the Supervisory Board.

To convene a general meeting, the Company shall give written notices forty-five days prior to the date of the meeting, informing all registered shareholders of the matters proposed to be considered at the meeting as well as the date and venue of the meeting. Shareholders who intend to attend the meeting shall return the written replies of attendance to the Company 20 days prior to the date of the meeting.

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

The Company shall, based on the written replies received twenty days prior to the date of the general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting account for more than half of the Company's total voting shares, the Company may convene a general meeting; otherwise, the Company shall make a public announcement, within five days, notifying the shareholders of matters to be considered at as well as the date and venue of the meeting. The Company may convene the meeting once an announcement has been so made. Resolutions on matters not specified in the notice shall not be passed at extraordinary general meetings.

The notice of the general meeting shall satisfy the following requirements:

(a) in written form;

(b) setting out the venue, date and time of the meeting;

(c) describing the matters to be discussed at the meeting;

(d) providing shareholders with materials and explanations necessary for them to make sensible decisions in respect of the matters to be discussed, including (but not limited to) specific terms and contract (if any) for a proposed transaction, and a detailed explanation of its causation and consequence where the Company proposes a merger, share repurchase, share capital restructuring or other forms of restructuring;

(e) where any Director, Supervisor, general manager and other senior executives have a material interest in respect of the matters to be discussed, then the nature and extent of that interest shall be disclosed; where the impact of the matters to be discussed on such Director, Supervisor, general manager and other senior executives who are shareholders is different from the impact on other shareholders of the same type, then that difference shall be illustrated;

(f) containing the full text of any special resolution proposed to be passed at the meeting;

(g) providing a clear text description stating that all shareholders who have the right to attend and vote at the general meeting shall have the right to entrust one or more proxies, who does not need to be shareholders of the Company, to attend and vote at the meeting; and

(h) stating the deadline and place for the delivery of proxy letter of the meeting.

Notice of general meetings shall be served on each shareholder (whether or not such shareholder is entitled to vote at the meeting), by personal delivery or prepaid airmail to the address of the shareholder as shown in the register of members of the Company. For the holders of Domestic Shares, notice of general meetings may also be given by way of public announcement.

The aforesaid "public announcement" shall be published in one or more newspapers designated by the securities regulatory authority of the State Council during the period of 45 to 50 days prior to the date of the meeting. Upon the publication of announcement, all holders of Domestic Shares shall be deemed to have received notice of the relevant shareholders' meeting.

Shareholders requisitioning an extraordinary general meeting or class meeting shall abide by the following procedures:

(a) Shareholder(s) alone or in aggregate holding 10% or more of the shares carrying the right to vote at the meeting sought to be held may sign a written requisition in one or more counterparts in the same form and contents, requiring the Board to convene an extraordinary general meeting or a class meeting thereof and stating the matters to be considered at the meeting. Upon the receipt of such requisition, the Board shall convene the extraordinary general meeting or class meeting as soon as possible. The aforesaid amount of shareholdings of the requisitioning shareholders shall be calculated as at the date of the deposit of the requisition.

(b) If the Board fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisition, the requisitioning shareholders may convene such a meeting by themselves within four months of the receipt of the requisition by the Board. In so convening a meeting, the requisitioning shareholders should adopt a procedure as similar as possible as that of general meetings to be convened by the Board.

The matters which require the sanction of an ordinary resolution at a general meeting shall include:

(a) the approval of working reports of the Board and the Supervisory Board;

(b) the approval of plans formulated by the Board for the distribution of profits and for making up losses;

(c) the election and removal of the members of the Board and members of the Supervisory Board, their remuneration and methods of payment;

(d) the approval of the Company's budget and final accounts, balance sheets, profit and loss accounts and other financial reports; and

(e) all other matters other than those required by the laws, administrative regulations of the PRC or by the Articles of Association to be adopted by special resolution.

The matters which require the sanction of a special resolution at a general meeting shall include:

(a) the increase or reduction of share capital of the Company and the issue of shares of any class or warrants and other similar securities of the Company;

(b) the issue of debentures of the Company;

(c) the demerger, merger, dissolution, liquidation and change of form of the Company;

(d) the amendments to the Articles of Association;

(e) any decision to purchase or dispose of material assets of the Company or to guarantees an amount exceeding 30% of the total assets of the Company within one year; and

(f) such other matters which are considered by the general meeting by way of an ordinary resolution as may have a material impact on the Company thus requiring to be passed by way of a special resolution.

Where any shareholder is, under applicable laws, regulations, regulatory documents and the listing rules of the place where the Company's shares are listed, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, such shareholder shall surrender his/her voting rights or abstain from voting; any votes cast by such shareholder (or his/her proxy) in contravention of such requirement or restriction shall not be counted into the voting results.

## 9. TRANSFER OF SHARES

Unless otherwise provided by laws and administrative regulations, shares of the Company shall be free from any restrictions on the right of transfer and shall also be free from all liens.

All overseas-listed foreign-invested shares listed in Hong Kong which have been fully paid-up may be freely transferred in accordance with the Articles of Associations. However, unless such transfer satisfies the conditions required by the Articles of Associations, the Board may refuse to recognize any document of transfer without giving any reason.

Alteration or rectification of any part of the register of members shall be made in accordance with the laws of the place where that part of the register of shareholders is maintained.

## 10. POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

The Company may, in accordance with the procedures set out in the Articles of Associations and with the approval of the relevant governing authority of the State, repurchase its issued and outstanding shares under the following circumstances:

(a) when the Company reduces its registered capital;

(b) when the Company merges with another company that holds shares of the Company;

(c) when the Company grants shares as rewards to its employees;

(d) when the repurchase is made upon the request of its shareholders who disagree with shareholders' resolutions passed at a general meeting in connection with a merger or demerger, to repurchase their shares; or

(e) other circumstances as permitted by laws and administrative regulations.

Where the Company repurchases its own shares due to items (a) to (c) of the preceding paragraph, the resolution related thereto shall be approved at a general meeting. If the Company repurchases its own shares in accordance with the preceding paragraph under the circumstances set forth in item (a), the shares so repurchased shall be cancelled within ten days of the repurchase. In the circumstances set forth in items (b) and (d), the shares so repurchased shall be transferred or cancelled within six months. If the Company repurchases its own shares in accordance with item (c), the shares so repurchased shall not exceed five percent of the total issued shares of the Company, and the shares so repurchased shall be transferred to the employees of the Company within one year. The repurchase shall be funded out of the after-tax profit of the Company.

The Company may, upon the approval by the relevant regulatory authorities of the State, repurchase its own shares in one of the following ways:

(a) making an offer of repurchase to all of its shareholders in the same proportion;

(b) repurchasing Shares through public dealing on a stock exchange; or

(c) repurchase by an off-market agreement.

Where the Company repurchase its Shares by an off-market agreement, it shall obtain the prior approval of shareholders at a general meeting in the manner stipulated in the Articles of Association. Upon approval by shareholders at a general meeting in the same manner, the Company may rescind or vary such contract entered into in the aforesaid manner or waive any of its rights stipulated in such contract. A contract to repurchase its Shares mentioned above includes (without limitation to) a document in which the Company agrees to make repurchase and acquire the rights to repurchase its Shares.

The Company shall not assign a contract to repurchase its Shares or any of its rights hereunder.

Unless the Company is in the course of liquidation, it shall comply with the following provisions in relation to repurchase of its outstanding Shares:

(a) where the Company repurchases its Shares at par value, payment shall be made out of the balance of distributable profits in the books of the Company and the proceeds from any issue of new shares made for the purpose of the repurchase;

(b) where the Company repurchases its shares at a premium to the par value, payment up to their par value shall be made out of the balance of distributable profits in the books of the Company and the proceeds from any issue of new shares made for the purpose of repurchase. Payment of the portion in excess of the par value shall be effected as follows: (1) if the Shares being repurchased were issued at par value, payment shall be made out of the balance of distributable profits in the books of the Company; or (2) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the balance of distributable profits in the books of the Company and the proceeds from any issue of new shares made for the purpose of repurchase, provided that the amount paid out of the proceeds from any issue of new Shares shall neither exceed the aggregate of the premiums received by the Company on the issue of the shares repurchased nor the amount of the capital reserve fund account of the Company (including the premiums on the issue of new shares) at the time of repurchase;

(c) payment by the Company for the following issues shall be made out of its distributable profits: (1) acquisition of rights to repurchase the Shares; (2) variation of any contract to repurchase the Shares; or (3) release of the Company's liabilities under a contract to repurchase the Shares;

(d) after the Company's registered share capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant regulations, the amount deducted from the distributable profits of the Company for paying up the par value portion of the shares repurchased shall be transferred to the Company's capital reserve account.

Where the Company has the power to repurchase redeemable shares: if purchases are not made through the market or by tender, the share repurchase price shall not exceed a maximum price; if purchases are by tender, the tenders shall be made available to all shareholders of the Company.

## 11. POWER OF ANY SUBSIDIARIES OF THE COMPANY TO OWN SHARES IN ITS PARENT COMPANY

The Articles of Association contains no provisions preventing any subsidiaries of the Company from holding the Shares.

## 12. DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION

The Company may distribute dividends by way of cash or shares (or both). Any amount paid up in advance of calls on any share may carry interest but shall not entitle the shareholders to receive in respect thereof a dividend subsequently declared.

The ordinary dividend shall be denominated and declared in Renminbi, and the dividend of domestic shares shall be paid in Renminbi. The dividend or other distributions of overseas listed foreign shares shall be paid in the currency of the jurisdiction where the overseas listed foreign shares are listed (if being listed in more than one place, then the currency of the primary listing place determined by the Board of the Company). The Company shall appoint receiving agents for holders of overseas listed foreign shares. A receiving agent shall, on behalf of the relevant Shareholders, receive dividend payments and other payables distributed by the Company in respect of overseas listed foreign shares. The receiving agents appointed by the Company shall comply with the laws and the requirements of the stock exchange in the jurisdiction where our Shares are listed. The receiving agents appointed by the Company in respect of the H Shares listed on the Hong Kong Stock Exchange shall be a trust company registered under the Trustee Ordinance of Hong Kong.

## 13. PROXIES

Any Shareholder entitled to attend and vote at a general meeting shall be entitled to appoint one or more persons (who may not necessarily be Shareholders) as his/her proxy to attend and vote on his/her behalf, and a proxy so appointed shall:

(a) have the same right as the Shareholder to speak at a general meeting;

(b) have the right to demand or a poll individually or jointly with others;

(c) have the right to vote by hand or on a poll, but when there are more than one proxy, that proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing and shall be signed by the appointer or a person duly authorised in writing. Where the appointer is a legal person, the stamp of the legal person shall be affixed, or signed by the director or a duly authorised agent or officer. Such power of attorney shall specify the number of Shares of every shareholder proxy on behalf of the appointer.

The instrument appointing a proxy shall be deposited at the place of the Company or at such other places as specified in the notice convening the meeting not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the voting. If the instrument appointing a proxy is signed by another person authorized by the appointer, the power of attorney or other instrument shall be notarially verified. The power of attorney or other instrument notarially verified shall be deposited together with the instrument appointing a proxy at the place of the Company or such other places as specified in the notice convening the meeting. If the appointer is a legal person, its legal representative or such person as authorized by its board of directors or other decision-making department to act as its representative may attend at the general meetings of the Company.

Any form sent by the Board of the Company to its Shareholders for appointing a shareholder proxy shall allow its Shareholders, according to his or her free will, to instruct the proxy to vote and provide instructions separately for matters to be put to vote on the meeting agenda. The power of attorney shall specify that the shareholder proxy may vote at his or her own discretion if the Shareholder does not provide any instructions. A vote given in accordance with the terms of an instrument appointing a proxy shall be valid notwithstanding the death or loss of capacity of the appointer, revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Shares in respect of which the proxy is given, provided that no notice in writing of such matters as aforesaid shall have been received by the Company before the relevant meeting is convened.

## 14. INSPECTION OF REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

The Company shall keep a register of Shareholders. The Company may, in accordance with the understanding or agreements between the securities regulatory authority of the State Council and the overseas securities regulatory organisations, maintain overseas the register of shareholders of overseas-listed foreign shares and appoint overseas agent(s) to manage such share register. The original register of shareholders of overseas-listed foreign shares listed in Hong Kong shall be maintained in Hong Kong. Duplicates of the register of shareholders of overseas-listed foreign shares shall be maintained at the Company's domicile. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the register of shareholders of overseas-listed foreign shares at any time.

If there is any inconsistency between the original and the duplicate of the register of shareholders of overseas-listed foreign shares, the original shall prevail.

No changes which are required by reason of a transfer of Shares may be made to the register of shareholders within thirty days prior to the date of a general meeting or five days prior to the reference date set by the Company for the purpose of distribution of dividends.

When the Company decides to convene a general meeting, distribute dividends, liquidate and carry out other activities which require the determination of shareholdings, the Board shall fix a record date for the purpose of determining the shareholding. A person who is registered in the register as shareholder of the Company at the end of the record date shall be a shareholder of the Company.

Any person who objects to what is contained in the register of shareholders and wishes to register his name on, or delete his name from, he may apply to the court with jurisdiction to amend the register.

Shareholders holding ordinary shares of the Company shall have the following rights:

(a) to receive dividends and other distributions in proportion to the number of Shares held;

(b) to participate in or appoint a proxy of Shareholder to participate in and exercise voting rights at a general meeting;

(c) to supervise and manage the business and operational activities of the Company, provide suggestions or submit queries;

(d) to transfer the Shares in accordance with the provisions of the laws, administrative regulations and the Articles of Association;

(e) to obtain relevant information in accordance with the provisions of the Articles of Association, including:

1. the right to a copy of the Articles of Association after payment of costs;

2. the right to inspect and copy the Articles of Association, subject to payment of a reasonable fee:

(1) the register of all shareholders;

(2) personal particulars of each of the Company's Directors, Supervisors, general manager, and other senior executives, including: present name and alias and any former name and alias, principal address (domicile), nationality, primary and all other part-time occupations and identification document and its number;

(3) the status of the Company's share capital issued;

(4) the latest audited financial statements, the reports of directors, auditors and supervisors of the Company;

(5) special resolutions of the Company;

(6) report(s) showing the aggregate par value, number, maximum and minimum price paid with respect to each class of Shares repurchased by the Company since the end of the previous financial year, and the aggregate amount incurred by the Company for this purpose;

(7) a copy of the annual inspection report that has been filed with the administration for industry and commerce or other competent authorities in China;

(8) minutes of general meetings.

The Company shall make available the documents mentioned in items (1) to (8) other than item (2) above and other applicable documents at its Hong Kong office for inspection, free of charge, by the public and shareholders in accordance with requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the documents mentioned in item (8) shall be available for inspection by shareholders only).

If any shareholder needs to access the relevant information as set out in the preceding paragraph, the said shareholder shall provide the Company with written documents evidencing the type and number of Shares held by him, and the Company shall provide such information as required by the said shareholder upon authentication of the shareholder.

(f) the right to receive distribution of the remaining assets proportional to the number of Shares held when the Company dissolves or liquidates;

(g) other rights conferred by the laws and regulations and the Articles of Association of the Company.

## 15. QUORUM FOR GENERAL MEETINGS

The Company can convene a general meeting if the number of Shares carrying voting rights represented by shareholders intending to attend such meeting comprise more than half of the total number of Shares carrying voting rights. The Company can convene a class meeting, if the number of Shares of the class carrying voting rights represented by shareholders intending to attend such meeting comprise more than half of the total number of such Shares of the class.

## 16. RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

In addition to the obligations imposed by laws and administrative regulations or the listing rules of the stock exchange on which the Shares of the Company are listed, a Controlling Shareholder (as defined below), when exercising his rights as a shareholder, shall not exercise his voting rights to make a decision which may detract from the interests of all or partial shareholders of the Company in respect of the following matters:

(a) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;

(b) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any way, of the Company's assets, including (without limitation to) opportunities beneficial to the Company;

(c) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation to) rights to distributions and voting rights, but not including a restructuring of the Company submitted to and approved by a general meeting in accordance with the Articles of Association.

## 17. PROCEDURE ON LIQUIDATION

The Company shall be dissolved and liquidated in accordance with law upon occurrence of any of the following events:

(a) the business license of the Company has expired;

(b) a special resolution for dissolution is passed by a general meeting;

(c) dissolution is necessary due to a merger or division of the Company;

(d) the Company is declared bankrupt according to the laws due to overdue debts;

(e) the Company is ordered to close down because of its violation of laws or administrative regulations.

In the event of dissolution pursuant to items (a) and (b) of the preceding article, the Company shall set up a liquidation committee within 15 days, and the members of the liquidation committee shall be decided by an ordinary resolution at a general meeting. If the liquidation committee is not duly set up, creditors may request the People's Court to designate related persons to form a liquidation committee to carry out liquidation. If the Company is dissolved pursuant to item (d) of the preceding article, a liquidation committee comprising shareholders, the relevant departments and relevant professionals shall be arranged by the People's Court in accordance with relevant laws to carry out the liquidation. If the Company is dissolved pursuant to item (e) of the preceding article, a liquidation committee comprising shareholders, the relevant departments and relevant professionals shall be arranged by the relevant supervisory authority to carry out the liquidation.

Where the Board proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice convening a general meeting to consider the proposal that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay all its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders at a general meeting for the liquidation of the Company, the functions and powers of the Board shall forthwith cease. The liquidation committee shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation, and to present a final report to the general meeting upon completion of the liquidation. The liquidation committee shall within ten days of its establishment send a notice to creditors, and within 60 days of its establishment make a public announcement in a newspaper for at least three times. The liquidation committee shall carry out registration of creditors' rights so reported.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

(a) to sort out the Company's assets and prepare a balance sheet and an inventory of assets respectively;

(b) to notify or to publish an announcement to the creditors;

(c) to dispose of any continuing businesses of the Company in connection with the liquidation;

(d) to pay all outstanding taxes;

(e) to settle claims and debts;

(f) to deal with the remaining assets subsequent to the settlement of the Company's debts;

(g) to represent the Company in any civil proceedings.

Following the sorting out of the Company's assets and the preparation of a balance sheet and an inventory of assets by the liquidation committee, the liquidation committee shall formulate a liquidation proposal and present it to the general meeting of the Company or the relevant competent authorities for confirmation. The liquidation committee shall immediately apply to the People's Court for a declaration of bankruptcy if it becomes aware, having liquidated the Company's assets and prepared a balance sheet and an inventory of assets, that the Company's assets are insufficient to repay its debts in full in an event of dissolution. Upon the Company being declared bankrupt by a ruling of the People's Court, the liquidation committee shall transfer to the People's Court all matters arising out of the liquidation.

Following the completion of liquidation, the liquidation committee shall prepare a report on liquidation and a statement of the receipts and payments and financial books and records during the period of liquidation, which shall be audited by the PRC certified public accountants and submitted to the general meeting or the relevant competent authorities for confirmation. The liquidation committee shall also within 30 days after such confirmation, submit the aforesaid documents to the administration for industry and commerce and apply for cancellation of registration of the Company, and publish an announcement relating to the termination of the Company.

## 18. OTHER PROVISIONS MATERIAL TO THE COMPANY OR ITS SHAREHOLDERS

### A. General provisions

The Company is a joint stock limited company of perpetual existence.

The Company may invest in other companies with limited liability or joint stock companies with limited liability, and shall be liable to the investee companies to the extent of its capital contribution.

As from its effective date, the Articles of Association of the Company shall become a legally binding document governing the organization and conducts of the Company, and regulating the rights and obligations between the Company and each Shareholder and among the Shareholders.

Shareholders may sue the Company according to the Articles of Association. The Company may sue Shareholders according to the Articles of Association. Shareholders may sue each other according to the Articles of Association. Shareholders may also sue Directors, Supervisors, general manager and other senior executives of the Company. The term "sue" mentioned herein shall include the initiation of proceedings in a court or the application of arbitration to an arbitration organisation.

### B. Shares and transfers

The Company may increase its capital in the following ways:

(a) offering new shares to non-specially-designated investors for subscription;

(b) offering new shares to specially-designated investors and/or existing shareholders;

(c) allotting new Shares to existing shareholders;

(d) capitalisation of common reserve fund;

(e) any other ways permitted by laws, administrative regulations and the securities authority of the State Council.

The Company's increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

The Company may reduce its registered capital in accordance with relevant laws, regulations and the provisions of the Articles of Association. When the Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets. The registered capital of the Company after reduction shall not be less than the statutory minimum amount.

Non-listed shares of the Company may, subject to approval of the securities authority of the State Council, be listed or traded on an overseas stock exchange by their holders. Any listing and trading of such shares on an overseas stock exchange shall comply with the regulatory procedures, rules and requirements of such overseas stock exchange. No separate class meeting is needed to resolve the listing and trading of such Shares on an overseas stock exchange.

### C. Shareholders

A shareholder of the Company is a person who holds our Shares legitimately and whose name has been entered in the register of shareholders. A shareholder shall enjoy rights and assume obligations according to the class and number of Shares held by him/her/it. Shareholders in the same class shall enjoy the same rights and assume the same obligations.

The Company shall not freeze or otherwise impair any of the rights attaching to any Share by reason only that the person or persons who are interested directly or indirectly therein have not disclosed their interests to the Company. Share certificates of the Company shall be in registered form. Shareholders shall, other than the conditions agreed upon at the time of subscription, not be liable to make any further contribution to share capital thereafter.

The share certificates shall be signed by the Chairman of the Board. Where the signatures of other senior executives of the Company are required by the stock exchange(s) on which our shares are listed, the share certificates shall also be signed by such other senior executives. The share certificates shall take effect after being affixed with the corporate seal or a machine imprinted seal of the Company, provided that such seal shall only be affixed with the authority of the Board. The signature of the Chairman of the Board or of other senior executives on the share certificates may also be in printed form.

Any person who is a registered shareholder or who requests to have his name entered into the register of shareholders may, if his share certificate (the "**Original Certificate**") is lost, apply to the Company for replacement share certificate in respect of such shares (the "**Relevant Shares**"). If a holder of Domestic Shares loses his registered share certificate and applies for a new share certificate, it shall be dealt with in accordance with the Company Law. If a shareholder of overseas listed foreign shares loses his share certificate and applies for a new share certificate, the issue of such certificate shall comply with the following requirements:

(a) the applicant shall submit an application to the Company in the form prescribed by the Company accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss of the original certificate and declaring that no other person is entitled to be registered as a shareholder in respect of the Relevant Shares;

(b) The Company has not received any declaration requiring registration as a shareholder in respect of the shares from any person other than the applicant before it decides to issue a replacement share certificate;

(c) if the Company decides to issue a new share certificate to the applicant, it shall make an announcement of its decision at least once every 30 days for a period of 90 days in such newspapers as may be designated by the Board;

(d) the Company shall have, prior to publication of its decision to issue a new share certificate, delivered to the stock exchange on which our shares are listed a copy of the announcement to be published. The Company may publish the announcement upon receiving a confirmation from the stock exchange that the announcement has been exhibited in the premises of the stock exchange. The announcement shall be exhibited in the premises of the stock exchange for a period of 90 days. If the application for issuing a new share certificate has not been approved by the registered shareholders of the Relevant Shares, the Company shall send a copy of the announcement to be published to such shareholders by post;

(e) Upon the expiration of the 90-day period of public announcement and display specified in items (c) and (d) of this Article, if no objection to the issuance of a replacement share certificate is received by the Company from any person, a replacement share certificate may be issued according to the application of the applicant;

(f) where the Company issues a replacement share certificate under this article, it shall immediately cancel the original share certificate and enter the cancellation and replacement issue in the register of shareholders accordingly;

(g) all expenses relating to the cancellation of an original share certificate and the issue of a replacement share certificate by the Company shall be borne by the applicant. The Company may refuse to take any action until reasonable security is provided by the applicant.

**D. Untraceable members**

The Company exercises power to cease sending dividend warrants by post to a shareholder of overseas listed foreign shares, if such warrants have not been cashed twice in a row. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

The Company shall have the right to sell the shares of a shareholder holding overseas listed foreign shares who is untraceable in a manner deemed appropriate by the Board, provided:

(a) during a period of 12 years at least three dividend payments in respect of the shares in question have become payable and no dividend during that period has been claimed;

(b) upon expiry of the 12-year period, the Company gives notice of its intention to sell the shares by way of an advertisement published in newspapers and notifies the Hong Kong Stock Exchange of such intention.

## E. The Board

The Board shall be accountable to the general meeting of the Shareholders, and shall exercise the following functions and powers:

(a) to convene general meetings and report on its work to the general meetings;

(b) to implement the resolutions passed at the general meetings;

(c) to decide on the business plans and investment plans of the Company;

(d) to prepare annual budget and final accounts of the Company;

(e) to prepare proposals of the Company on profit distribution and loss recovery;

(f) to prepare proposals of the Company on increase or decrease in registered capital and issuance of corporate bonds;

(g) to prepare plans for the merger, division and dissolution of the Company;

(h) to decide on the internal management organization of the Company;

(i) to appoint or dismiss the Company's general manager and pursuant to the general manager's nominations to appoint or dismiss vice general manager and other senior executives of the Company and to decide on their remuneration;

(j) to formulate the basic management system of the Company;

(k) to formulate plans for amendment to the Articles of Association;

(l) other functions and powers prescribed by the Articles of Association and conferred by the general meetings.

The above resolutions of the Board shall be passed by a majority vote of all Directors, with the exception of items (f), (g) and (k) above which shall require the consent of more than two thirds vote of the Directors.

Meetings of the Board shall be held regularly at least four times each year and shall be convened by the Chairman of the Board. A 14-day notice shall be given before the date of such meetings. A quorum will be formed by more than half of the Directors (including attorney) attending a Board meeting in person. If a Director fails to attend a board meeting and does not appoint an attorney to attend, the Director is deemed to have relinquished his rights to vote at that meeting. Each Director shall have one vote. Unless specified otherwise in the Articles of Association, resolutions of the Board shall be passed by more than half of all the Directors. Where the numbers of votes cast for and against a resolution are equal, the Chairman shall have the right to cast an extra vote.

**F. Independent Directors**

The Board shall consist of three Independent non-executive Directors (Independent Directors) at all times. The Independent Directors shall directly report, to the general meeting, securities regulatory authorities of the State Council and other relevant regulatory agencies.

**G. Secretary to the Board**

The secretary to the Board of the Company shall be a natural person who has the requisite professional expertise and experience and shall be appointed by the Board.

**H. Supervisory Board**

The Company shall have a Supervisory Board. The Supervisory Board shall be composed of three members, one of whom shall be the chairman of the Supervisory Board. The term of office of supervisors shall be three years, renewable upon re-election. The election or removal of the chairman of the Supervisory Board shall be decided by two-thirds or more of the Supervisors. The Directors, general manager and other senior executives of the Company shall not act concurrently as Supervisors.

The Supervisory Board shall be accountable to the general meeting and exercise the following functions and powers in accordance with law:

(a) to examine the financial position of the Company;

(b) to supervise whether Directors, general manager and other senior executives of the Company have breached relevant laws, administrative regulations or the Articles of Association in discharging their duties in the Company;

(c) to demand Directors, general manager and other senior executives to rectify if their acts have prejudiced the interests of the Company;

(d) to review the financial statements, business reports and any profit distribution plans of the Board to be submitted to the general meeting, and to appoint, in the name of the Company, a certified public accountant or auditor to assist in the review of such information should any doubt arises;

(e) to propose to convene extraordinary general meetings;

(f) to deal with or sue Directors on behalf of the Company;

(g) other functions and powers conferred by the general meetings.

## I. General Manager

The general manager shall be accountable to the Board and exercise the following functions and powers:

(a) to manage the Company's production and operation and to implement the resolutions of the Board;

(b) to implement the Company's annual business plans and investment proposals;

(c) to draft plans for the establishment of internal management departments of the Company;

(d) to formulate basic management system of the Company;

(e) to formulate specific rules and regulations of the Company;

(f) to propose appointment or dismissal of the Company's vice general manager and other senior executives;

(g) to appoint or dismiss management personnel except for those appointed or dismissed by the Board;

(h) other functions and powers conferred by the Articles of Association and the Board.

## J. Common Reserve Fund

The after-tax profit of the Company, after making up for losses (if any), shall be allocated to the statutory common reserve fund, and to the discretionary common reserve fund subject to approval by resolution at the general meeting.

The common reserve fund of the Company shall be used for the following purposes only:

(a) Loss recovery. The capital common reserve shall not be applied to this end.

(b) Conversion into share capital. At the time of converting the statutory common reserve fund into registered capital, the amount retained in such common reserve fund shall not be less than 25% of the registered capital of the Company before the said conversion.

(c) To expand operations of the Company.

**K. Dispute Resolution**

The Company shall abide by the following rules for dispute resolution:

(a) whenever any disputes or claims arise between (1) the Company and its Directors or senior executives, and (2) shareholders of overseas-listed foreign shares and the Company, shareholders of overseas-listed foreign shares and the Company's Directors, Supervisors, general manager or other senior executives, or shareholders of overseas-listed foreign shares and shareholders of domestic shares, based on any rights or obligations conferred or imposed by our Articles of Association, the Company Law, or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration. Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute shall be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or our shareholders, Directors, Supervisors, general manager, or other senior executives. Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

(b) A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

(c) If any dispute or claim of rights is referred to arbitration, the laws of the People's Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

(d) The award of an arbitration body shall be final and conclusive and binding on all parties.

## 1. FURTHER INFORMATION ABOUT OUR COMPANY

### A. Incorporation

The Company was established as a limited liability company under the PRC Company Law on May 31, 2001 by Liu Songshan and Liu Wencui with a registered capital of RMB20 million. It was converted into a joint stock limited liability company on December 28, 2009, with the promoters being Feng Yong Tai, Di Er Tong, 3i, CDH, Rong Feng Tai and Crown Flame. Our Company has established a place of business in Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on March 4, 2014. Ms. Ng Sau Mei has been appointed as our agent for the acceptance of service of process in Hong Kong. As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V to this Prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC and Hong Kong is set out in Appendix IV to this Prospectus.

### B. Changes in Share Capital

At our establishment as a limited liability company, our registered share capital was RMB20 million. The following sets out the changes to the Company's issued share capital since its establishment:

On January 29, 2008, subsequent to the financial investment agreements dated June 25, 2007 entered into among Feng Yong Tai, Di Er Tong, Rong Feng Tai, 3i, CDH and Crown Flame, the registered capital of our Company was increased from RMB20 million to RMB220 million.

On December 28, 2009, pursuant to the Board resolution dated October 28, 2009, our Company was converted from a foreign-invested limited liability company into a foreign-invested joint stock limited liability company. Subsequent to the conversion and the capital subscription by our Founders, the registered capital of the Company was increased to RMB500 million divided into 500,000,000 Shares of nominal value of RMB1.00 each.

Upon completion of the Global Offering, but without taking into account any H Shares which may be issued pursuant to the Over-allotment Option, our registered share capital will be increased to RMB666,667,000, comprising 337,700,000 Domestic Shares, 162,300,000 H Shares converted from Unlisted Foreign-invested Shares and 166,667,000 H Shares issued under the Global Offering, representing approximated 50.7%, 24.3% and 25.0% of our registered capital, respectively.

Save as aforesaid, there has been no alteration in our share capital since our establishment.

### C. The Company's Extraordinary General Meetings held on January 9, 2014 and February 27, 2014

At an extraordinary general meeting of the Company held on January 9, 2014, among other things, the following resolutions were passed by the Shareholders of the Company:

(a) the amendment to the Articles of Association in respect of the change of composition of the Board for purpose of compliance with relevant provisions under the Listing Rules; and

(b) the appointment of Mr. Vincent Man Choi, Li as an independent non-executive Director of our Company.

At an extraordinary general meeting of the Company held on February 27, 2014, among other things, the following resolutions were passed by the Shareholders of the Company:

(a) the issue by the Company of the H Shares of nominal value of RMB1.00 each up to 214,285,714 Shares in total (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option) and such H Shares be listed on the Stock Exchange; and

(b) subject to the completion of the Global Offering, the Articles of Association has been approved and adopted, which shall only become effective on the Listing Date and the Board has been authorized to amend the Articles of Association in accordance with any comments from the Stock Exchange and the relevant PRC regulatory authorities.

### D. Our Reorganization

We have undergone our Reorganization, details of which are set out in the section headed "Our History, Reorganization and Corporate Structure" of this Prospectus. As confirmed by our PRC legal advisers, we have obtained from the relevant PRC regulatory authorities all necessary approvals required for the implementation of the Reorganization. The steps taken in relation to our Reorganization include the following:

On March 4, 2014, our Company cancelled its registration of Dphone website under Ministry of Industry and Information Technology of PRC.

### E. Changes in Share Capital of Our Subsidiaries

Our principal subsidiaries (for the purpose of the Listing Rules) as of the date of this Prospectus are set out under the financial information in the Accountants' Report as included in Appendix I to this Prospectus. The following alteration in the registered capital of our principal subsidiaries has taken place within the two years preceding the date of this Prospectus:

- In August 2012, the registered capital of Jinan Dixin Electronic Communication Technology Co., Ltd was increased from RMB5 million to RMB5.5 million, which was further increased to RMB10.5 million in August 2013;
- In August 2013, the registered capital of Qingdao Dphone Communication Technology Co., Ltd. was increased from RMB1 million to RMB5 million; and
- In December 2013, the registered capital of Yunnan Dphone Telecommunications Technology Co., Ltd was increased from RMB1 million to RMB5 million.

## 2. FURTHER INFORMATION ABOUT OUR BUSINESS

### A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this Prospectus which are or may be material, a copy of each has been delivered to the Registrar for registration:

(a) Dphone Website Transfer Agreement;

(b) Non-Competition Undertaking;

(c) Deed of Indemnity;

(d) a cornerstone investment agreement dated June 23, 2014, entered into among Lenovo Group Limited, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited and us, pursuant to which Lenovo Group Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) as may be purchased for HK dollar equivalent of US$22.5 million at the Offer Price;

(e) a cornerstone investment agreement dated June 23, 2014, entered into among Qihoo 360 Technology Co., Ltd., Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited and us, pursuant to which Qihoo 360 Technology Co., Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) as may be purchased for HK dollar equivalent of US$20 million at the Offer Price;

(f) a cornerstone investment agreement dated June 23, 2014, entered into among Unicom Innovation Enterprise Investment Co., Ltd., Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited and us, pursuant to which Unicom Innovation Enterprise Investment Co., Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) as may be purchased for HK dollar equivalent of US$3.25 million at the Offer Price;

(g) a cornerstone investment agreement (in Chinese) dated June 23, 2014, entered into among Unicom Innovation Enterprise Investment Co., Ltd., Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited and us, pursuant to which Unicom Innovation Enterprise Investment Co., Ltd. agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) as may be purchased for HK dollar equivalent of US$3.25 million at the Offer Price;

(h) a cornerstone investment agreement dated June 23, 2014, entered into among Most Success Holdings Limited, TCL Communication Technology Holdings Limited, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, DBS Asia Capital Limited and us, pursuant to which Most Success Holdings Limited agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 500 H Shares) as may be purchased for HK dollar equivalent of US$3 million at the Offer Price; and

(i) Hong Kong Underwriting Agreement.

## B. Our Intellectual Property Rights

### *(a) Software Copyrights*

As at the Latest Practicable Date, the following are software copyrights (see "Business") that we have been granted in the PRC that are material in relation to our Company's business:

| Software | Copyright owner | Registration number | Publication date | Registration date | Way of acquisition |
|---|---|---|---|---|---|
| Dixintong ERP Inventory Differences Checking System V1.0 (迪信通ERP庫存差異核對系統V1.0) | Issuer | 2012SR102695 | 2008.04.22 | 2012.10.30 | Original acquisition |
| Dixintong Financial Documents Printing System V4.0 (迪信通財務憑證打印系統V4.0) | Issuer | 2012SR102688 | 2008.04.22 | 2012.10.30 | Original acquisition |
| Dixintong ERP Consolidated Statements Export System V1.0 (迪信通ERP大報表導出系統V1.0) | Issuer | 2012SR102694 | 2008.04.22 | 2012.10.30 | Original acquisition |
| Dixintong Stores Weekly Planning System V1.0 (迪信通門店週計劃系統V1.0) | Issuer | 2012SR102692 | 2009.10.13 | 2012.10.30 | Original acquisition |
| Jindi User Portal Sites Software V1.0 (金迪用戶門戶網站軟件V1.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080368 | 2011.12.02 | 2012.08.29 | Original acquisition |
| Jindi Business Management platform software V1.0 (金迪運營管理平台軟件V1.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080652 | 2011.12.02 | 2012.08.29 | Original acquisition |
| Jindi Market Symbian Client Software (金迪市場Symbian客戶端軟件V1.1.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080157 | 2011.12.02 | 2012.08.29 | Original acquisition |

| Software | Copyright owner | Registration number | Publication date | Registration date | Way of acquisition |
|---|---|---|---|---|---|
| Jindi E-logger Software V1.0 (金迪E商登陸器軟件V1.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080170 | 2009.02.03 | 2012.08.29 | Original acquisition |
| Jindi Developer Portal Software V1.0 (金迪開發者門戶軟件V1.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080673 | 2011.12.02 | 2012.08.29 | Original acquisition |
| Jindi Receivables & Payables Settlement Management System Software V1.0 (金迪應收應付結算管理系統軟件V1.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080684 | 2009.03.02 | 2012.08.29 | Original acquisition |
| Jin Dina Tax Payer Appropriation System Software V1.2 (金迪納稅主體調撥系統軟件V1.2) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080680 | 2009.02.28 | 2012.08.29 | Original acquisition |
| Jindi Multi-dimensional Reporting System Software V1.0 (金迪多維報表系統軟件V1.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080646 | 2009.03.08 | 2012.08.29 | Original acquisition |
| Jindi Retail Interface System Software V3.0 (金迪零售接口系統軟件V3.0) | Chengmai Jindi Technology Co., Ltd. (澄邁金迪科技有限公司) | 2012SR080372 | 2011.12.02 | 2012.08.29 | Original acquisition |
| Dixintong Cloud Services Platform V1.0.1 (迪信通雲服務平台V1.0.1) | Beijing Shengduo Trading Ltd. (北京勝多商貿有限責任公司) | 2013SR117374 | 2013.10.01 | 2013.11.01 | Original acquisition |
| Pocket Dixintong Mobile Phone Client Software V1.0.0 (口袋迪信通手機客戶端軟件V1.0.0) | Beijing Shengduo Trading Ltd. (北京勝多商貿有限責任公司) | 2013SR117487 | 2013.10.01 | 2013.11.01 | Original acquisition |
| Dixintong Goods Demand Planning System 1.0 (迪信通要貨計劃系統1.0) | Jiangsu Shengduo Technology & Trading Co., Ltd. (江蘇勝多科貿有限責任公司) | 2013SR145801 | 2013.11.13 | 2013.12.13 | Original acquisition |

| Software | Copyright owner | Registration number | Publication date | Registration date | Way of acquisition |
|---|---|---|---|---|---|
| Contract System (Mobile Phone Version) 1.0 (手機版合約系統1.0) | Jiangsu Shengduo Technology & Trading Co., Ltd. (江蘇勝多科貿有限責任公司) | 2013SR145799 | 2013.11.13 | 2013.12.13 | Original acquisition |
| Accessories Store Software 1.0 (配件商場軟件1.0) | Jiangsu Shengduo Technology & Trading Co., Ltd. (江蘇勝多科貿有限責任公司) | 2013SR161640 | 2013.12.19 | 2013.12.30 | Original acquisition |
| Pocket Dixintong Management Information System 1.0 (口袋迪信通管理信息系統1.0) | Jiangsu Shengduo Technology & Trading Co., Ltd. (江蘇勝多科貿有限責任公司) | 2013SR162673 | 2013.12.18 | 2013.12.31 | Original acquisition |
| Di Cloud Service Website System V1.0.1 (迪雲雲服務網站系統V1.0.1) | Jiangsu Shengduo Technology & Trading Co., Ltd. (江蘇勝多科貿有限責任公司) | 2013SR162523 | 2013.12.17 | 2013.12.30 | Original acquisition |

### *(b) Trademarks*

*Self-owned Registered Trademarks*

As at the Latest Practicable Date, the following are trademarks (see section headed "Business") that we have been granted in the PRC that are material in relation to our Company's business:

| Trademark | Applicant | Application number | Class | Validity period |
|---|---|---|---|---|
| 迪信通 | The Company | 3281647 | 9 | Feb 28, 2004 – Feb 27, 2014 |
| 迪信通 | The Company | 3281646 | 35 | April 14, 2004 – April 13, 2014 (already extended to April 13, 2024) |
| 迪信通 | The Company | 5183964 | 9 | May 21, 2010 – May 20, 2020 |

| Trademark | Applicant | Application number | Class | Validity period |
|---|---|---|---|---|
| 迪信通 | The Company | 5183965 | 35 | June 7, 2009 – June 6, 2019 |
| 迪信通 D.PHONE | The Company | 5555708 | 35 | March 14, 2010 – March 13, 2020 |
| 迪信通 D.PHONE | The Company | 5555709 | 9 | Feb 21, 2011 – Feb 20, 2021 |
| D.PHONE | The Company | 5555711 | 35 | Oct 7, 2009 – Oct 6, 2019 |
| D.PHONE | The Company | 5555712 | 9 | July 28, 2009 – July 27, 2019 |
| 迪信通 D.PHONE | The Company | 7092926 | 35 | Nov 28, 2010 – Nov 27, 2020 |
| | Shanghai Digitone | 6610987 | 35 | Sep 7, 2010 – Sep 6, 2020 |
| | Shanghai Digitone | 6610988 | 9 | May 7, 2010 – May 6, 2020 |

### *(c) Domain Names*

As at the Latest Practicable Date, we have a total of nine domain names which are detailed as follows:

| No. | Domain Name | Registered Proprietor | Expiry Date |
|---|---|---|---|
| 1 | dixintong.com . . . . . . | the issuer | 2015.03.06 |
| 2 | djm518.com.cn . . . . . | the issuer | 2017.12.11 |
| 3 | djm518.cn . . . . . . . . . | the issuer | 2017.12.11 |
| 4 | djm518.com. . . . . . . . | the issuer | 2017.12.03 |
| 5 | dxtmobile.com . . . . . . | the issuer | 2014.11.21 |
| 6 | dxtmobile.cn . . . . . . . | the issuer | 2014.11.21 |
| 7 | dxtmobile.com.cn. . . . | the issuer | 2014.11.21 |
| 8 | di-yun.cn . . . . . . . . . . | the issuer | 2016.03.13 |
| 9 | di-yun.com . . . . . . . . | the issuer | 2016.03.05 |

## 3. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

### A. Directors and Supervisors

#### *(a) Disclosure of Interest*

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), as far as our Directors are aware, the following persons will have an interest or short position in the shares, underlying shares or debentures of our Company or of any of its associated corporations within the meaning of Part XV of the SFO which (i) will have to be notified to our Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules, in each case once the H Shares are listed on the Stock Exchange. For this purpose, the relevant regulatory provisions as mentioned above shall be deemed to apply to the Supervisors to the same extent as they apply to the Directors:

| Name of Director | Nature of Interest | Number of Domestic Shares | Approximate percentage of shareholding |
|---|---|---|---|
| Mr. Liu Donghai . . . . . . . | Interest of controlled corporation | 312,700,000 | 46.90% |
| Mr. Liu Songshan . . . . . . | Interest of controlled corporation | 312,700,000 | 46.90% |
| Ms. Liu Wencui. . . . . . . . | Interest of controlled corporation | 320,200,000 | 48.03% |
| Ms. Liu Hua. . . . . . . . . . | Interest of controlled corporation | 312,700,000 | 46.90% |

***(b) Particulars of Service Contracts***

Each of our executive Directors and non-executive Directors, has entered into a service contract with our Company on June 8, 2014. The principal particulars of these service agreements are (a) for a term of three years commencing from the Listing Date, and (b) are subject to termination in accordance with their respective terms. The service agreements may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations.

Each of our Supervisors has entered into a contract in respect of, among others, compliance of relevant laws and regulations, observations of the Articles of Association and provision on arbitration with our Company on June 8, 2014.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to enter into a service contract with us (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

***(c) Directors' and Supervisors' Remuneration***

For the three years ended December 31, 2011, 2012 and 2013, the aggregate amount of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind (if applicable) paid by us to our Directors were approximately RMB2,394,000, RMB2,715,000 and RMB2,547,000 respectively. Save as disclosed under Note 10 to the financial information in the Accountants' Report set out in Appendix I of this Prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the three years ended December 31, 2011, 2012 and 2013.

Under the current arrangements, our Directors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2014 under arrangement in force as of the date of this Prospectus which is expected to be approximately RMB2,360,000 in aggregate.

Under the current arrangements, our Supervisors will be entitled to receive compensation (including remuneration and benefits in kind) from our Company for the year ending December 31, 2014 under arrangement in force as of the date of this Prospectus which is expected to be approximately RMB237,200 in aggregate.

### B. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering at the mid-point of the Offer Price range, the following persons will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

| Name of Shareholder | Nature of Interest | Number of Shares | Percentage of shareholding |
|---|---|---|---|
| Mr. Liu Donghai | Interest of controlled corporation | 312,700,000 | 46.90% |
| Mr. Liu Songshan | Interest of controlled corporation | 312,700,000 | 46.90% |
| Ms. Liu Wencui | Interest of controlled corporation | 320,200,000 | 48.03% |
| Ms. Liu Hua | Interest of controlled corporation | 312,700,000 | 46.90% |
| Ms. Liu Yongmei | Interest of controlled corporation | 312,700,000 | 46.90% |
| Feng Yong Tai | Beneficial owner | 211,400,000 | 31.70% |
| Di Er Tong | Beneficial owner | 101,300,000 | 15.19% |
| Rong Feng Tai | Beneficial owner | 7,500,000 | 1.12% |
| 3i | Beneficial owner | 87,100,000 | 13.06% |
| 3i Group plc | Interest in a controlled corporation | 87,100,000 | 13.06% |
| 3i Nominees Limited | Interest in a controlled corporation | 87,100,000 | 13.06% |
| 3i Asia Pacific 2004-06 LP | Interest in a controlled corporation | 87,100,000 | 13.06% |
| 3i Investment GP Limited | Interest in a controlled corporation | 87,100,000 | 13.06% |
| CDH | Beneficial owner | 71,250,000 | 10.69% |
| CDH Mobile Limited | Interest in a controlled corporation | 71,250,000 | 10.69% |
| CDH China Growth Capital Fund II, L.P. | Interest in a controlled corporation | 71,250,000 | 10.69% |
| CDH China Growth Capital Holdings Company Limited | Interest in a controlled corporation | 71,250,000 | 10.69% |
| China Diamond Holdings III Limited | Interest in a controlled corporation | 71,250,000 | 10.69% |

### C. Personal Guarantees

Save as disclosed in "Relationship with our Controlling Shareholders" section of this Prospectus, our Directors and Supervisors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

### D. Agency Fees or Commissions Paid or Payable

Save as disclosed in the section headed "Underwriting" in this Prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this Prospectus.

### E. Related Party Transactions

During the two years preceding the date of this Prospectus, we have engaged in the material related party transactions as described in Note 36 to the financial information in the Accountants' Report set out in Appendix I of this Prospectus.

### F. Disclaimers

Save as disclosed above this Appendix in this Prospectus:

(a) none of our Directors, Supervisors or chief executive of our Company has any interests and short positions in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors and Listed Companies to be notified to us and the Stock Exchange, in each case once our H Shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;

(b) in connection with the Underwriting Agreements, none of our Directors or Supervisors nor any of the parties listed in the paragraph headed "Qualification of experts" of this Appendix is interested in our promotion, or in any assets which have, within the two years immediately preceding the issue of this Prospectus, been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;

(c) none of our Directors or Supervisors is a director or employee of a company which is expected to have an interest in the Shares falling to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once our H Shares are listed on the Stock Exchange; in connection with the Underwriting Agreements, none of our Directors or Supervisors nor any of the parties listed in paragraph headed "Qualification of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our business;

(d) in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed "Qualification of experts" of this Appendix: (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities; and

(e) none of our Directors or Supervisors or their respective associates or any Shareholders of our Company (who to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in our five largest suppliers or our five largest customers.

## 4. OTHER INFORMATION

### A. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall upon us.

### B. Indemnity

Our Controlling Shareholders entered into a deed of indemnity (the "**Deed of Indemnity**") with and in favour of our Company on June 8, 2014, to give certain joint and several indemnities in favour of the Company in respect of, among other matters:

(a) any duty which is or hereafter becomes payable by any member of the Group by virtue of section 35 of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world or section 43 of the Estate Duty Ordinance or legislation similar thereto in Hong Kong or any part of the world on or before the Listing Date; and

(b) tax liabilities (including all fines, penalties, costs, charges, liabilities, expenses and interests incidental or relating to taxation) which might be payable by any member of the Group in respect of any income, profits or gains, earned, accrued or received on or before the Listing Date.

Our Controlling Shareholders are under no liability under the Deed of Indemnity in respect of any taxation, among other matters:

(a) to the extent that full provision or allowance has been made for such taxation in the Accountants' Report set out in Appendix I to this Prospectus, for each of the three years ended December 31, 2011, 2012 and 2013, respectively;

(b) the liability for such taxation is caused by the act of omission of, or transaction voluntarily effected by, any member of the Group which is/are carried out or effected otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Listing Date or carried out or entered into pursuant to a legally binding commitment after the Listing Date; or

(c) any provision or reserve made for such taxation in the Accountants' Report set out in Appendix I to this Prospectus for each of the three years ended December 31, 2011, 2012 and 2013 respectively which is finally established to be an over-provision or an excessive reserve.

Under the deed of indemnity, our Controlling Shareholders have also undertaken to indemnify, on a joint and several basis, any member of the Group against all claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines suffered or incurred in connection with:

(a) the prior operation of the Dphone Market. See "Business – Legal and Administrative Proceedings and Compliance";

(b) the payment of social insurance and housing funds for employees of the Company and each other member of the Group required under PRC laws and regulations. See "Business – Employees";

(c) the obtaining of the relevant approvals from the competent authorities of the Ministry of Commerce of the PRC. See "Business – Legal and Administrative Proceedings and Compliance";

(d) the leased properties of the Company and each other member of the Group. See "Business – Properties"; and

(e) the reducing of the number of relevant dispatched employees. See "Business – Employees".

### C. Litigation

Save as disclosed in this Prospectus, as of the Latest Practicable Date, our Company is not involved in any material litigation, arbitration or administrative proceedings. Save as disclosed in this Prospectus, so far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

### D. Joint Sponsors

The Joint Sponsors has declared their independence pursuant to Rule 3A.07 of the Listing Rules. The Joint Sponsors have made an application on our behalf to the Listing Committee for listing of, and permission to deal in, our H Shares, including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

We have entered into engagement agreements with the Joint Sponsors respectively, pursuant to which we agreed to pay US$1.0 million to the Joint Sponsors to act as the sponsors to our Company in the Global Offering.

### E. Preliminary Expenses

Our estimated preliminary expenses (excluding commissions to be payable to the Underwriters, the SFC transaction levy and the Stock Exchange trading fee) are approximately RMB43.6 million. All preliminary expenses and all expenses relating to the Global Offering will be borne by the Company.

## F. Qualification of Experts

The qualifications of the experts who have given their opinion or advice which are contained in, or referred to in, this Prospectus, are as follows:

| Name | Qualification |
|---|---|
| Citigroup Global Markets Asia Limited | Licensed to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on future contracts), type 6 (advising on corporate finance), and type 7 (providing automated trading services) of the regulated activities under the SFO |
| UBS Securities Hong Kong Limited | Licensed to conduct type 1 (dealing in securities), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO |
| Ernst & Young | Certified public accountants |
| Zhong Lun Law Firm | PRC legal advisers |
| SINO | Industry consultant |
| HLB | Internal control consultant |

## G. No Material Adverse Change

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position since December 31, 2013.

## H. Binding Effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## I. Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## J. Miscellaneous

Save as disclosed in this Prospectus,

(a) within the two years preceding the date of this Prospectus, we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;

(b) no share or loan capital of our Company, if any, is under option or is agreed conditionally or unconditionally to be put under option;

(c) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;

(d) the Company has no outstanding convertible debt securities or debentures;

(e) within the two years immediately preceding the date of this Prospectus, no commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any capital of the Company;

(f) there is no arrangement under which future dividends are waived or agreed to be waived;

(g) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months; and

(h) none of the equity and debt securities of our Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

## K. Consents

Each of the experts as referred to in the paragraph headed "Qualification of experts" of this Appendix has given, and has not withdrawn, their respective written consents to the issue of this Prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

Save as disclosed in this Prospectus, none of the experts named above has any shareholding interests in any member of our Group or the right (other than the penal provisions) of sections 44A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## L. Promoters

Promoters of the Company are Feng Yong Tai, Di Er Tong, 3i, CDH, Rong Feng Tai and Crown Flame.

Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus, no cash, securities or other interest have been paid, allotted or given to the above promoters in connections with the Hong Kong Public Offering or related transactions in this Prospectus.

## DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section entitled "4. Other Information – K. Consents" in Appendix VI to this Prospectus and copies of the material contracts referred to in the section entitled "2. Further Information about Our Business – A. Summary of our Material Contracts" in Appendix VI to this Prospectus.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 27th Floor, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

(a) the Articles of Association;

(b) the accountants' report on our Group prepared by Ernst & Young, the text of which is set out in Appendix I to this Prospectus;

(c) the report on the unaudited pro forma financial information prepared by Ernst & Young, the text of which is set out in Appendix II to this Prospectus;

(d) the material contracts referred to in the paragraph headed "Summary of our Material Contracts" in Appendix VI to this Prospectus;

(e) the service contracts referred to in the paragraph headed "Particulars of Service Contracts" in Appendix VI to this Prospectus;

(f) the written consents referred to in the paragraph headed "Consents" in Appendix VI to this Prospectus;

(g) the PRC legal opinions issued by Zhong Lun Law Firm, the PRC legal advisors of the Company; and

(h) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation.

迪信通

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