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

ANNUAL REPORT 2016

Contents

COMPANY PROFILE

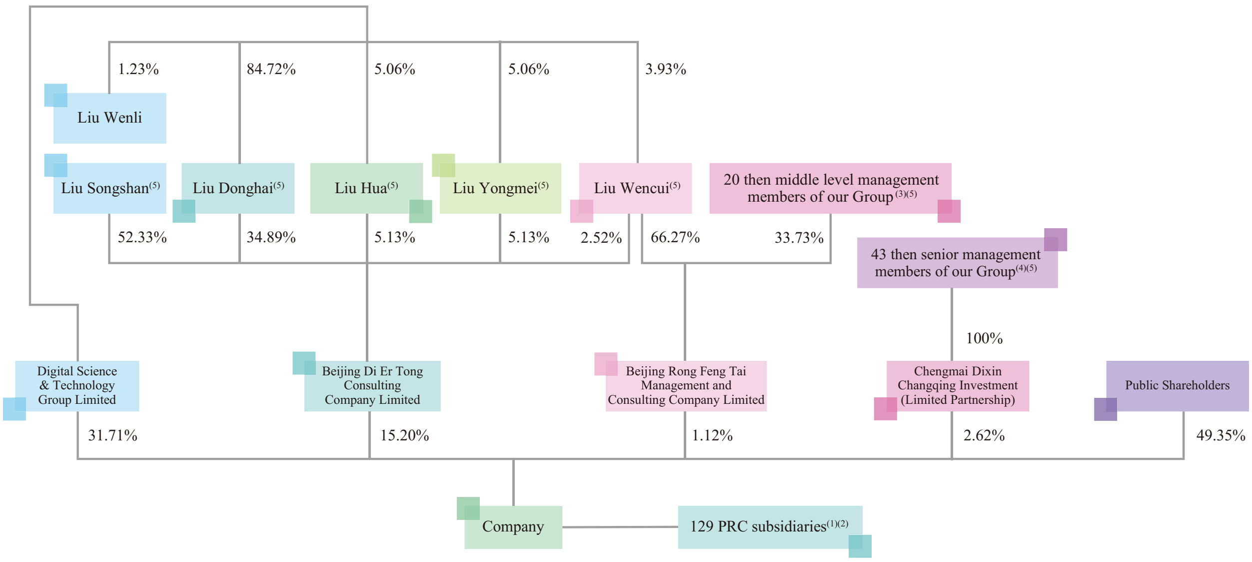
Beijing Digital Telecom Co., Ltd. (the "**Company**") was founded in 2001 with more than 100 subsidiaries (collectively, the "**Group**") and nearly 1,700 independently operated outlets and franchised outlets covering 20 provinces and four municipalities in China as at the end of 2016. Since its establishment, the Company has been focusing on the sales of mobile telecommunication devices and the provision of related services. With its extensive offline sales channels and online sales platform, the Company provides comprehensive services to its customers, ranging from the sales of mobile phone hardware and accessories, provision of value-added services for software, and provision of personalized services and after-sales services for mobile phones.

Since 2016, the Group has commenced to expand into overseas markets and finished the foundation of market layout in Southeast Asian, Indian and African markets. In the future, the Group will gradually step up its global presence.

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

The Company has been listed in Hong Kong (06188. HK) since 2014.

The corporate structure of our Group as at December 31, 2016 is set out as follows:



Notes:

(1) As of the latest practicable date, 112 PRC subsidiaries are wholly-owned by our Company while 17 other PRC subsidiaries are not wholly-owned by our Company. The shareholding of these 17 non-wholly-owned PRC subsidiaries is set out below:

(i) 60% of the equity interests of Henan Digital Trading Company Limited (河南迪信通商貿有限公司) is held by us and the remaining 40% is held by Mr. Gao Chunlin, who is an independent third party. The wholly-owned subsidiaries of Henan Digital Trading Company Limited are: Zhoukou Digital Trading Company Limited (周口迪信通商貿有限公司), Xuchang Yidiantong Trading Company Limited (許昌億點通商貿有限公司), Sanmenxia Chaoxunfa Trading Company Limited (三門峽超訊發商貿有限公司), Gansu Digital Trading Company Limited (甘肅迪信通商貿有限公司), Guangzhou Digital Communication Company Limited (廣州迪信通通訊有限公司), Xinyang Beixin Kemao Company Limited (信陽貝信科貿有限公司), and Jiangxi Chuangfa Trading Company Limited (江西創發商貿有限責任公司).

(ii) 52% of the equity interests of Sichuan Soujizhijia Electronics Technology Company Limited (四川搜機之家電子科技有限公司) is held by us and the remaining 48% is held by Shanghai Wangci Digital Technology Company Limited (上海網賜數碼科技有限公司) with 40% and Mr. Yaobo with 8%, which are independent third parties.

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

(iv) 72% of the equity interests of New Idea Investment Pte Ltd is held by us and the remaining 28% is held by Zhongxing Telecommunication Equipment Corporation (中興通訊股份有限公司) with 20% and Shanghai Wisdomont Pushang Investment Centre (Limited Partnership) with 8% respectively.

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

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

(vii) 70% of the equity interests of Shenzhen DIGITONE Investment Holdings Co., Limited (深圳迪信通投資控股有限公司) is held by us and the remaining 30% is held by Shenzhen Shang Zhi Chuang Zhan Investment Holding Co., Limited (深圳商置創展投資控股有限公司), which is an independent third party holding 75% of the equity interests of our subsidiary, Yunfu SCI Commercial Properties Co., Ltd. (雲浮深商投商用置業有限公司) and 80% of the equity interests of our subsidiaries, Shenzhen DIGITONE Cultural Originality Company Limited (深圳迪信通文化創意有限公司).

(viii) 86% of the equity interests of Shenyang Dichuang Enterprise Management Company Limited (瀋陽迪創企業管理有限公司) is held by us and the remaining 14% is held by Mr.Yao Guangyuan, Mr. Li Jiashun, Mr Sun Gang and Ms. Peng Wenqiong, all of whom are independent third parties.

(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 129 subsidiaries spreading across four municipalities and 20 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, 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, Qi Feng, Zhou Qing, Bai Ren, Huang Jianhui and Li Dongmei are members of senior management of our Company. Among them, Feng Lei, Pang Hong, Wang Zhifeng and Wang Zhenfeng 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 (the "**Shares**") are as follows: (a) Liu Donghai, chairman and executive Director; (b) Liu Yajun, vice chairman and executive Director; (c) Liu Songshan, vice chairman and executive Director; (d) Liu Wencui, executive Director; (e) Liu Hua, executive Director; (f) Jin Xin, general manager; (g) Qi Feng, vice general manager; (h) Zhou Qing, vice general manager; (i) Bai Ren, vice general manager; (j) Huang Jianhui, vice general manager; and (k) Li Dongmei, secretary to the Board of Directors, (the "**Board**"), joint company secretary and chief legal officer. Each of the above Directors and members of the senior management undertakes that, upon the Listing, pursuant to the PRC Company Law, he/she will continuously declare to the Company his/her direct or indirect interest in the Shares of the Company, and will comply with the following restrictions: (1) he/she shall not transfer his/her respective direct or indirect interests in the Shares within one year after Listing; (2) he/she shall not transfer more than 25% of his/her respective direct or indirect interests in the Shares each year during the tenure; and (3) he/she will not transfer any of his/her respective direct or indirect interests in the Shares within six months after his/her departure from the Company. If the undertaking is breached, each of the above Directors 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 129 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 year ended December 31, 2016, the entire equity interests of Beijing Dphone were 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 year ended December 31, 2016, the entire equity interests of Shanghai Dixin were held by our Company.

Shanghai Dixin is primarily 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 year ended December 31, 2016, the entire equity interests of Zhengzhou Dphone were 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 year ended December 31, 2016, the entire equity interests of Henan Dphone were held by our Company.

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

Henan Dphone Trading Co., Ltd.("**Henan Dphone Trading**") was established on January 12, 2011 in the PRC with a registered capital of RMB10 million. During the year ended December 31, 2016, 60% of the equity interests of Henan Dphone Trading were held by the Company and the remaining 40% is held by Mr. Gao Chunlin, who is an independent third party.

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

Sichuan Yijialong Communication Technology Chain Co., Ltd ("**Sichuan Yijialong**") was established on June 23, 2006 in the PRC with a registered capital of RMB5 million. During the year ended December 31, 2016, the entire equity interests of Sichuan Yijialong were held by the Company.

Sichuan Yijialong is primarily engaged in the sales and maintenance of telecommunication devices.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Qi Xiangdong

Independent Non-executive Directors

Mr. Lv Tingjie
Mr. Bian Yongzhuang
Mr. Vincent Man Choi, Li

Supervisors

Ms. Xiao Hong
Mr. Li Wanlin
Mr. Hu Yuzhong

JOINT COMPANY SECRETARIES

Ms. Li Dongmei
Ms. Ng Sau Mei

AUTHORIZED REPRESENTATIVES

Mr. Liu Yajun
Ms. Li Dongmei

AUDIT COMMITTEE

Mr. Vincent Man Choi, Li *(Chairman)*
Mr. Lv Tingjie
Mr. Bian Yongzhuang

NOMINATION COMMITTEE

Mr. Lv Tingjie *(Chairman)*
Mr. Bian Yongzhuang
Mr. Liu Songshan

REMUNERATION AND ASSESSMENT COMMITTEE

Mr. Bian Yongzhuang *(Chairman)*
Mr. Vincent Man Choi, Li
Ms. Liu Hua

STRATEGY COMMITTEE

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

REGISTERED OFFICE

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

HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LEGAL ADVISERS

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

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

AUDITOR

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

STOCK CODE

6188

COMPANY'S WEBSITE

www.dixintong.com

PRINCIPAL BANKERS

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

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

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

Citibank (China) Co., Ltd.
(Beijing Branch)
17/F, Excel Centre
6 Wudinghou Avenue
Xicheng District
Beijing
PRC

FINANCIAL HIGHLIGHTS

Items	For the year ended December 31, 2016	2015	2014	2013	2012
Consolidated Statement of Profit or Loss					
Revenue	**15,177,171**	15,830,720	14,358,609	12,812,024	8,802,689
Gross Profit	**1,855,680**	2,034,117	1,976,592	1,737,962	1,463,000
Profit and total comprehensive income for the year	**357,076**	356,723	318,360	274,192	249,802
Attributable to:					
Owners of the parent	**356,410**	357,062	318,133	266,441	252,121
Non-controlling interests	**666**	(339)	227	7,751	(2,319)
Earning per share attributable to ordinary equity holders of the parent – Basic and diluted (RMB)	**0.53**	0.54	0.55	0.53	0.50
Consolidated Balance Sheet					
Non-current assets	**308,809**	298,712	247,947	250,853	212,045
Current assets	**7,011,502**	6,848,862	5,199,352	4,357,137	3,449,048
Total assets	**7,320,311**	7,147,574	5,447,299	4,607,990	3,661,093
Current liabilities	**4,150,632**	4,301,072	3,026,096	3,164,467	2,298,908
Total assets less current liabilities	**3,169,679**	2,846,502	2,421,203	1,443,523	1,362,185
Non-controlling interests	**59,983**	45,216	21,669	19,868	4,971
Net assets	**3,109,696**	2,753,286	2,399,534	1,423,655	1,357,214
Share Capital	**666,667**	666,667	666,667	500,000	500,000
Other reserves	**2,443,029**	2,086,619	1,732,867	923,655	857,214
Equity attributable to owners of the parent	**3,109,696**	2,753,286	2,399,534	1,423,655	1,357,214
Consolidated Statement of Cash Flow					
Net cash flows from/(used in) operating activities	**460,073**	(119,157)	(790,582)	(15,297)	(79,342)
Net cash flows used in investment activities	**(163,669)**	(174,334)	(81,790)	(107,872)	(65,085)
Net cash flows from/(used in) financing activities	**44,262**	400,037	905,731	(104,627)	382,081
Net increase/(decrease) in cash and cash equivalents	**340,666**	106,546	33,359	(227,796)	237,654
Cash and cash equivalents at beginning of year	**441,844**	335,298	301,939	529,735	292,081
Effect of foreign exchange rate changes, net	**574**	–	–	–	–
Cash and cash equivalents at end of year	**783,084**	441,844	335,298	301,939	529,735

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to announce the annual results of the Company for the year ended December 31, 2016. The total revenue of the Company decreased by 4.13% to RMB15,177,170,530. The net profit for the year of 2016 amounted to RMB357,075,940, representing a growth rate of 0.10%.We recorded a decrease in the sales volume to 10,687,380 units in 2016, a decrease by 99,330 units or 0.92%, as compared with that of last year.

Recently, the driving force of the growth in the PRC market has changed from growth of sales to the purchase of new models, while emerging markets such as India saw blowout growth in smart handsets market. Since 2016, in order to create more revenue streams, we have commenced the globalization of our business and have finished the foundation of market layout in Southeast Asia and Africa markets. In the future, we shall also steadily expand our presence from India and Nigeria to their peripheral regions. We shall take advantage of our valuable experience in management of distribution channels and manufacturing resources to increase our market shares in overseas markets.

During 2016, with regard to our retailing channels, we continued opening more quality physical outlets. Through the promotion via our official website and the third party internet platforms, we invited consumers to experience our offline services in our physical outlets, including purchase of our mobile handsets, seeking advice on contracting with mobile carriers, software installation, mobile phone insurance, after-sales repair, after-sales exchange of goods and other member's privilege services, so as to propel the sustainable synergy for online and offline integration. With regard to the quality of our services, we enriched the concept of "full-hearted loyalty" and saw our quality services as our core competitiveness. By extending the best services that are beyond the customers' expectations, we have built solid word of mouth business growth and increased customer loyalty, which in turn translated into sustainable growth of our sales volume and profits. With regard to our cooperation with our business partners, we have increased our friendly cooperation with domestic and foreign mobile phone manufacturers in order to procure more and better products to drive up our profitability. At the same time, we carried out closer cooperation with the carriers, based on our respective competitive edges, to open shops and outlets and provide such services as commissioned operation and advisory in more cities. With regard to business innovation, we have introduced such new services as mobile phone recycling, mobile phone quick repair service, consumer finance and traffic operation, which have already increased the source of profit for the Company and at the same time brought pleasure consumption experience to our customers.

Looking ahead for 2017, we shall continue maintaining our industry's leading position in the domestic market and actively expand into overseas markets through our strong retail network and sales capabilities, strengthened innovation in profit model, broadening industrial chain, and closer cooperation with other industries. In 2017, we shall put our focus on establishing the "ultimate smart hardware experience center" and engage domestic and foreign well-known interior designers and retail experts for new store design and decoration in our offline stores, launch a series of innovative quality smart products, and put full effort on promoting the use of smart retail analysis systems. We have taken a great step to begin our journey as a smart store.

Finally, I, on behalf of the Board of Directors of the Company, would like to extend my heartfelt gratitude to our Shareholders, the community and our friends for their trust and support!

Liu Donghai
Chairman

MANAGEMENT DISCUSSION & ANALYSIS

I. BUSINESS REVIEW

For the year ended December 31, 2016, the Group sold 10,687,380 mobile handsets, representing a decrease of 99,330 sets or 0.92% compared with 10,786,710 sets for the same period last year. Operating revenue for the year of 2016 amounted to RMB15,177,170,530, representing a decrease of RMB653,549,420 or 4.13% from RMB15,830,719,950 for the same period last year. Net profit for the year of 2016 amounted to RMB357,075,940, representing an increase of RMB352,560 or 0.10% from RMB356,723,380 for the same period last year.

II. FINANCIAL POSITION AND OPERATING RESULTS

(I) Overview

For the year ended December 31, 2016, the Group recognized net profit of RMB357,075,940, representing an increase of RMB352,560 or 0.10% from RMB356,723,380 for the same period in 2015. Net profit attributable to the owners of the parent amounted to RMB356,409,590, representing a decrease of RMB652,570 or 0.18% from RMB357,062,160 for the same period in 2015.

(II) Consolidated comprehensive income statement

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

Items	**For the year ended December 31,**			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Operating revenue	15,830,719.95	**15,177,170.53**	(653,549.42)	(4.13%)
Cost of sales	(13,796,602.85)	**(13,321,490.63)**	475,112.22	(3.44%)
Gross profit	2,034,117.10	**1,855,679.90**	(178,437.20)	(8.77%)
Other income and gains	85,483.37	**90,036.41**	4,553.04	5.33%
Selling and distribution expenses	(1,141,451.80)	**(1,043,638.63)**	97,813.17	(8.57%)
Administrative expenses	(341,486.83)	**(319,673.20)**	21,813.63	(6.39%)
Other expenses	(39,036.86)	**(27,113.06)**	11,923.80	(30.54%)
Finance costs	(168,447.89)	**(111,201.22)**	57,246.67	(33.98%)
Investment gains	1,183.36	**(2,473.07)**	(3,656.43)	(308.99%)
Profit before tax	430,360.45	**441,617.13**	11,256.68	2.62%
Income tax expense	(73,637.07)	**(84,541.19)**	(10,904.12)	14.81%
Total net profit for the year after taxation	356,723.38	**357,075.94**	352.56	0.10%
Attributable to owners of the parent	357,062.16	**356,409.59**	(652.57)	(0.18%)
Attributable to minority interests	(338.78)	**666.35**	1,005.13	(296.69%)

1. *Operating revenue*

Operating revenue of the Group for the year ended December 31, 2016 amounted to RMB15,177,170,530, representing a decrease of RMB653,549,420 or 4.13% from RMB15,830,719,950 for the same period in 2015. Decrease in revenue was mainly driven by the decrease in three areas as follows: (1) wholesale sales of high-priced handsets such as Samsung, Apple and Huawei; (2) market management fees from suppliers and income from subletting counters under other service fee income; and (3) service income from mobile carriers. Our sales of mobile telecommunications devices and accessories include (i) sales in our retail business including our independently operated outlets and online channels; (ii) sales in our franchise business; and (iii) sales in our wholesale business. Revenue from our retail business includes revenue from sales of mobile telecommunications devices and accessories in our independent stores and store-in-store outlets, stores in cooperation with the mobile carriers, and online sales platforms. Revenue from our franchise business includes revenue from sales of mobile telecommunications devices and accessories to our franchisees. Revenue from our wholesale business includes revenue from sales of mobile telecommunications devices and accessories we distribute to mobile carriers and other third-party retailers. 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; and (iv) repair and maintenance fees.

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

Items	For the year ended December 31,					
	2015		**2016**		Change	Percentage of change
	RMB'000	% of total revenue	**RMB'000**	**% of total revenue**	RMB'000	
(1) **Sales of mobile telecommunications devices and accessories**	15,088,122.49	95.31%	**14,676,962.19**	**96.70%**	(411,160.30)	(2.73%)
Including: Sales from retail of mobile telecommunications devices and accessories	8,423,134.89	53.21%	**8,426,304.88**	**55.52%**	3,169.99	0.04%
Sales of telecommunications devices and accessories to franchisees	2,743,507.28	17.33%	**2,818,234.01**	**18.56%**	74,726.73	2.72%
Wholesale of mobile telecommunications devices and accessories	3,921,480.32	24.77%	**3,432,423.30**	**22.62%**	(489,057.02)	(12.47%)
(2) **Service income from mobile carriers**	593,035.44	3.75%	**383,604.85**	**2.53%**	(209,430.59)	(35.32%)
(3) **Other service fee income**	149,562.02	0.94%	**116,603.49**	**0.77%**	(32,958.53)	(22.04%)
Total	15,830,719.95	100.00%	**15,177,170.53**	**100.00%**	(653,549.42)	(4.13%)

The Group's service income from mobile carriers amounted to RMB383,604,850 for the year ended December 31, 2016, representing a decrease of RMB209,430,590 or 35.32% from RMB593,035,440 for the same period in 2015. Decrease in the service income from mobile carriers was caused by the decrease of subsidies provided by the major carriers for selling mobile phones to the end users in 2016.

The following table sets forth our service income from each of the major mobile carriers for 2016 and 2015:

Items	For the year ended December 31,					
	2015		**2016**		Change	Percentage of change
	RMB'000	% of total revenue	**RMB'000**	**% of total revenue**	RMB'000	
China Mobile	280,223.56	47.25%	**168,109.81**	**43.82%**	(112,113.75)	(40.01%)
China Unicom	71,737.63	12.10%	**47,332.27**	**12.34%**	(24,405.36)	(34.02%)
China Telecom	236,207.97	39.83%	**168,109.92**	**43.83%**	(68,098.05)	(28.83%)
Dixintong Telecommunications Services	4,866.28	0.82%	**52.85**	**0.01%**	(4,813.43)	(98.91%)
Total	593,035.44	100.00%	**383,604.85**	**100.00%**	(209,430.59)	(35.32%)

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

2. *Cost of sales*

The Group's cost of sales for the year ended December 31, 2016 amounted to RMB13,321,490,630, representing a decrease of RMB475,112,220 or 3.44% from RMB13,796,602,850 for the same period in 2015, which was mainly due to the decrease in cost of sales in tandem with the decrease in operating revenue.

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

Items	For the year ended December 31,					
	2015		**2016**		Change	Percentage of change
	RMB'000	% of total costs	**RMB'000**	**% of total costs**	RMB'000	
(1) Sales of mobile telecommunications devices and accessories	13,703,093.71	99.32%	**13,261,877.31**	**99.55%**	(441,216.40)	(3.22%)
Including: Sales from retail of mobile telecommunications devices and accessories	7,192,296.96	52.13%	**7,139,365.48**	**53.59%**	(52,931.48)	(0.74%)
Sales of telecommunications devices and accessories to franchisees	2,684,764.85	19.46%	**2,761,591.15**	**20.73%**	76,826.30	2.86%
Wholesale of mobile telecommunications devices and accessories	3,826,031.90	27.73%	**3,360,920.68**	**25.23%**	(465,111.22)	(12.16%)
(2) Service income from mobile carriers	89,100.62	0.65%	**56,944.13**	**0.43%**	(32,156.49)	(36.09%)
(3) Other service fee income	4,408.52	0.03%	**2,669.19**	**0.02%**	(1,739.33)	(39.45%)
Total	13,796,602.85	100.00%	**13,321,490.63**	**100.00%**	(475,112.22)	(3.44%)

3. *Gross profit and gross profit margin*

Gross profit represents operating revenue net of cost of sales. The Group's gross profit for the year ended December 31, 2016 amounted to RMB1,855,679,900, representing a decrease of RMB178,437,200, or 8.77%, from RMB2,034,117,100 for the same period in 2015. Our overall gross profit margins for the year ended December 31, 2015 and 2016 were 12.85% and 12.23%, respectively. Decrease in our overall gross profit margin as compared with 2015 was primarily driven by (i) the decrease in gross profit margin for wholesale of mobile telecommunications devices and accessories for the current period; (ii) a decrease in the percentage of total revenue in service income from mobile carriers with high gross profit and other service fee income for the current period.

Items	For the year ended December 31,							
	2015			**2016**				
	Gross profit RMB'000	% of total gross profit	Gross profit margin	**Gross profit RMB'000**	**% of total gross profit**	**Gross profit margin**	Change RMB'000	**Percentage of change**
(1) Sales of mobile telecommunications devices and accessories	1,385,028.78	68.09%	9.18%	**1,415,084.88**	**76.26%**	**9.64%**	30,056.10	2.17%
Including: Sales from retail of mobile telecommunications devices and accessories	1,230,837.93	60.51%	14.61%	**1,286,939.40**	**69.36%**	**15.27%**	56,101.47	4.56%
Sales of telecommunications devices and accessories to franchisees	58,742.43	2.89%	2.14%	**56,642.86**	**3.05%**	**2.01%**	(2,099.57)	(3.57%)
Wholesale of mobile telecommunications devices and accessories	95,448.42	4.69%	2.43%	**71,502.62**	**3.85%**	**2.08%**	(23,945.80)	(25.09%)
(2) Service income from mobile carriers	503,934.82	24.77%	84.98%	**326,660.72**	**17.60%**	**85.16%**	(177,274.10)	(35.18%)
(3) Other service fee income	145,153.50	7.14%	97.05%	**113,934.30**	**6.14%**	**97.71%**	(31,219.20)	(21.51%)
Total	2,034,117.10	100.00%	12.85%	**1,855,679.90**	**100.00%**	**12.23%**	(178,437.20)	(8.77%)

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

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

Items	**For the year ended December 31,**			
	2015 RMB	**2016 RMB**	**Change** RMB	**Percentage of change**
Sales of mobile handsets (in RMB thousands)	14,348,710.60	**14,032,471.13**	(316,239.47)	(2.20%)
Sales volume (in handsets)	10,786,706.00	**10,687,383.00**	99,323.00	(0.92%)
Average selling price (RMB/per handset)	1,330.22	**1,312.99**	(17.23)	(1.30%)

5. *Other income and gains*

Other income and gains include: (i) interest income; (ii) government grants; (iii) gain on disposal of property, plant and equipment; (iv) gain on foreign exchange; (v) investment gain on disposal of subsidiaries; and (vi) others. The Group's other income and gains for the year ended December 31, 2016 amounted to RMB90,036,410, representing an increase of RMB4,553,040 or 5.33% from RMB85,483,370 for the same period in 2015, which was primarily attributable to increased government grants, increase in interest income and increase in gain on foreign exchange in 2016.

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

Items	For the year ended December 31,			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Interest income	14,693.92	**15,671.05**	977.13	6.65%
Government grants	65,164.88	**67,270.07**	2,105.19	3.23%
Gain on disposal of property, plant and equipment	52.88	**34.74**	(18.14)	(34.30%)
Gain on foreign exchange	–	**1,403.29**	1,403.29	–
Investment gain on disposal of subsidiaries	–	**1.14**	1.14	–
Others	5,571.69	**5,656.12**	84.43	1.52%
Total	85,483.37	**90,036.41**	4,553.04	5.33%

6. *Selling and distribution expenses*

Items	For the year ended December 31,					
	Selling and distribution expenses		% of total expenses			Percentage
	2015	**2016**	2015	**2016**	**Change**	**of change**
	RMB'000	**RMB'000**			RMB'000	
Staff salaries	434,779.58	**455,810.90**	38.09%	**43.68%**	21,031.32	4.84%
Office expenses	21,400.38	**17,398.49**	1.86%	**1.66%**	(4,001.89)	(18.70%)
Travelling expenses	5,697.83	**3,768.31**	0.50%	**0.36%**	(1,929.52)	(33.86%)
Transportation expenses	18,541.51	**15,593.86**	1.62%	**1.49%**	(2,947.65)	(15.90%)
Business entertainment expenses	4,063.27	**3,371.64**	0.36%	**0.32%**	(691.63)	(17.02%)
Communication expenses	3,777.43	**4,310.75**	0.33%	**0.41%**	533.32	14.12%
Rentals and property management expenses	393,283.25	**343,877.76**	34.45%	**32.95%**	(49,405.49)	(12.56%)
Repair expenses	6,466.23	**6,113.07**	0.57%	**0.59%**	(353.16)	(5.46%)
Advertising and promotion expenses	96,542.71	**64,868.07**	8.46%	**6.22%**	(31,674.64)	(32.81%)
Depreciation expenses	6,494.58	**7,862.46**	0.57%	**0.75%**	1,367.88	21.06%
Amortisation of long-term deferred expenses	73,686.12	**42,651.80**	6.46%	**4.09%**	(31,034.32)	(42.12%)
Amortisation of low-cost consumables	4,757.41	**5,819.96**	0.42%	**0.56%**	1,062.55	22.33%
Market management fees	17,613.57	**16,282.92**	1.54%	**1.56%**	(1,330.65)	(7.55%)
Utilities	33,280.33	**36,861.59**	2.92%	**3.53%**	3,581.26	10.76%
Others	21,067.60	**19,047.05**	1.85%	**1.83%**	(2,020.55)	(9.59%)
Total	1,141,451.80	**1,043,638.63**	100.00%	**100.00%**	(97,813.17)	(8.57%)

Total selling and distribution expenses for the year ended December 31, 2016 amounted to RMB1,043,638,630, representing a decrease of RMB97,813,170 or 8.57% from RMB1,141,451,800 for the same period in 2015, which was mainly due to the decrease in rentals and property expenses, advertising and promotion expenses and amortisation of long-term deferred expenses.

Total rentals and property management expenses for the year ended December 31, 2016 amounted to RMB343,877,760, representing a decrease of RMB49,405,490, or 12.56%, from RMB393,283,250 for the same period in 2015. Such decrease was attributable to rental reduction for the outlets and partial sharing of the rents by the carriers.

Total advertising and promotion expenses for the year ended December 31, 2016 amounted to RMB64,868,070, representing a decrease of RMB31,674,640, or 32.81%, from RMB96,542,710 for the same period in 2015. Such decrease was attributable to the increased promotional activities carried out by the handsets manufacturers in line with their opening of more self-owned shops.

Total amortisation of long-term deferred expenses for the year ended December 31, 2016 amounted to RMB42,651,800, representing a decrease of RMB31,034,320 or 42.12%, from RMB73,686,120 for the same period in 2015. Such decrease was attributable to the increased decoration expenses assumed by the handsets manufacturers in line with their opening of more self-owned shops.

7. *Administrative expenses*

Items	For the year ended December 31,					
	Administrative expenses		% of total expenses			Percentage
	2015	**2016**	2015	**2016**	**Change**	**of change**
	RMB'000	**RMB'000**			RMB'000	
Staff salaries	135,296.64	**140,410.64**	39.62%	**43.92%**	5,114.00	3.78%
Tax expenses	7,046.93	**1,790.03**	2.06%	**0.56%**	(5,256.90)	(74.60%)
Office expenses	30,070.07	**24,919.43**	8.82%	**7.80%**	(5,150.64)	(17.13%)
Depreciation expenses	9,992.42	**9,955.00**	2.93%	**3.11%**	(37.42)	(0.37%)
Amortisation of intangible assets	387.56	**612.25**	0.11%	**0.19%**	224.69	57.98%
Amortisation of long-term deferred expenses	2,294.67	**1,459.80**	0.67%	**0.46%**	(834.87)	(36.38%)
Amortisation of low-cost consumables	6,050.50	**5,331.77**	1.77%	**1.66%**	(718.73)	(11.88%)
Travelling expenses	15,935.97	**13,506.55**	4.67%	**4.23%**	(2,429.42)	(15.24%)
Rental and property management fees	13,664.65	**13,594.39**	4.00%	**4.25%**	(70.26)	(0.51%)
Business entertainment expenses	15,474.06	**12,331.71**	4.53%	**3.86%**	(3,142.35)	(20.31%)
Communication expenses	3,612.92	**3,829.44**	1.06%	**1.19%**	216.52	5.99%
Agency fees	17,191.65	**11,276.52**	5.03%	**3.53%**	(5,915.13)	(34.41%)
Transportation expenses	20,156.61	**15,494.18**	5.90%	**4.85%**	(4,662.43)	(23.13%)
Financial institution charges	49,320.83	**53,306.10**	14.44%	**16.68%**	3,985.27	8.08%
Others	14,991.35	**11,855.39**	4.39%	**3.71%**	(3,135.96)	(20.91%)
Total	341,486.83	**319,673.20**	100.00%	**100.00%**	(21,813.63)	(6.39%)

The Group's total administrative expenses for the year ended December 31, 2016 amounted to RMB319,673,200, representing a decrease of RMB21,813,630, or 6.39%, from RMB341,486,830 for the same period in 2015. Such decrease in administrative expenses was primarily attributable to the decrease in office expenses, transportation expenses and business entertainment expenses.

Total office expenses for the year ended December 31, 2016 amounted to RMB24,919,430, representing a decrease of RMB5,150,640, or 17.13%, from RMB30,070,070 for the same period in 2015. Such decrease was primarily attributable to the increasingly tightening expenses and controlling of costs for the year.

Total transportation expenses for the year ended December 31, 2016 amounted to RMB15,494,180, representing a decrease of RMB4,662,430, or 23.13%, from RMB20,156,610 for the same period in 2015. Such decrease was primarily attributable to the increasingly tightening expenses and controlling of costs for the year.

Total business entertainment expenses for the year ended December 31, 2016 amounted to RMB12,331,710, representing a decrease of RMB3,142,350, or 20.31%, from RMB15,474,060 for the same period in 2015. Such decrease was primarily attributable to the increasingly tightening expenses and controlling of costs for the year.

8. *Other expenses*

Other expenses include impairment losses on assets and non-operating expenses. For the years ended December 31, 2015 and 2016, other expenses amounted to RMB39,036,860 and RMB27,113,060, respectively.

Items	For the year ended December 31,			
				Percentage
	2015	**2016**	**Change**	**of change**
	RMB'000	**RMB'000**	RMB'000	
Impairment losses on assets	35,435.49	**23,943.72**	(11,491.77)	(32.43%)
Non-operating expenses	3,601.37	**3,169.34**	(432.03)	(12.00%)
Total	39,036.86	**27,113.06**	(11,923.80)	(30.54%)

The Group's total other expenses for the year ended December 31, 2016 amounted to RMB27,113,060, representing a decrease of RMB11,923,800 or 30.54% from RMB39,036,860 for the same period in 2015. The decrease was mainly attributable to the decrease in impairment losses on assets for the current period, which was mainly attributable to the accelerated collection of the payment by the Group, resulting in the decrease in long-aged receivables for the period.

9. *Finance costs*

Item	For the year ended December 31,			
	Finance costs			**Percentage**
	2015	**2016**	**Change**	**of change**
	RMB'000	**RMB'000**	RMB'000	
Finance costs – interest expenses	168,447.89	**111,201.22**	(57,246.67)	(33.98%)

The Group's total finance costs for the year ended December 31, 2016 amounted to RMB111,201,220, representing a decrease of RMB57,246,670, or 33.98%, from RMB168,447,890 for the same period in 2015. Such decrease in finance costs was primarily attributable to the decrease in our short-term bank borrowings.

10. *Income tax expense*

Our income tax expenses for the stated periods included PRC Enterprise Income Tax ("**EIT**") and deferred income tax. In accordance with the Enterprise Income Tax Implementation Regulations, our PRC subsidiaries have been required to pay tax at an income tax rate of 25% as from January 2008. For the year ended December 31, 2016, the income tax rate of 25% was applicable to all of the Group's PRC subsidiaries except Sichuan Yijialong Communication Technology Chain Co., Ltd. (四川億佳隆通訊連鎖有限公司) and Jiangsu Shengduo Technology Trading Co., Ltd. (江蘇勝多科貿有限責任公司). Sichuan Yijialong Communication Technology Chain Co., Ltd. has been entitled to an income tax rate of 15% since 2012 as a company which is principally in an industry encouraged by the State. Jiangsu Shengduo Technology Trading Co., Ltd. has been entitled to full exemption of EIT for the first two years and 50% reduction for the following three years from April 2014 as a software company encouraged by the State Administration of Taxation. For the years ended December 31, 2015 and 2016, our effective tax rates were 17.11% and 19.14%, respectively. During the year ended December 31, 2016, we have settled the payment of all relevant taxes, and we have not been engaged in any disputes or unresolved tax matters with the taxation authorities.

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

Items	**For the year ended December 31,**			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Income tax in the PRC for the year	106,749.07	**61,548.97**	(45,200.10)	(42.34%)
Deferred tax	(33,112.00)	**22,992.22**	56,104.22	(169.44%)
Total	73,637.07	**84,541.19**	10,904.12	14.81%

The Group's total income tax expense for the year ended December 31, 2016 amounted to RMB84,541,190, representing an increase of RMB10,904,120 or 14.81% compared with the total income tax expense of RMB73,637,070 for the same period in 2015. Such increase was primarily attributable to the higher income tax rate for the period.

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

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

Items	**For the year ended December 31,** 2015 RMB'000	**2016 RMB'000**
Net cash used in/generated from operating activities	(119,156.96)	**460,073.00**
Net cash used in investing activities	(174,334.41)	**(163,669.15)**
Net cash generated from financing activities	400,036.90	**44,262.15**
Net increase in cash and cash equivalents	106,545.53	**340,666.00**
Cash and cash equivalents at beginning of the year	335,298.47	**441,844.00**
Effect of changes of foreign exchange rate on cash flow	–	**574.00**
Cash and cash equivalents at end of the year	441,844.00	**783,084.00**

1. *Net cash used in operating activities*

Our cash generated from operating activities is primarily from sales of mobile telecommunication devices and accessories. Our cash used in operating activities is primarily for purchase of telecommunication devices and accessories from suppliers, rental expenses and staff salary and compensation. Our net cash flow used in operating activities reflects our profit before income tax, as adjusted for non-cash items, such as finance costs and depreciation of property, plant and equipment, and the effects of changes in working capital, such as increases or decreases in inventories, receivables, prepayments, trade and other payables and accruals. We had net operating cash flow of RMB460,073,000 for the year ended December 31, 2016. There was substantial improvement as compared with 2015.

For the year ended December 31, 2016, we had net cash inflow from operating activities of RMB460,073,000, primarily due to (i) profit before tax of RMB441,617,130 in line with the Group's remarkable operating results; and (ii) the decrease of receivables and net cash inflow of RMB101,019,000 resulting from collection of receivables as they fell due.

2. *Net cash used in investing activities*

Our cash flow used in investing activities reflects the results of our investing activities for the period, such as purchase of property, plant, equipment and intangible assets, proceeds from disposal of property, plant and equipment, proceeds from disposal of subsidiaries and acquisition of joint ventures.

For the year ended December 31, 2016, we had net cash outflow from investing activities of RMB163,669,150, which was primarily attributable to (i) the purchase and construction of fixed assets, intangible assets and decoration costs of RMB71,014,000 in connection with the opening of new outlets and the renovation of old ones; and (ii) the investment of RMB82,503,070 in subsidiaries and the joint ventures, of which RMB50,992,000 was prepayment.

3. *Net cash generated from financing activities*

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

For the year ended December 31, 2016, we had net cash inflow from financing activities of RMB44,262,150, primarily due to (i) bank loans of RMB5,379,578,000 and repayment of bank loans of RMB5,523,467,390; (ii) a decrease of pledged deposit of RMB265,441,040; and (iii) interest payment to banks of RMB111,201,220.

(IV) Balance Sheet Items

1. *Trade receivables*

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

Items	As of December 31,			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Trade receivables	1,969,307.44	**1,865,574.02**	(103,733.42)	(5.27%)
Less: Impairment for trade receivables	(98,648.51)	**(93,313.80)**	5,334.71	(5.41%)
Net	1,870,658.93	**1,772,260.22**	(98,398.71)	(5.26%)

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

Nature of Customers	As of December 31,		
	2015	**2016**	**Growth rate**
	RMB'000	**RMB'000**	
Franchisees	657,458.78	**637,465.03**	(3.04%)
Supermarket customers	168,631.39	**161,515.15**	(4.22%)
Mobile carriers	547,952.69	**483,863.32**	(11.70%)
Third party wholesale customers	595,264.58	**582,730.52**	(2.11%)
Total	1,969,307.44	**1,865,574.02**	(5.27%)

To enhance sales of our handsets and enlarge our market share, we granted credit periods of 30–120 days to certain customers in 2016. Credit periods are offered to customers with the largest volume sales of telecommunication devices and accessories. We closely monitor and maintain strict control over our outstanding receivables to minimise credit risk. Overdue balances are also reviewed regularly by the management. As our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. We do not hold any collateral or other credit enhancements over our trade receivable balances. Our trade and bills receivables are unsecured and non-interest-bearing. Our trade receivables less impairment as of December 31, 2016 amounted to RMB1,772,260,220, representing a decrease of RMB98,398,710 or 5.26%, from RMB1,870,658,930 as of December 31, 2015. Our trade receivables before deducting impairment as of December 31, 2016 amounted to RMB1,865,574,020, representing a decrease of RMB103,733,420, or 5.27% from RMB1,969,307,440 as of December 31, 2015. Amounts receivable from franchisees as of December 31, 2016 amounted to RMB637,465,030, representing a decrease of RMB19,993,750 or 3.04%, from RMB657,458,780 as of December 31, 2015. Such decrease was primarily attributable to: (i) a decrease in trade receivables from the franchisees as a results of an increase in collection of receivables from them; (ii) a decrease in the balance of trade receivables in line with the lower sale to the third party customers; and (iii) decreased amounts of receivables from the carriers in line with a decrease in carriers' commissions.

Amounts receivable from supermarket customers as of December 31, 2016 amounted to RMB161,515,150, representing a decrease of RMB7,116,240 or 4.22%, from RMB168,631,390 as of December 31, 2015.

Amounts receivable from mobile carriers as of December 31, 2016 amounted to RMB483,863,320, representing a decrease of RMB64,089,370 or 11.7%, from RMB547,952,690 as of December 31, 2015. Such decrease was primarily attributable to decreased amounts of receivables from mobile carriers in line with decreased wholesale to them.

Amounts receivable from third party wholesale customers as of December 31, 2016 amounted to RMB582,730,520, representing a decrease of RMB12,534,060 or 2.11%, from RMB595,264,580 as of December 31, 2015. Such decrease was primarily attributable to the decreased amounts of receivables from third party wholesale customers in line with decreased wholesale to them.

As of the date of this announcement, an amount of approximately RMB1,689,135,190 in our trade receivables as of December 31, 2016 were subsequently settled.

Our management regularly monitors the recoverability of our overdue balances of trade receivables and provides for impairment of these receivables as appropriate. Our provisions for impairment of trade receivables as of December 31, 2016 amounted to RMB93,313,800, representing a decrease of RMB5,334,710 or 5.41% from RMB98,648,510 as of December 31, 2015, primarily as a result of a decrease in our total trade receivables from RMB1,969,307,440 as of December 31, 2015 to RMB1,865,574,020 as of December 31, 2016. Our Directors believe that our provisions for impairment on trade receivables are adequate.

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

Items	As of December 31, 2015 RMB'000	**As of December 31, 2016 RMB'000**
Within 90 days	1,753,546.02	**1,672,854.63**
91 to 180 days	39,930.84	**38,874.13**
181 to 365 days	40,940.03	**30,608.25**
Over 1 year	36,242.04	**29,923.21**
Total	1,870,658.93	**1,772,260.22**

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

Item	For the year ended December 31, 2015 Number of days	**2016 Number of days**	**Change in number of days**	**Percentage of change**
Average trade receivables turnover days	40	**44**	4	10%

Our average trade receivables turnover days increased to 44 days for 2016, which was 4 days longer than that for 2015. The increase in turnover days was mainly due to the decrease in operating revenue.

2. *Prepayments and other receivables*

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

Items	As of December 31,			
	2015 RMB'000	**2016 RMB'000**	**Change** RMB'000	**Percentage of change**
Prepayments	904,747.32	**958,269.20**	53,521.88	5.92%
Other receivables	121,594.39	**184,001.19**	62,406.80	51.32%
Total	1,026,341.71	**1,142,270.39**	115,928.68	11.30%
Less: Impairment for other receivables	(5,228.56)	**(6,823.42)**	(1,594.86)	30.50%
Net	1,021,113.15	**1,135,446.97**	114,333.82	11.20%

Our prepayments represent our prepayments to suppliers of mobile telecommunication devices and accessories and prepaid rental payments to our lessors. Our prepayments as of December 31, 2016 amounted to RMB958,269,200, representing an increase of RMB53,521,880, or 5.92% from RMB904,747,320 as of December 31, 2015.

3. *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 realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

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

4. *Inventory*

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

Items	As of December 31,			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Merchandise for sale	2,170,968.98	**2,199,333.46**	28,364.48	1.31%
Consumables	913.44	**607.14**	(306.30)	(33.53%)
Total	2,171,882.42	**2,199,940.60**	28,058.18	1.29%
Less: Provision against inventories	(23,824.92)	**(24,333.61)**	(508.69)	2.14%
Total	2,148,057.50	**2,175,606.99**	27,549.49	1.28%

Our inventories as of December 31, 2016 amounted to RMB2,175,606,990, representing an increase of RMB27,549,490 or 1.28% from RMB2,148,057,500 as of December 31, 2015, which remained substantially flat.

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

Period	As of December 31,			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Within 30 days	2,096,304.84	**2,130,675.91**	34,371.07	1.64%
31 to 60 days	39,701.39	**32,906.03**	(6,795.36)	(17.12%)
60 to 90 days	21,975.55	**19,793.50**	(2,182.05)	(9.93%)
Over 90 days	13,900.64	**16,565.16**	2,664.52	19.17%
Total	2,171,882.42	**2,199,940.60**	28,058.18	1.29%

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

Item	For the year ended December 31, 2015 Number of days	**2016 Number of days**	**Change in number of days**	**Percentage of change**
Average inventory turnover days	54	**58**	4	7.41%

Our inventory turnover days increased from 54 days as of December 31, 2015 to 58 days as of December 31, 2016, primarily due to (i) an increase in inventory of the best selling models in the marked such as Huawei Mate 9, Oppo R9S and Vivo X9 as at the end of the period; (ii) an increase of the cost per unit for the handsets of same brand as compared with that in 2015 because of enhancement of their functions; (iii) a decrease of overall inventory turnover resulting from the slowdown of the inventory turnover of the high-priced handsets.

5. *Properties under development*

Item	For the year ended December 31, 2015 RMB'000	**2016 RMB'000**	**Change** RMB'000	**Percentage of change**
Properties under development	282,718.05	**316,155.83**	33,437.78	11.83%

As of December 31, 2016, the Group had properties under development of RMB316,155,830, all of which were the properties under development of Yunfu SCI Commercial Properties Co., Ltd. which was acquired by the Group in 2016.

6. *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:

Items	As of December 31, 2015 RMB'000	**2016 RMB'000**	**Change** RMB'000	**Percentage of change**
Trade payables	479,609.89	**422,871.17**	(56,738.72)	(11.83%)
Bills payables	71,850.00	**20,367.62**	(51,482.38)	(71.65%)
Total	551,459.89	**443,238.79**	(108,221.10)	(19.62%)

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

Items	As of December 31,			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Within 90 days	511,775.76	**408,349.37**	(103,426.39)	(20.21%)
91 to 180 days	19,523.35	**18,213.70**	(1,309.65)	(6.71%)
181 to 365 days	15,106.28	**12,319.18**	(2,787.10)	(18.45%)
Over 1 year	5,054.50	**4,356.54**	(697.96)	(13.81%)
Total	551,459.89	**443,238.79**	(108,221.10)	(19.62%)

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

Item	For the year ended December 31,			
	2015 Number of days	**2016** **Number of days**	**Change in number of days**	**Percentage of change**
Average trade and bills payables turnover days	16	**12**	(4)	(25%)

Our trade payables are non-interest bearing and are normally settled within 30–45 days. Our trade and bills payables as of December 31, 2016 amounted to RMB443,238,790, representing a decrease of RMB108,221,100 or 19.62% from RMB551,459,890 as of December 31, 2015. The decrease in trade and bills payables for this period was mainly due to the decrease in purchase by the Company, payment made in cash to such brands as OPPO and the decrease in bills payables.

7. *Other payables and accruals*

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:

Items	As of December 31,			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Advances from customers	199,885.29	**237,825.66**	37,940.37	18.98%
Payroll and welfare payables	61,762.22	**34,637.39**	(27,124.83)	(43.92%)
Accrued expenses	9,663.62	**6,642.24**	(3,021.38)	(31.27%)
Other payables	126,844.34	**124,029.20**	(2,815.14)	(2.22%)
Total	398,155.47	**403,134.49**	4,979.02	1.25%

Our advances from customers represent advance payments by customers for their purchases. Our advances from customers as of December 31, 2016 amounted to RMB237,825,660, representing an increase of RMB37,940,370 or 18.98% from RMB199,885,290 as of December 31, 2015. The increase was primarily due to an increase in receipts in advance as a result of our request to the customers to make payment in advance before delivery.

Our payroll and welfare payables represent accrued payroll and welfare expenses to our employees. Our payroll and welfare payables as of December 31, 2016 amounted to RMB34,637,390, representing a decrease of RMB27,124,830 or 43.92% from RMB61,762,220 as of December 31, 2015. Such decrease was primarily due to the transfer of some staff members from salesmen to promotion specialists who were paid on service fees basis instead of on salary basis in according to the labour cost saving policy of the Group.

Our accrued expenses represent other current liabilities. Our accrued expenses as of December 31, 2016 amounted to RMB6,642,240, representing a decrease of RMB3,021,380 or 31.27% from RMB9,663,620 as of December 31, 2015. Such decrease was primarily due to the decrease in the accruals for renovation expenses.

Our other payables as of December 31, 2016 amounted to RMB124,029,200, representing a decrease of RMB2,815,140 or 2.22% from RMB126,844,340 as of December 31, 2015. Such decrease was primarily due to our payment made in the course of normal business operation.

8. *Net current assets position*

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

Items	**As of December 31,**			
	2015 RMB'000	**2016** **RMB'000**	**Change** RMB'000	**Percentage of change**
Current assets				
Inventories	2,148,057.50	**2,175,605.99**	27,548.49	1.28%
Properties under development	282,718.05	**316,155.83**	33,437.78	11.83%
Trade receivables	1,870,658.93	**1,772,260.22**	(98,398.71)	(5.26%)
Prepayments, deposits and other receivables	1,021,113.15	**1,135,446.97**	114,333.82	11.20%
Due from related parties	3,661.60	**13,581.83**	9,920.23	270.93%
Pledged deposits	1,080,808.42	**815,367.38**	(265,441.04)	(24.56%)
Cash and cash equivalents	441,844.00	**783,083.96**	341,239.96	77.23%
Total current assets	6,848,861.65	**7,011,502.18**	162,640.53	2.37%
Current liabilities				
Interest-bearing loans	3,152,292.50	**3,056,402.54**	(95,889.96)	(3.04%)
Trade and bills payables	551,459.89	**443,239.79**	(108,220.10)	(19.62%)
Other payables and accruals	398,155.47	**403,134.49**	4,979.02	1.25%
Tax payable	198,499.01	**239,007.42**	40,508.41	20.41%
Due to related parties	664.72	**8,847.97**	8,183.25	1,231.08%
Total current liabilities	4,301,071.59	**4,150,632.21**	(150,439.38)	(3.50%)
Net current assets	2,547,790.06	**2,860,869.97**	313,079.91	12.29%

Our net current assets as of December 31, 2016 amounted to RMB2,860,869,970, representing an increase of RMB313,079,910 or 12.29% from RMB2,547,790,060 as of December 31, 2015. Such growth was primarily due to the growth of our current assets and the decrease of our current liabilities.

9. *Capital expenditure*

For the year ended December 31, 2016, the Group's capital expenditure amounted to RMB70,332,890, which was incurred mainly in relation to purchase and construction of fixed assets and decoration costs in connection with the opening of new outlets and the renovation of old ones.

10. *Related party transactions*

The following table sets forth the total amounts of transactions that have been entered into with related parties during the years ended December 31, 2016 and December 31, 2015 and the balance with the related parties as at December 31, 2016 and December 31, 2015.

		Sales to related parties RMB'000	Purchase from related parties RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Associates:					
Shenzhen Dixinjuhe Communication Co., Ltd.[1]	**2016**	**2,198.39**	**278.69**	**–**	**1,830.58**
	2015	–	–	–	–
Shanxi Hartcourt Intermediation Information Technology Co., Ltd[1]	**2016**	**–**	**–**	**–**	**666.60**
	2015	–	–	–	–
Joint ventures:					
Hollard-D.Phone (Beijing) Technology Development Co., Ltd.[2]	**2016**	**–**	**17,844.44**	**49.95**	**6,264.10**
	2015	–	84.45	–	664.72
Guangzhou Zhongqi Energy Technology Limited Company[2]	**2016**	**11,454.16**	**–**	**7,919.31**	**–**
	2015	–	–	–	–
Fellow subsidiaries:					
Beijing Dphone Communication Services Co., Ltd.[3]	**2016**	**139.58**	**2.14**	**4,806.47**	**87.60**
	2015	5,530.17	569.24	4,105.52	40.10
Beijing Dixin Alliance Technology Co., Ltd[3] (北京迪信雲聚科技有限公司)	**2016**	**69.77**	**–**	**77.55**	**–**
	2015	–	–	–	–
Company significantly influenced by the controlling shareholder					
Beijing Tianxingyuanjing Technology Development Co., Ltd.[4]	**2016**	**5,220.21**	**1,594.34**	**728.55**	**–**
	2015	–	–	–	–

1 The investment in the associate, Shenzhen Dixinjuhe Communciations Co., Ltd. is directly held by the Company.

2 The investments in the joint ventures, Hollard-D.Phone (Beijing) Technology Development Co., Ltd. and Guangzhou Zhongqi Energy Technology Limited Company are directly held by the Company.

3 The investments in the fellow subsidiary entities, Beijing Dphone Communication Services Co., Ltd. and Beijing Dixin Alliance Technology Co., Ltd (北京廸信雲聚科技有限公司) are directly held by the controlling shareholder of the Company.

4 The investment in the entity, Beijing Tianxingyuanjing Technology Development Co., Ltd. is held by Mr. Liu Donghai and Mr. Jinxin, who is the controlling shareholder and CEO of the Company. They hold 25% equity interests aggregately and have significant influence over the entity.

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

11. *Indebtedness – bank borrowings*

For the year ended December 31, 2016, our bank borrowings were primarily short term in nature and repayable within one year. The following table sets forth our outstanding borrowings as of the dates indicated:

Items	**As of December 31,**	
	2015	**2016**
	RMB'000	**RMB'000**
Bank loans:		
Unsecured, repayable within one year	2,010,750.00	**1,646,473.59**
Secured and repayable within one year	1,141,542.50	**1,409,928.95**
Unsecured long-term liabilities	48,000.00	**–**
Total	3,200,292.50	**3,056,402.54**
The bank loans bear interest at rates per annum in the range of	3.55%–7.28%	**2.50%–6.40%**

During the year ended December 31, 2016, 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 mainly used these bank loans to purchase mobile telecommunication devices and accessories.

Our bank loans as of December 31, 2016 amounted to RMB3,056,402,540, representing a decrease of RMB143,889,960 or 4.50% from RMB3,200,292,500 as of December 31, 2015. Such decrease was primarily due to (i) the increase of our working capital generated from our business activities resulting in not fully utilizing the credit line granted by the banks; and (ii) the lower financing need resulting from some suppliers granting credit periods to us and not requiring prepayments or immediate payments.

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 to undertake or encourage joint venture, mergers and acquisitions, reduction of registered share capital and reorganisations or to make other changes such as liquidation or dissolution, (iii) sell, transfer or dispose of material assets; and (iv) make investments and engage in certain transactions with affiliates or subsidiaries.

Our Directors confirmed that during the year ended December 31, 2016 and up to the date of this announcement, 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 bank 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. 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 December 31, 2016, being the latest practicable date for our indebtedness statement.

(V) Key financial ratios

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

Items	**As of December 31,**			
	2015	**2016**	**Change**	**Percentage of change**
Current ratio	1.59	**1.69**	0.1	6.29%
Gearing ratio	49.64%	**41.77%**	(7.87%)	(15.85%)
Net debt-to-equity ratio	98.57%	**71.72%**	(26.85%)	(27.24%)

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 year ended December 31, 2016.

Gearing ratio is net debt divided by the sum of net debt and total equity at the end of each financial period and multiplied by 100%. Net debt includes interest-bearing bank loans, less cash and cash equivalents. Our gearing ratio decreased from 49.64% as of December 31, 2015 to 41.77% as of December 31, 2016. Such decrease was primarily due to the Company's lower growth in net debt than in total equity for 2016. Total equity as of December 31, 2016 amounted to RMB3,169,678,710, representing an increase of RMB371,176,830 or 13.26% from RMB2,798,501,880 as of December 31, 2015, and growth in total equity was primarily due to growth in net profit and the increase in shareholding equity capital for 2016. The Group's total retained profit as of December 31, 2016 amounted to RMB1,706,656,870, representing an increase of RMB320,701,990 or 23.14% from the total retained profit of RMB1,385,954,880 for the same period in 2015. Surplus reserves as of December 31, 2016 amounted to RMB211,418,960, representing an increase of RMB35,707,590 or 20.32% from RMB175,711,370 as of December 31, 2015. Net debt as of December 31, 2016 amounted to RMB2,273,318,580, representing a decrease of RMB485,129,920 or 17.59% from RMB2,758,448,500 as of December 31, 2015. Decrease in our net debt was primarily due to the 4.50% decrease in interest-bearing bank loans from RMB3,200,292,500 as of December 31, 2015 to RMB3,056,402,540 as of December 31, 2016.

Net debt-to-equity ratio equals net debt divided by total equity as the end of the financial period and multiplied by 100%. Our net debt-to-equity ratio as of December 31, 2016 was 71.72%, which was 26.85% lower than 98.57% as of December 31, 2015, representing a decrease ratio of 27.24%. This was primarily due to the Company's lower growth in net debt than in total equity for 2016. Total equity as of December 31, 2016 amounted to RMB3,169,678,710, representing an increase of RMB371,176,830 or 13.26% from RMB2,798,501,880 as of December 31, 2015, and growth in total equity was primarily attributable to the growth in net profit and the increase in shareholding equity capital for 2016. The Group's total retained profit for the year ended December 31, 2016 amounted to RMB1,706,656,870, representing an increase of RMB320,701,990 or 23.14% from total retained profit of RMB1,385,954,880 for the same period in 2015. Surplus reserve as of December 31, 2016 amounted to RMB211,418,960, representing an increase of RMB35,707,590 or 20.32% from RMB175,711,370 as of December 31, 2015. Net debt as of December 31, 2016 amounted to RMB2,273,318,580, representing a decrease of RMB485,129,920, or 17.59% from RMB2,758,448,500 as of December 31, 2015. Decrease in our net debt was primarily due to the 4.50% decrease in interest-bearing bank loans from RMB3,200,292,500 as of December 31, 2015 to RMB3,056,402,540 as of December 31, 2016.

(VI) Material acquisitions and disposals

Details of the Group's material acquisitions for the year ended December 31, 2016 are set out in the section headed "Material investments".

(VII) Contingent liabilities

As of December 31, 2016, the Group had no material contingent liabilities.

(VIII) Use of proceeds

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

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

As of December 31, 2016 **Account holder**	**Banker**	**Account number**	Unit: HK$'000 **Balance**
Beijing Digital Telecom Co., Ltd.	Standard Chartered Bank (Hong Kong) Limited	44717867377	7,978.35

As of December 31, 2016, HK$875,356,750 out of the net proceeds had been utilised. As of December 31, 2016, the balance of the proceeds in the special account amounted to HK$7,978,350 (including accrued interest of HK$10,010).

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

In accordance with the plan for the public offering, proceeds from the public offering of shares will be applied as to approximately 54.00% in the expansion of our retail and distribution network, approximately 14.00% in the repayment of bank loans, approximately 7.00% in the upgrade of information systems for further enhancement of our management ability, approximately 4.00% in the upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC, approximately 5.00% in multi-functional mobile Internet projects and approximately 9.00% as working capital and for other general corporate purpose. The applications of our proceeds as at the date indicated are set out in the following table:

Items	**For the year ended December 31, 2016** **Amount paid** HK$'000	 **Percentage**
Expansion of retail and distribution network	472,414.94	53.97%
Repayment of bank loans	118,703.28	13.56%
Upgrade of information system to further improve management capability	55,584.09	6.35%
Upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC	34,472.32	3.94%
Undertaking multi-functional mobile Internet projects	44,060.18	5.03%
Working capital and other general corporate purpose	79,456.57	9.08%
Payment of listing agency fees	70,665.37	8.07%
Total	875,356.75	100.00%

(IX) Foreign exchange rate risks

The Group is not exposed to risks in connection with fluctuations of exchange rates and relevant hedging.

(X) Pledge of assets

As of December 31, 2016, the Group had no pledge of assets.

(XI) Material investments

On June 2, 2016, our Board considered and approved the resolution on the proposed investment of US$10 million for setting up New Idea Investment Pte Ltd (新迪亞投資有限公司) (hereinafter referred as ("**New Idea**") in Singapore. On June 9, 2016, New Idea was set up with paid-up capital of S$1. On June 15, 2016, our Board considered and approved the resolution on the acquisition of 49% equity interests in Spice Online Retail Pvt Limited by New Idea for a consideration of US$2.4 million and capital injection made by New Idea of US$2.4 million to set up the joint venture by New Idea and Omni Ventures Pvt Limited. The investment was made for the purpose of the Company's entering the retail market of communication devices in India. On September 18, 2016, our Board considered and approved the resolution on the proposed investment of New Idea by Zhongxing Telecommunication Equipment Corporation and Shanghai Wisdomont Pushang Investment Centre (Limited Partnership) (上海盛山普尚投資中心(有限合夥)), with capital contribution of US$7.344 million from the Company, representing 72% equity interests in New Idea. The capital injection was completed on January 4, 2017.

On September 18, 2016, our Board considered and approved the resolution on the proposed acquisition by the Company of 46% equity interests in Guangzhou Zhongqi Energy Technology Limited (hereinafter referred as "**Zhongqi**") at RMB20,487,400. Zhongqi had acquired more than 30 retail outlets for communication devices in Guangzhou market. The Company saw this as an opportunity for it to make investment in Zhongqi so as to inject valuable management experience and marketing resources in order to increase the income from the investment for the Company. During the reporting period, the Company has completed the capital contribution.

On August 27, 2015, our Board considered and approved the resolution on the proposed cooperation with Shenzhen Transsion Holdings Limited (hereinafter referred as "**Transsion**") to jointly enter the retail market of mobile handsets in Africa. During the reporting period, the Company has made capital contribution to a related company of Transsion, Shenzhen Chuanshi Electronic Technology Limited (深圳傳世電子科技有限公司) with subscribed capital contribution of RMB50 million, representing 50% equity interests, and the actual investment made by the Company was RMB11,024,380.

(XII) Equity arrangements

For the year ended December 31, 2016, no equity subscription was conducted by the Group. As of the date of this announcement, no equity scheme was made by the Group.

(XIII) Capital

No material change occurred in the capital structure of the Company since its Listing Date.

(XIV) Future material investment

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

III. BUSINESS OUTLOOK FOR 2017

For the year of 2017, 4G communication market will substantially be stable. While attracting new customers, the carriers will also put more focus on retaining their existing customers. Domestic handset manufacturers increasingly value the importance of opening physical outlets and the competition among various brands has become keener. Facing such changes in the market, we have to enhance the Company's performances with the focus on the following aspects:

(1) To prioritize the improvement on the profitability of the physical retail outlets

On the one hand, we shall increase the profitability in existing outlets by provision of training to our staff members, negotiation for rent reduction with the landlords and cooperation with the manufacturers. On the other hand, we shall open more self-owned shops in suitable cities at county level in order to increase our market shares.

(2) To develop our physical outlets steadily and at the same time continue to increase the proportion of our online business in order to further realize the integration of our online to offline ("**OTO**") business

In 2017, we shall take advantage of the competitive edges of our extensive geographical coverage to generate more business to our physical outlets by using such online resources as our official website, mobile stores, credit card shopping, television shopping channels and Tmall's flagship stores to realize the synergy effect of OTO.

(3) To enhance our cooperation with three major mobile carriers on product supply and expand into a new market

On the one hand, we shall jointly operate our outlets with the mobile carriers, and on the other hand, take advantage of the business opportunities brought by the growth of 4G business to increase our supply to the mobile carriers. Through our mobile points of sale, we shall go to the communities and enter wholesale market to conclude more contracts with potential customers, sell more mobile handsets and accessories and provide more communication services for the convenience of the public.

To support China Mobile Group's "IOT" (Internet of things) strategy, we shall vigorously develop and apply new business and expand the sale of unmanned flying vehicles and other services.

(4) To continue enhancing our brand value

In 2017, with reliance on the sales and distribution ability of the network of our own self-owned shops and franchisees, we shall vigorously develop our own brands in order to realize the growth in scale and efficiency.

(5) To improve our services and increase the influence of our brand

In 2016, we introduced customer service hotline to help our end users to solve the problems they might face. Our concept of "full-hearted loyalty" has been well received by our customers and has accumulated a large number of fans of Beijing Digital. In 2017, we shall continue to eagerly pursue the "full-hearted loyalty" concept in order to enhance our prestige and reputation through high-quality customer services, so as to enhance the Group's brand influence and ultimately increase sales.

(6) To continue expanding into oversea retail markets of mobile handsets

In 2016, the Group commenced the preparation of entering to India market and cooperated with Transsion to expand into African market. In 2017, we shall put more efforts to increase our presence.

USE OF PROCEEDS FROM LISTING

Details for the use of the proceeds from Listing for the year ended December 31, 2016 are set out in the section headed "Use of proceeds" under "Management Discussion & Analysis".

FINAL DIVIDEND

The Board did not recommend any final dividend for the year ended December 31, 2016.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Donghai (劉東海), aged 50, 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 was set up as a company providing comprehensive services including research, development and provision of a variety of products for photonics field as a whole, mainly responsible for formulating sales policies, proposals and targets, and planning and overseeing the implementation of sales proposals. He has been the vice president of China Electronic Chamber of Commerce since December 2012 up to this date.

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 59, joined the Company in August 2010 as an executive Director and has been 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 a director and the vice president of Shenzhen Development Bank Tianjin Branch (深圳發展銀行天津分行), which provided various financial service with respect to corporate business, retailing business, inter-bank business, etc. from May 2003 to July 2008. He was mainly responsible for the credit business in the abovementioned bank.

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 43, 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 42, joined the Group since February 1998 and has been an executive Director since June 2007 and the deputy director of the procurement center of the Company since April 2004. She is primarily responsible for organizing and implementing annual business and investment plans of our Group, implementing annual procurement plans of our Group and tracing delivery status of the procured products, establishing database for suppliers and facilitating communication with them, executing contracts on behalf of our Group within the authorization of the chairman of the Board as well as handling other matters under authorization of the chairman of the Board.

Ms. Liu Hua (劉華), aged 44, 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, executing contracts on behalf of our Group within the authorization of the chairman of the Board as well as handling other matters under authorization of the chairman of the Board.

Non-Executive Director

Mr. Qi Xiangdong (齊向東), aged 53, joined the Company in June 2015 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 the Company. Mr. Qi served as a deputy director of the Communication Technology Agency of Xinhua News Agency from 1986 to 2003, responsible for technique planning, construction planning and training related work, and directing the planning and demonstration of a series of major projects. From 2003 to 2005, Mr. Qi worked at Yahoo China as the vice president and at 3721 Company as the general manager, responsible for the design, operation and market development of the website of Yahoo China, and overall operation and implementation of the strategic planning for public affairs of 3721 Company. In 2005, he served as chief executive officer of Qihoo 360 Technology Co. Ltd, responsible for the formulation and implementation of the strategies for overall operation and market development. In 2013 Mr. Qi Xiangdong steered Qihoo 360 to the field of enterprise security. From May 2015 and up to this date, Mr. Qi has been the chairman of 360 Enterprise Security Group (360企業安全集團).

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

Independent Non-Executive Directors

Mr. Lv Tingjie (吕廷杰), aged 61, has been an independent non-executive Director since November 2009, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. He has served as a professor, a doctoral tutor and the executive dean of School of Economics Management of Beijing University of Posts and Telecommunications (北京郵電大學) since May 1997, June 1999 and September 2007, respectively, the standing director of the International Telecommunication Society (國際電信協會) since June 2007, mainly responsible for coordinating the economic cooperation and academic exchanges in Asia and Greater China region, a member of the Telecommunications Experts Committee, Ministry of Industry and Information Technology (工業和信息化部電信專家委員會) since 2004, mainly responsible for policy consultation, examination and appraisal work, and the vice chairman of the Electronic Commerce Teaching Steering Committee, Ministry of Education (教育部電子商務教學指導委員會) since 2008, mainly responsible for revising education plans for e-commerce. Mr. Lv is currently an independent non-executive director of Gohigh Data Networks Technology Co., Ltd. (大唐高鴻數據網絡技術股份有限公司), which is listed in Shenzhen Stock Exchange (Stock Code: 000851) and dedicates itself to the provision of telecommunications devices, business and overall solution with respect to industry informatization. Mr. Lv was conferred the teaching qualification certificate of senior high education by the PRC Ministry of Education in July 1997.

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

Mr. Bian Yongzhuang (邊勇壯), aged 63, joined the Company in June 2015. He served as director in Department of Price, Institute of Finance and Trade Economics of Chinese Academy of Social Science in 1991. From 1992, he began to engage in commercial activities and served successively as deputy general manager of Haitong Enterprise Co., Ltd, general manager of Wuxi Xinjiangnan Industrial Co., Ltd, deputy general manager of Hengtong Property Co., Ltd, deputy general manager and chairman of China Xinjiyuan Co., Ltd and general manager of Dahua Domestic Investment Co., Ltd. Mr. Bian worked as chief financial officer and director at China Scholars Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 000547 (Minfufa A)) from June 2013. He also became a director at China Aerospace Investment Holdings Ltd. from July 2013. Mr. Bian received his doctorate degree in Economics from Graduate School of Chinese Academy of Social Sciences in 1990.

Mr. Vincent Man Choi, Li (李文才), aged 56, 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.

Since September 2016, Mr. Li served as technical director of Pan-China Certified Public Accountants LLP (天健會計師事務所 (特殊普通合夥)) and a partner for Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤•華永會計師事務所(特殊普通合夥) in succession. Mr. Li has also served as a partner for both Asian Allinance (HK) CPA Limited (華融 (香港) 會計師事務所有限公司) and Deloitte Touche Tohmatsu (德勤•關黃陳方會計師行), and a managing partner of Zenith CPA Limited (誠豐會計師事務所有限公司) in Hong Kong. Mr. Li has been an independent non-executive director of Qinhuangdao Port Co., Ltd. (a company listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 03369), mainly providing integrated port services including stevedoring, stacking, transportation and warehousing of various goods) since June 2013. Mr Li graduated with an honors diploma in Accounting from Hong Kong Baptist University in 1986 and obtained a master degree in Business Administration from Brunel University in the UK in 1997. He also obtained a master degree of Science in Accounting and Management from the University of Southampton in the UK in 1998. He is a Hong Kong Certified Public Accountant (Practising) and a fellow member of Hong Kong Institute of Certified Public Accountants, Institute of Chartered Accountants in England and Wales and Association of Chartered Certified Accountants.

BOARD OF SUPERVISORS

The Board of Supervisors consists of three members, including an employee representative Supervisor. According to the articles of association of the Company ("**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)	41	Chairman of Board of Supervisors and employee representative Supervisor	November 24, 2009	May 1999
Li Wanlin (李萬林)	54	Supervisor	May 20, 2014	May 2014
Hu Yuzhong (胡玉忠)	58	Supervisor	May 20, 2014	May 2014

SUPERVISORS

Ms. Xiao Hong (肖紅), aged 41, 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 54, joined the Group in May 2014 and has been a Supervisor of the Company since then. Before joining our Group, he served as a professor leading the major national mobile telecommunications laboratory at Southeast University (東南大學) from 2010 to 2012. Mr. Li also served as general manager of Beijing EVERSINO Technology Ltd. (北京華恒銘聖科技發展有限責任公司) since 2007 and up to this date. From 1998 to 2007, Mr. Li held various positions within Siemens Ltd. China, including the senior vice president and the chief technology officer of the group. Mr. Li is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members. Mr. Li obtained his Ph.D. degree in Information Science from Technical University of Karlsruhe in Germany in 1991.

Mr. Hu Yuzhong (胡玉忠), aged 58, joined the Group in May 2014 and has been a Supervisor of our Company since then. Since 2003 and up to this date, Mr. Hu has served as chairman of the board of Beijing Times Hongxun Investment Company Limited (北京時代宏訊投資有限公司). From 1992 to 2002, he served as the executive vice president of China Post Putai Mobile Telecom Equipments Company Limited (中郵普泰移動通訊設備股份有限公司). Mr. Hu is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members. Mr. Hu obtained his MBA degree in Asia International Open University (Macau) in 2004.

SENIOR MANAGEMENT

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

Name	Age	Position	Date of Appointment	Date of Joining the Group
Jin Xin (金鑫)	45	General manager	December 25, 2013	January 1999
Qi Feng (齊峰)	47	Vice general manager	November 24, 2009	August 2003
Zhou Qing (周清)	48	Vice general manager	November 24, 2009	May 2002
Bai Ren (白韌)	44	Vice general manager	November 24, 2009	March 1998
Huang Jianhui (黃建輝)	56	Vice general manager	April 12, 2011	July 2010
Su Fengjuan (蘇鳳娟)	33	Chief financial officer	November 7, 2016	February 2009
Li Dongmei (李冬梅)	38	Secretary to the Board and chief legal officer	November 24, 2009	April 2006

Mr. Jin Xin (金鑫), aged 45, 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 and coordinating the 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 was 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 47, 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. Zhou Qing (周清), aged 48, 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 was 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 was 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 was certified as an engineer by Guiyang Personnel Bureau in September 1997.

Mr. Zhou obtained his master degree in Business Administration from China Europe International Business School (中歐國際工商學院) in September 2009.

Mr. Bai Ren (白韌), aged 44, 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 56, 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 the Company, Mr. Huang held various positions, such as directors, in Zhengzhou Telecom Bureau of Henan Provincial Postal Administration, China Institute of Petroleum Pipeline Survey and Design, Beijing branch of Samsung Electronics, Nokia (China) investment Co., Ltd., Siemens (China) Co., Ltd., and Nokia Siemens Networks Technology (Beijing) Co., Ltd.

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 Guanghua School of Management of Peking University (北京大學) in July 2006.

Ms. Su Fengjuan (蘇鳳娟), aged 33, joined the Company in February 2009 and has served as ORACLE financial function consultant, head of financial management department, assistant to chief financial officer and trainee chief financial officer of the Company. Ms. Su Fengjuan is primarily responsible for accounting, establishment of internal budget system and internal control, coordination of financial resources and business operations, and formulation of the Company's management, profitability and investment plans.

Ms. Su obtained her master degree in Business Administration (accounting) from North China University of Technology (北方工業大學) in June 2009 and obtained Certificate For Passing All the Required Subjects of the Professional Stage of the National Uniform CPA Examination of the PRC in January 2014.

Ms. Li Dongmei (李冬梅), aged 38, joined the Company in April 2006 and has served as the secretary to the Board and the chief legal officer since November 2009. Ms. Li is primarily responsible for preparing for the Board meetings and Shareholders' meetings, disclosing data of the Company in a complete, accurate and prompt manner, ensuring the Directors, Supervisors and senior management members to have complied with law, regulations and rules, providing legal opinions for the operation and management of the Company as well as participating in the drafting of contracts and negotiations for material contracts. In November 2016, she was appointed as vice president of the Company, and is responsible for the securities affairs, material investment and legal affairs.

Prior to joining our Group, she served as the legal manager of Enn Group Co., Ltd. (新奧集團股份有限公司) from September 2004 to April 2006. The principal business activities of this company were production, application and sales of clean energy. Ms. Li was responsible for the listing related work of 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 the Stock Exchange (stock code: 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.

DIRECTORS' REPORT

The Board (the "**Board**") of directors of the Company is pleased to present the Group's report together with the audited financial statements for the year ended December 31, 2016.

CORPORATE INFORMATION AND GLOBAL OFFERING

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are to engage in the sale of mobile telecommunications devices and accessories and the provision of related services. Analysis of the principal activities of the Group is set out in note 7 to the financial statements on page 136.

RESULTS

The results of the Group for the year ended December 31, 2016 are set out on pages 102 to 107 of the financial statements in this annual report.

BUSINESS REVIEW

In 2016, the Company sold and distributed mobile telecommunications devices and accessories and provided value-added services via multi-channels consisting of our large number of physical outlets and the on-line ecommerce platform. The Group's core business experienced stable and healthy growth by virtue of our close and amicable cooperation with the domestic and overseas manufacturers of telecommunications devices and three major domestic mobile carriers, continuous improvement on services and the quality of our sale representatives, and the enhancement on the ERP management system.

The Company currently faces the following significant risk factors and uncertainties: (i) suppliers' adverse selection and moral risk; (ii) the risk of inventory backlog; (iii) the risk of bad debt brought by outstanding receivables from the customers; and (iv) the risk of human resource brought by the Company's expansion. Facing the aforesaid risk factors, the Company has adopted the following measures to reduce the risks: the Company will choose and establish good relationship of cooperation with key suppliers, and enter into long-term strategic cooperation agreements with them on win-win basis to ensure the stability of the Group's overall supply chain. The finance department will determine the priority of the orders placed for different brands based on their inventory turnover days to reduce the risk of inventory backlog. The Company, through continuous improvement on our customer credit management system, grants various credit terms to different types of customers. In addition, the existing staff training and incentive programs together with the promotion of our corporate culture foster our staff members' sense of belonging and responsibility, which help improve the stability of the staff.

Subsequent to the end of 2016, there was no material event the occurrence of which would affect the Company.

The Company has complied with relevant laws and regulations and has not been imposed with any penalty resulting from any serious violation of laws or regulations during the reporting period. The Company has always stuck to our environmental policy and requires our outlets across the country to have in place energy saving measures to protect the environment. The Company also encourages our customers to use and re-use environmentally friendly paper bags. No significant impact was caused by the Company on the environment.

The Company has in place targeted training and incentive programs for some staff members so as to enhance the sense of belonging and responsibility of our existing staff members. The Company has good relationship with our customers. We have also clarified our and the suppliers' responsibilities on product quality in the cooperation agreements entered into by us and the suppliers. The Company has a dedicated after-sales service team to deal with related issues. Compensations on products with quality problems are made by the manufacturers to the customers after such products are directly returned to such manufacturers for repair. Our responsibility is to facilitate the communication between the customers and the manufacturers in order to provide the customers with attentive after-sales services. The Company and the suppliers have entered into long-term strategic cooperation agreements on win-win basis to ensure the stability of the Group's overall supply chain.

For details of the Company's business review and the analysis on its performance on key financial indicators, please see the sections "I – Business Review" and "II – Financial Position and Operating Results" in "Management Discussion & Analysis" of this annual report.

For details of the Company's future development, please see Chairman's Statement and the disclosure on the future development set out in the section "III – Business Outlook for 2017" in "Management Discussion & Analysis" of this annual report.

FINAL DIVIDENDS

The Board does not recommend any final dividend for the year ended December 31, 2016.

FINANCIAL SUMMARY

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

USE OF PROCEEDS FROM LISTING

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

Details of the use of the proceeds from Listing during the year ended December 31, 2016 are set out in the section headed "Use of proceeds – Management Discussion & Analysis" in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year 2016, the Company's transaction volume with its five largest customers accounted for 11.83% of the Company's operating revenue for the year ended December 31, 2016. The Company's transaction volume with its single largest customer accounted for 3.91% of the Company's operating revenue for the year 2016.

Major Suppliers

For the year 2016, the Company's transaction volume with its five largest suppliers accounted for 31.60% of the Company's operating costs for the year ended December 31, 2016. The Company's transaction volume with its single largest supplier accounted for 11.28% of the Company's operating costs for the year 2016.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group for the year are set out in note 15 to the financial statements on pages 143 to 144.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2016 are set out in note 31 to the financial statements on page 160.

RESERVES

Details of changes in the reserves of the Company and the Group for the year are set out in the consolidated statement of changes in equity on page 105 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the PRC Company Law, amounted to approximately RMB1,706,656,870 (as at December 31, 2015: approximately RMB1,385,954,880).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and its subsidiaries as at December 31, 2016 are set out in note 30 to the financial statements on page 159.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year ended December 31, 2016 and up to the date of this annual report are as follows:

Executive Directors:

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

Non-executive Director:

Mr. Qi Xiangdong

Independent Non-executive Directors:

Mr. Lv Tingjie
Mr. Bian Yongzhuang
Mr. Vincent Man Choi, Li

Supervisors:

Ms. Xiao Hong
Mr. Li Wanlin
Mr. Hu Yuzhong

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management are set out on pages 39 to 47 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has made a confirmation on independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company considers all of the independent non-executive Directors to be independent during the year ended December 31, 2016 in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and independent non-executive Directors (except Mr. Bian Yongzhuang) entered into a service contract with the Company on June 8, 2014 for a fixed term of three years commencing from the Listing Date, subject to termination in accordance with their respective terms. Mr. Qi Xiangdong and Mr. Bian Yongzhuang have been appointed as a non-executive Director and an independent non-executive Director respectively on June 2, 2015. Each of them has entered into a service agreement with the Company for a fixed term of three years commencing from June 2, 2015, subject to termination in accordance with their respective terms. The service agreements may be renewed in accordance with the Articles of Association and the applicable laws, rules and regulations.

Each of the Supervisors entered into a contract with the Company on June 8, 2014 in respect of, among others, compliance of relevant laws and regulations, observance of the Articles of Association and provisions on arbitration.

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

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

During the year ended December 31, 2016, none of Directors or Supervisors directly or indirectly had any material interests in any material transactions, arrangements or contracts of significance in relation to the Company's business, to which the Company, its subsidiaries or fellow subsidiaries was a party.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year ended December 31, 2016.

EMOLUMENT POLICY

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

REMUNERATION OF DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors, Supervisors and five highest paid individuals are set out in notes 10 and 11 to the financial statements on pages 138 to 140.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 8 to the financial statements on page 137.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS AND SUPERVISORS

Save as disclosed in this annual report, there is no change to any information in respect of Directors or Supervisors required to be disclosed in accordance with Rule 13.51(2)(a) to (e) and (g) since the publication of the interim report for 2016.

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

As at December 31, 2016, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules are as follows:

Name of Director	Type of shares	Nature of interests	Number of shares/ underlying shares held (long position/ short position/ lending pool)	Percentage of the relevant class of share capital (%) *(Note 1)*	Percentage of the total share capital (%) *(Note 1)*
Liu Donghai *(Note 2)*	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	46.90
Liu Hua *(Note 2)*	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	46.90
Liu Songshan *(Note 2)*	Domestic shares	Interest of controlled corporation	101,300,000 (long position)	30.00	15.19
Liu Wencui *(Notes 2, 3)*	Domestic shares	Interest of controlled corporation	320,200,000 (long position)	94.82	48.03

Notes:

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

2. *Beijing Di Er Tong Consulting Company Limited (北京迪爾通諮詢有限公司, "**Di Er Tong**") and Digital Science & Technology Group Limited (迪信通科技集團有限公司, "**Digital Science & Technology**"), directly hold 101,300,000 domestic shares and 211,400,000 domestic shares of the Company respectively, and Liu Donghai, Liu Hua, Liu Songshan, Liu Wencui and Liu Yongmei respectively hold 34.89%, 5.13%, 52.33%, 2.52% and 5.13% interests in Di Er Tong, and Liu Donghai, Liu Hua, Liu Wencui, Liu Yongmei and Liu Wenli respectively hold 84.72%, 5.06%, 3.93%, 5.06% and 1.23% interests in Digital Science & Technology. Accordingly, pursuant to the SFO, Liu Donghai, Liu Hua and Liu Wencui are deemed to be interested in 101,300,000 domestic shares and 211,400,000 domestic shares held by Di Er Tong and Digital Science & Technology respectively, and Liu Songshan is deemed to be interested in 101,300,000 domestic shares held by Di Er Tong.*

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

Save as disclosed above, as of December 31, 2016, none of the Directors, Supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept by the Company, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Codes.

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR BONDS

Save as disclosed herein, at no time during the reporting period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire benefits by means of acquisition of any shares or debentures of the Company or any other body corporate, or were any rights to acquire the equity or debt securities of the Company or any other body corporate granted to any Director, Supervisor or their respective spouse or children under 18 years of age, or were any such rights exercised by them.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at December 31, 2016, to the knowledge of the Directors, the following persons (other than the Directors, Supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which fell to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Director	Type of shares	Nature of interests	Number of shares/ underlying shares held (long position/ short position/ lending pool)	Percentage of the relevant class of share capital (%) *(Note 1)*	Percentage of the total share capital (%) *(Note 1)*
Liu Yongmei *(Note 2)*	Domestic shares	Interest of controlled corporation	312,700,000 (long position)	92.60	46.90
Liu Wenli *(Note 2)*	Domestic shares	Interest of controlled corporation	211,400,000 (long position)	62.60	31.71
Di Er Tong *(Note 2)*	Domestic shares	Beneficial owner	101,300,000 (long position)	30.00	15.19
Digital Science & Technology *(Note 2)*	Domestic shares	Beneficial owner	211,400,000 (long position)	62.60	31.71
3i Group plc *(Note 3)*	H shares	Interest of controlled corporation	87,100,000 (long position)	26.48	13.06

Name of Director	Type of shares	Nature of interests	Number of shares/ underlying shares held (long position/ short position/ lending pool)	Percentage of the relevant class of share capital (%) *(Note 1)*	Percentage of the total share capital (%) *(Note 1)*
3i Investments GP Limited *(Note 3)*	H shares	Interest of controlled corporation	87,100,000 (long position)	26.48	13.06
3i Asia Pacific 2004-06 LP *(Note 3)*	H shares	Interest of controlled corporation	87,100,000 (long position)	26.48	13.06
3i Nominees Limited *(Note 3)*	H shares	Interest of controlled corporation	87,100,000 (long position)	26.48	13.06
3i Investments plc *(Note 3)*	H shares	Interest of controlled corporation	87,100,000 (long position)	26.48	13.06
3i Infocomm Limited *(Note 3)*	H shares	Beneficial owner	87,100,000 (long position)	26.48	13.06
China Diamond Holdings Company Limited *(Note 4)*	H shares	Interest of controlled corporation	71,250,000 (long position)	21.66	10.69
China Diamond Holdings III Limited *(Note 4)*	H shares	Interest of controlled corporation	71,250,000 (long position)	21.66	10.69
CDH China Growth Capital Holdings Company Limited *(Note 4)*	H shares	Interest of controlled corporation	71,250,000 (long position)	21.66	10.69
CDH China Growth Capital Fund II, L.P. *(Note 4)*	H shares	Interest of controlled corporation	71,250,000 (long position)	21.66	10.69
CDH Mobile Limited *(Note 4)*	H shares	Interest of controlled corporation	71,250,000 (long position)	21.66	10.69
CDH Mobile (HK) Limited *(Note 4)*	H shares	Beneficial owner	71,250,000 (long position)	21.66	10.69
Lenovo Group Limited	H shares	Beneficial owner	32,435,500 (long position)	9.86	4.87

Notes:

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

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

3. *3i Infocomm Limited directly holds 87,100,000 H shares of the Company. 3i Nominees Limited holds 43.75% interest in 3i Infocomm Limited and 3i Asia Pacific 2004-06 LP holds 100% interest in 3i Nominees Limited. 3i Investments GP Limited holds 100% interest in 3i Asia Pacific 2004-06 LP and 3i Group plc holds 100% interest in 3i Investments GP Limited. Besides, 3i Investments plc as the manager of 3i Infocomm Limited holds 100% interest in 3i Infocomm Limited, and 3i Group plc holds 100% interest in 3i Investments plc. Accordingly, pursuant to the SFO, 3i Group plc, 3i Investments GP Limited, 3i Asia Pacific 2004-06 LP, 3i Nominees Limited and 3i Investments plc are deemed to be interested in 87,100,000 H shares held by 3i Infocomm Limited.*

4. *CDH Mobile (HK) Limited directly holds 71,250,000 H share of the Company. CDH Mobile Limited holds 100% interest in CDH Mobile (HK) Limited and CDH China Growth Capital Fund II, L.P. holds 100% interest in CDH Mobile Limited. CDH China Growth Capital Holdings Company Limited holds a controlling interest in CDH China Growth Capital Fund II, L.P. and China Diamond Holdings III Limited holds 69.5% interest in CDH China Growth Capital Holdings Company Limited. Furthermore, China Diamond Holdings Company Limited holds 100% interest in China Diamond Holdings III Limited. Accordingly, pursuant to the SFO, China Diamond Holdings Company Limited, China Diamond Holdings III Limited, CDH China Growth Capital Holdings Company Limited, CDH China Growth Capital Fund II, L.P. and CDH Mobile Limited are deemed to be interested in 71,250,000 H shares held by CDH Mobile (HK) Limited.*

Save as disclosed above, as of December 31, 2016, there is no other person (other than the Directors, Supervisors and Chief executives of the Company) to the Directors' knowledge who has interests or short positions in the shares or underlying shares of the Company which fell to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which have been recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

EQUITY-LINKED AGREEMENT

During the year ended December 31, 2016, the Company and its subsidiaries neither entered into any agreements in relation to equity-linked products nor participated in any arrangement to purchase equity-linked financial products.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2016.

PRE-EMPTIVE RIGHTS

During the year ended December 31, 2016, shareholders of the Company had no pre-emptive rights or any share option arrangements in accordance with applicable PRC laws and the Articles of Association.

NON-COMPETITION UNDERTAKING

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

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

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

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

The independent non-executive Directors have reviewed and assessed if the controlling shareholders have complied with the Non-competition Undertaking. The independent non-executive Directors have confirmed that the controlling shareholders have not been in breach of the Non-competition Undertaking during the year ended December 31, 2016.

DIRECTORS AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the year of 2016, none of the Directors, Supervisors and their associates had any competing interest in any business which competes or may compete directly or indirectly with the businesses of the Company.

CONTINUING CONNECTED TRANSACTION

The Group has the following continuing connected transaction during the year of 2016:

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

For details of the above continuing connected transaction, please refer to the section "Related party transactions – Balance Sheet Items – II. Financial Position and Operating Results – Management Discussion & Analysis" in this annual report.

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

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

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

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

The auditor of the Company has performed certain pre-determined audit procedures regarding the continuing connected transaction entered into by the Group during the year ended December 31, 2016 as set out above and states that:

(1) the transaction has been approved by the Board;

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

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

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

The related party transactions as disclosed in note 35 to the financial statements on pages 162 to 163 are constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and were in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

Save as disclosed in this annual report, during the year ended December 31, 2016, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions for the disclosure of connected transactions under Chapter 14A of the Listing Rules.

CHARITY DONATIONS

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

SIGNIFICANT LEGAL PROCEEDINGS

As at December 31, 2016, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

PERMITTED INDEMNITY PROVISION

The validity period of the insurance policy covering the liability of the Directors and senior management that the Company had purchased pursuant to code provision A.1.8 of the Corporate Governance Code expired. As the Company failed to notice the expiry of the insurance policy in time, it was not able to renew such insurance within a reasonable time. Currently, the Company has re-purchased such insurance for the Directors and the senior management, the validity period of which is 12 months, with effect from March 31, 2017. Except for such insurance, the Company has no valid indemnity provisions (as defined in Companies (Directors’ Report) Regulation of the Chapter 622D of Hong Kong Laws) approved during the year ended December 31, 2016 and as of the date of this annual report.

EVENTS AFTER THE FINANCIAL YEAR END DATE

Details of the major events occurring after the financial year end date are set out in note 39 to the financial statements on page 171.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Company’s annual results for 2016 and the financial statements prepared in accordance with IFRSs for the year ended December 31, 2016.

CORPORATE GOVERNANCE CODE

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

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals, but due to Mr. Liu Donghai's background, qualifications and experience in the Company, he is considered the most suitable person to take both roles under the current circumstances. The Board is of the view that it is appropriate and in the best interests of the Company that Mr. Liu Donghai holds both positions at the current stage, as it helps to maintain the continuity of the policies and the stability and efficiency of the operations of the Company. The Board also meets regularly on a quarterly basis to review the operations of the Company led by Mr. Liu Donghai. Accordingly, the Board believes that this arrangement will not impact on the balance of power and authorizations between the Board and the management of the Company. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. Save as disclosed in this annual report, during the year ended December 31, 2016, the Company has complied with the other code provisions and adopted most of the other recommended best practices as set out in the CG Code.

PUBLIC FLOAT

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

AUDITOR

Ernst & Young was appointed as the auditor for the financial statements prepared in accordance with IFRSs for the year ended December 31, 2016. The accompanying financial statements prepared in accordance with IFRSs have been audited by Ernst & Young.

Ernst & Young shall retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board
Liu Donghai
Chairman

Beijing
March 30, 2017

BOARD OF SUPERVISORS' REPORT

In 2016, all members of the Board of Supervisors, earnestly fulfilled their duties and effectively supervised the operation of the Company in according with the Company Law, the Articles of Association, Rules of Procedures for the Board of Supervisors Meeting. No irregularity was found and the rights and interests of the shareholders and the Company were effectively safeguarded.

I. THE BUSINESS OF BOARD OF SUPERVISORS MEETING

1. On March 29, 2016, the Company held the ninth meeting of the second session of the Board of Supervisors in Beijing. The meeting was held by way of call conference and all three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Xiao Hong, the chairwoman. Upon voting, the resolutions on "the Annual Report for 2015 and the Annual Results Announcement for 2015 of the Company", "the Report of the Company's Board of Supervisors for 2015", "the Company's Financial Statements (draft) for 2015", and "the Appointment of Accounting Firm for the year 2016" were approved.

2. On August 30, 2016, the Company held the tenth meeting of the second session of the Board of Supervisors in Beijing. The meeting was held by way of call conference and all three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Xiao Hong, the chairwoman. Upon voting, the resolution on "the Interim Report and the Interim Results Announcement of the Company for 2016" was approved.

II. SUPERVISION WORK OF THE BOARD OF SUPERVISORS IN 2016

1. The members of the Board of Supervisors reviewed the Company's financial system and financial position, including regularly reviewing the Company's financial reports, financial budget and other documents such as vouchers, and maintaining communication with the external accountants and the internal audit department.

2. The members of the Board of Supervisors ensured the legality and compliance of the procedures for consideration and discussion of the matters put to the Board meeting.

3. The members of the Board of Supervisors have kept communications from time to time to gain a timely insight on the Company's operation, and raise inquiries on some issues existed in the operation to the management and urge them to solve those issues in time.

III. OPINION OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS FOR THE YEAR 2016

1. The lawful operation of the Company

The Board of Supervisors is of opinion that the Board of the Company was able to carry out the business operation lawfully and strictly in accordance with the requirements of the Company Law, the Securities Law, Articles of Association and other relevant laws, regulations and rules based on their supervision on the Directors and senior management of the Company in 2016. Major decisions on operation of the Company were reasonably made and its procedures were lawful and effective. To further standardize the operation, the Company has further established and improved various internal management systems and internal control mechanism. The Directors and senior management of the Company performed their duties in accordance with the laws and regulations of the PRC, the Articles of Association and the resolutions of the shareholders' general meeting and the meetings of the Board seriously and consistently. No action in violation of laws and regulations or the Articles of Association, or to the prejudice of the interests of the shareholders or the Company taken by the Directors and senior management of the Company in performance of their duties was found.

2. The Intenal Control of the Company

In 2016, the Company established a relatively comprehensive internal control system in line with relevant laws and regulations of the PRC. The internal control system is lawful, reasonable and effectiveness. The Board of Supervisors conducted a careful review of the formulation and operation of the internal control system of the Company for 2016. As shown in "The Report on Internal Control for Beijing Digital Telecom Co., Ltd. for 2016", "The Internal Control Plan for Beijing Digital Telecom Co., Ltd. for 2017", "The Report on the System for Risk Management for Beijing Digital Telecom Co., Ltd. for 2016" of the Company, the Company has established a more comprehensive internal control system and each part of the system has been effectively implemented in every aspect of the business operation.

The Board of Supervisors is of opinion that the Company has achieved the business objectives set by the Board at the beginning of the year, recorded steady growth in operating efficiency and operated in compliance with the standards under the comprehensive internal control management system and in line with the actual need of the Company in its business operation and development.

3. The financial position of the Company

In 2016, the Board of Supervisors of the Company examined and reviewed carefully and meticulously the financial statements, financial system and other relevant materials of the Company. The Board of Supervisors is of opinion that the preparation of the Company's financial statements was in compliance with relevant requirements under the Accounting System for Business Enterprises and the Accounting Standards for Business Enterprises. The financial report for the year of 2016 reflected the true view of the financial position and operating results of the Company. The Company has a sound financial system, standard financial operation and healthy financial position. The Board of Supervisors reviewed the annual report of the Company for 2016 and the auditor's report issued by Ernst & Young, and their audit opinion is objective and fair.

4. The connected transactions and capital raising of the Company

For details of the Company's capital raising, please see the section "II. Financial Position and Operating Results – Management Discussion & Analysis" in the 2016 annual report.

The Board of Supervisors of the Company is of opinion that the connected transactions of the Company were carried out in compliance with relevant laws and regulations such as the Company Law, the Securities Law and the Articles of Association in 2016, which could positively affect the Company's operating results. The prices of those connected transactions were determined on the principles of equivalent consideration and fair market prices in order to ensure their fairness. No actions in violation of the principles of openness, fairness and justice or to the prejudice of the interests of the listed Company or the minority shareholders were found.

At the same time, the Board of Supervisors of the Company supervised the use of the proceeds raised by the Company. The Board of Supervisors is of opinion that the Company has carefully managed and used the proceeds and the Company did not change any planned investment projects.

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

The Board of Supervisors examined the acquisition made by the Company and is of opinion that the transaction price for the Company's acquisition of the equity was fair and reasonable, and no insider trading, prejudice to shareholders' interests or loss of assets of the Company was found. The decision-making process of the transaction was in compliance with the Articles of Association. There was no disposal of assets in 2016.

IV. THE WORK PLAN OF THE BOARD OF SUPERVISORS FOR THE YEAR 2017

1. The term of office for the second session of the Board of Supervisors has expired and the Board of Supervisors will do their best to carry out the election for the next session. The members of the current Board of Supervisors will continue to perform their duties as supervisors before the members of new session of the Board of Supervisors formally take office.

2. The Board of Supervisors will strengthen its supervision on the Company's major investment projects and significant operation decisions and perform specific examination on major investment projects and continuous tracking on the post-investment management to ensure the smooth progress and expected capital return from them.

3. The Board of Supervisors will strengthen its supervision on the implementation of the merchandizing and sales plan for 2017 and the reasonable utilization of the proceeds for 2017.

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

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report in the annual report of the Company for the year ended December 31, 2016.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code contained in Appendix 14 of the Listing Rules. Save for those disclosed in this annual report, the Directors are of the opinion that, during the year ended December 31, 2016, the Company has complied with the code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

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

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

The Company has arranged an insurance policy for a period of 12 months to cover any legal proceedings against the Directors and senior management members in March 2017, with effect from March 31, 2017.

Board Composition

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

Executive Directors:

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

Non-executive Director:

Mr. Qi Xiangdong

Independent Non-executive Directors:

Mr. Lv Tingjie
Mr. Bian Yongzhuang
Mr. Vincent Man Choi, Li

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

During the year ended December 31, 2016, the Board has met at all times the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing one-third of the Board.

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

Policy Statement

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

Measurable Objectives

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

Monitoring and Reporting

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

Review of the Policy

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

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

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

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

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

Induction and Continuous Professional Development

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

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

Directors	Types of training
Vincent Man Choi, Li, Lv Tingjie and Bian Yongzhuang	A/B
Liu Donghai, Liu Songshan, Liu Yajun, Liu Wencui, Liu Hua, Qi Xiangdong	A
Vincent Man Choi, Li	C

Notes:

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

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

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

Chairman and Chief Executive Officer

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

Appointment and Re-Election of Directors

Each of the executive Directors and independent non-executive Directors (except Mr. Bian Yongzhuang) entered into a service contract with the Company on June 8, 2014 for a fixed term of three years commencing from the Listing Date, subject to termination in accordance with their respective terms. Mr. Qi Xiangdong and Mr. Bian Yongzhuang have been appointed as a non-executive Director and an independent non-executive Director respectively on June 2, 2015. Each of them has entered into a service agreement with the Company for a fixed term of three years commencing from June 2, 2015, subject to termination in accordance with their respective terms. The service agreements may be renewed in accordance with the Articles of Association and the applicable laws, rules and regulations.

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

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

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

Board Meetings

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

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

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

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

Name of Director	Attended Board Meetings/ Eligible to Attend Board Meetings	Attended General Meetings/ Eligible to Attend General Meetings
Mr. Liu Donghai	8/8	1/1
Mr. Liu Yajun	8/8	1/1
Mr. Liu Songshan	8/8	1/1
Ms. Liu Wencui	8/8	1/1
Ms. Liu Hua	8/8	1/1
Mr. Qi Xiangdong	8/8	1/1
Mr. Lv Tingjie	8/8	1/1
Mr. Bian Yongzhuang	8/8	1/1
Mr. Vincent Man Choi, Li	8/8	1/1

A total of 20 Board's resolutions were passed at eight Board meetings held during the reporting period, details of which are as follows:

1. The first meeting of the second session of the Board for the year 2016 was held on March 29, 2016 at which eight resolutions were considered and approved;

2. The second meeting of the second session of the Board for the year 2016 was held on June 2, 2016 at which one resolution was considered and approved;

3. The third meeting of the second session of the Board for the year 2016 was held on June 15, 2016 at which two resolutions were considered and approved;

4. The fourth meeting of the second session of the Board for the year 2016 was held on July 12, 2016 at which one resolution was considered and approved;

5. The fifth meeting of the second session of the Board for the year 2016 was held on July 22, 2016 at which one resolution was considered and approved;

6. The sixth meeting of the second session of the Board for the year 2016 was held on August 30, 2016 at which three resolutions were considered and approved;

7. The seventh meeting of the second session of the Board for the year 2016 was held on September 18, 2016 at which three resolutions were considered and approved;

8. The eighth meeting of the second session of the Board for the year 2016 was held on November 7, 2016 at which one resolution was considered and approved.

Shareholder's General Meeting

Details of the shareholders' general meeting for the reporting period are as follows:

On June 6, 2016, the Company held the annual general meeting for the year 2015 in Beijing. All Directors of the Company attended the meeting at which five ordinary resolutions were considered and approved.

Model Code for Securities Transactions

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

During the year ended December 31, 2016, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standards set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

BOARD COMMITTEES

Nomination Committee

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

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

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

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

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

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

5. to review the Board diversity policy.

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

During the year ended December 31, 2016, the Nomination Committee has held one committee meeting and the attendance of each member of the Nomination Committee at the meeting is set out in the table below:

Name of Director	Attended/ Eligible to attend
Mr. Lv Tingjie	1/1
Mr. Bian Yongzhuang	1/1
Mr. Liu Songshan	1/1

Details of the aforesaid meeting is as follows:

At the first meeting of the Nomination Committee of the Board for the year 2016 held on March 29, 2016, the "Resolution on the Work Report of the Nomination Committee for the year 2015" was considered and approved.

Remuneration and Assessment Committee

The Remuneration and Assessment Committee comprises three members, namely Mr. Bian Yongzhuang (Chairman), Mr. Vincent Man Choi, Li and Ms. Liu Hua. Apart from Ms. Liu Hua who is an executive Director, both of the other members are independent non-executive Directors.

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

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

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

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

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

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

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

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

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

During the year ended December 31, 2016, the Remuneration and Assessment Committee has held one committee meeting and the attendance of each member of the Remuneration and Assessment Committee at the meeting is set out in the table below:

Name of Director	Attended/ Eligible to attend
Mr. Bian Yongzhuang	1/1
Mr. Vincent Man Choi, Li	1/1
Ms. Liu Hua	1/1

Details of the meeting are as follows:

At the first meeting of the Remuneration and Assessment Committee of the Board for the year 2016 held on March 29, 2016, the "Resolution on the Work Report of the Remuneration and Assessment Committee for the year 2015" was considered and approved.

The Remuneration and Assessment Committee has reviewed the remuneration of Directors and senior management members for the year 2016, as well as the Company's policy and structure for the remuneration of all Directors and senior management. Based on the review, the Remuneration and Assessment Committee has made recommendations to the Board on the remuneration packages of individual executive Directors and senior management members.

Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors and Supervisors for the year ended December 31, 2016 are set out in note 10 to the financial statements on pages 138 to 139 of this annual report.

The biographies of the senior management are disclosed in the section headed "Directors, Supervisors and Senior Management" in this annual report. The remuneration by band of non-Director members of the senior management for the year ended December 31, 2016 is as follows:

Remuneration band (RMB)	Number of individuals
Below 300,000	5
300,000 – 500,000	0
Over 500,000	2

Audit Committee

The Audit Committee comprises three members, namely Mr. Vincent Man Choi, Li (Chairman), Mr. Lv Tingjie and Mr. Bian Yongzhuang, and all of them are independent non-executive Directors.

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

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

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

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

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

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

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

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

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

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

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

During the year ended December 31, 2016, the Audit Committee has held three committee meetings and the attendance of each member of the Audit Committee at the meetings is set out in the table below:

Name of Director	Attended/ Eligible to attend
Mr. Vincent Man Choi, Li	3/3
Mr. Lv Tingjie	3/3
Mr. Bian Yongzhuang	3/3

Details of the meetings are as follows:

At the first meeting of the Audit Committee of the Board for the year 2016 held on March 29, 2016: 1. the "Resolution on the Annual Results and Annual Report of the Company for the year 2015" was considered and approved; 2. the " Resolution on the Communication Report for the Audit Committee issued by Ernst & Young" was considered and approved; 3. the "Resolution on Internal Control Report and Internal Control Plan of the Company for the Year 2015" was considered and approved; 4. the "Resolution on the Report on Risk Management System for the year 2015" was considered and approved; 5. the " Resolution on the engagement of accounting firm for the year of 2016" was considered and approved.

At the second meeting of the Audit Committee of the Board for the year 2016 held on August 30, 2016: 1. the "Resolution on the Interim Results and Interim Report of the Company for the year 2016" was considered and approved; 2. the " Resolution on the Report of the Audit Committee on the financial report for the first half of 2016" was considered and approved.

At the third meeting of the Audit Committee of the Board for the year 2016 held on December 16, 2016, the "Resolution on the audit plan report for the year 2016 issued by Ernst & Young" was considered and approved.

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

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

Strategy Committee

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

The principal duties of the Strategy Committee include the following:

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

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

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

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

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

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

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

During the year ended December 31, 2016, the Strategy Committee has held four committee meetings and the attendance of each member of the Strategy Committee at the meetings is set out in the table below:

Name of Director	Attended/ Eligible to attend
Mr. Liu Donghai	4/4
Mr. Liu Yajun	4/4
Mr. Liu Songshan	4/4
Mr. Lv Tingjie	4/4
Mr. Qi Xiangdong	4/4

Details of the meetings are as follows:

At the first meeting of the Strategy Committee of the Board for the year 2016 held on June 2, 2016: 1. the "Resolution on the proposed investment of US$10 million for setting up New Idea Investment Pte Ltd (新迪亞投資有限公司) in Singapore" was considered and approved; 2. the " Resolution on the acquisition of 49% equity interests in Spice Online Retail Pvt Limited and the provision of a loan to Spice Online Retail Pvt Limited by New Idea Investment Pte Ltd, an offshore subsidiary under the Company" was considered and approved; 3. the "Resolution on the setting up of a joint venture by New Idea Investment Pte Ltd, an offshore subsidiary under the Company, and Omni Ventures Pvt Limited and the provision of a loan to such joint venture" was considered and approved.

At the second meeting of the Strategy Committee of the Board for the year 2016 held on July 12, 2016, the "Resolution on the proposed acquisition of 40% equity interests in Guangzhou Jin Comsun Communications Development Limited (廣州市金佳信通信產品發展有限公司) at RMB23.53 million by the Company" was considered and approved.

At the third meeting of the Strategy Committee of the Board for the year 2016 held on July 22, 2016, the "Resolution on the proposed acquisition of 75% equity interests in Fushun SCI Commercial Properties Co., Limited (撫順深商投商用置業有限公司) at RMB90 million by Shenzhen Digitone Investment Holdings Co., Limited, a subsidiary of the Company" was considered and approved.

At the fourth meeting of the Strategy Committee of the Board for the year 2016 held on September 18, 2016: 1. the "Resolution on termination of acquisition of the equity interests in Guangzhou Jin Comsun Communications Development Limited by the Company" was considered and approved; 2. the "Resolution on the proposed acquisition of 46% equity interests in Guangzhou Zhongqi Energy Technology Limited Company (廣州市中啟能源科技有限公司) at RMB20.4874 million by the Company" was considered and approved; 3. the "Resolution on the proposed investment in New Idea Investment Pte Ltd by Zhongxing Telecommunication Equipment Corporation and Shanghai Wisdomont Pushang Investment Centre (Limited Partnership) was considered and approved.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2016, which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 99 to 101 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AUDITOR'S REMUNERATION

For the year ended December 31, 2016, the Company engaged Ernst & Young to provide audit-related services and Ernst & Young did not provide any non-audit services. The total remuneration paid or payable by the Company for audit-related services amounted to RMB3,999,000 in 2016.

COMPANY SECRETARIES

Ms. Li Dongmei ("**Ms. Li**"), one of the joint company secretaries of the Company, is responsible for advising the Board on corporate governance matters and ensuring compliance with the Board policies and procedures, and the applicable laws, rules and regulations. In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company has also engaged Ms. Ng Sau Mei ("**Ms. Ng**"), senior manager of KCS Hong Kong Limited (a company secretarial service provider), as another joint company secretary of the Company to assist Ms. Li to discharge her duties as company secretary of the Company. Ms. Li is the primary contact person of Ms. Ng at the Company.

Ms. Li and Ms. Ng have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules during the year ended December 31, 2016.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

Convening of Extraordinary General Meetings and Putting Forward Proposals

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

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

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

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

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

CHANGE IN CONSTITUTIONAL DOCUMENTS

A special resolution of the Company was passed at the 2015 Annual General Meeting held on June 6, 2016 to amend the Articles of Association. For the details of the amendment to the Articles of Association, please see the announcements dated March 29, 2016 and June 6, 2016 and the circular dated April 20, 2016 published by the Company.

Save as disclosed above, there was no material change to the Articles of Association during the year ended December 31, 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board is pleased to present the Environmental, Social and Governance Report of the Company for the year ended December 31, 2016. This report was prepared based on the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Listing Rules.

1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE SYSTEM

The Company is committed to achieving a high level of performance on environmental, social and governance issues in order to protect the interests of the shareholders, increase corporate value and fulfill our social responsibilities. In addition to the disclosure in this annual report, the Company will continue to review and improve the environmental, social and governance system so as to ensure the compliance with relevant national laws and regulations, reduce impact on the environment and fulfill our social responsibility.

1.1 Core philosophy and management

The core philosophy of the Company on environment, society and governance focuses on shouldering our environmental and social responsibility in the course of the enterprise's development. Adherence to this core philosophy, we strictly abide by applicable national and local laws and regulations. We engrave the concept of green development onto our operation and management and see this concept as the foundation of the healthy growth of the Company. The Company follows the motto of "Satisfaction to the customers and the staff" under which we place emphasis on care for the employees, actively communicate with the stakeholders in order to improve our performance on corporate governance, take the initiative to understand the needs of the community, participate in community activities and preach and practice the spirit of charity and dedication.

Based on our core philosophy on environment, society and governance, the Company has set up a working group on corporate environmental, social and governance responsibilities and established a multi-level and cross-departmental environmental, social and governance system covering all of its subsidiaries. Under the system, an A-level working group was formed by the managers of our five major centers in our headquarters, namely human resource center, operation center, procurement center, legal affairs center and financial center. The manager of the human resource center is responsible for the management of human resource. The managers of operation, procurement and legal affairs centers are responsible for the management of the supply chain, products and environmental resources. The human resource center and financial center are responsible for the management of community investment. A B-level working group was formed by 24 general managers of different regional subsidiaries. Each general manager designated 1-3 responsible persons to form a C-level working group for that subsidiary. The A-level working group developed management system and specific measures on environmental, social and governance issues and the C-level working group is responsible for implementation of such measures under the supervision of the B-level working group which also collected relevant data for A-level working group to appraise the results of the implementation, process the data and improve or update the system. The overall system has effectively ensured the implementation and improvement of the corporate policies and the system on environmental, social and governance issues.

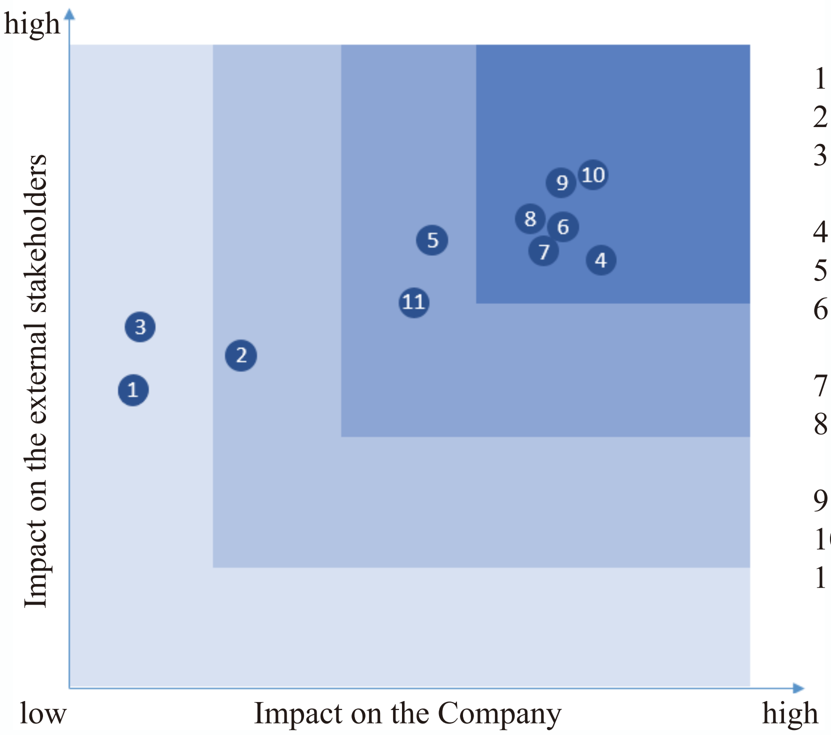
1.2 The involvement of stakeholders

The Company actively strengthens the communication with the stakeholders in order to understand and respond positively and sincerely to their needs. Based on the characteristics of our business, our key stakeholders include the shareholders, suppliers, consumers, communities, employees, the government and regulators.

Key stakeholders	Descriptions of the stakeholders	Subjects of concern
Shareholders	Incorporated bodies which make investment in the Company and hold a certain percentage of the Shares of the Company such as Digital Science & Technology Group Limited which holds 31.71% of the Shares in the Company	employment, management of suppliers, anti-corruption
Suppliers	Enterprises or their branches which directly supply mobile handsets and accessories and provide related services to the Company such as Huawei, a manufacturer, or Putian Tai Li, a distributor.	product liability, health and safety, anti-corruption
Consumers	Members of the general public who purchase or use the products or receive services from the Company or retail stores for personal purposes	product liability, employment, health and safety
Community	A network of social relations and social groups consisting of the people who live in an area to engage in a variety of social activities	emissions, use of resources, environment and natural resources, labor regulations, anti-corruption
Staff	Employees employed under different types of employment contracts, including permanent workers, contracted workers, temporary workers and interns	employment, development and training, product liability, anti-corruption
Government and regulators	Government bodies or regulators who regulate the operation of the Company	anti-corruption, product liability, employment, labor regulations

1.3 Identification and analysis on substantive issues

For the year ended December 31, 2016, the Company strengthened our communication with the stakeholders to fully understand and actively respond to their needs. Based on our communication with the stakeholders, we have selected and identified the top priority important issues to the Company for this year, namely employment, product liability and anti-corruption, and secondary priority important issues, namely development and training, supply chain management and labor regulations.



1. emissions
2. use of resources
3. environment and natural resources
4. employment
5. health and safety
6. development and training
7. labor regulations
8. supply chain management
9. product liability
10. anti-corruption
11. investment in communities

2. ENVIRONMENTAL RESPONSIBILITIES

Energy saving and reduction of emission

The Company regularly keeps tracks of and strictly abides by the national and local laws relating to environment such as the Environmental Protection Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, the Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, the Water Pollution Prevention and Control Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, and minimizes the production of waste caused from the operation of the Company and the impact on the surrounding environment. For the year ended December 31, 2016, there was no fine imposed on or litigation against the Company arising from environmental pollution.

The Company promotes the concept of low-carbon emission to its staff, improves the efficiency of the use of resources and reduces the waste gas and waste water produced in its daily operation through the promotion of the concept of green office. The Company established a coach management system to improve the efficiency of the use of coaches and reduce the emission of waste gas from the coaches. In our daily operation, employees are encouraged to reduce the use of paper and the generation of solid waste. Office waste and garbage are collected by third parties for recycling. At the same time, hazardous waste produced in the Company’s daily operation will be treated in accordance with relevant provisions of the state. Used drum units and toner cartridges in the Company’s headquarters, branches and stores are collected back by the manufacturers for recycling. Applications for the use of loudspeakers or any other audio equipment in any promotional activities held at our stores should be made with local urban management law enforcement bureaus before the events are held. It is a requirement that the noise must be controlled at a level that it would not affect the industrial and business activities and the daily lives of the general public in the surrounding areas.

Use of resources

The Company has adopted various measures to improve the efficiency of the utilization of water, energy and other resources and reduce the waste of resources during the operation of the Company. The Company promotes more efficient use of its assets, including fixed assets and office appliances, by establishing relevant systems for managing the assets of the Company.

Secondly, the Company has adopted various measures to enhance its staff’s awareness on energy saving. In our office operation, we arouse our staff’s awareness on energy and water saving through the posting of posters in relevant locations and giving reminders in routine meetings. In our business operation, the Company holds regular meetings with the shop managers to promote the concept of green operation and encourage them to take relevant measures at the shops. For example, they are encouraged to re-use promotional materials, reduce the distribution of paper leaflets and carry out promotion at WeChat push and other online platforms.

In addition, the Company has reduced office energy consumption through energy saving and promotion of the use of energy-saving appliances. At present, energy-saving lightening units are used in the Company’s headquarters and branch offices.

Environment and natural resources

Since its incorporation, the Company has been engaged in the sales of mobile communication terminals and the provision of related services. The Company sells mobile handsets and their accessories, and provides comprehensive services such as value-added software services, personalized mobile services, after-sales service to the consumers via its extensive sales network and online platform. Owing to the nature of the Company's business, the impact brought by the Company on the environment and natural resources is limited, and such impact is mainly brought by the emission of waste or the consumption of resources in our daily operation.

In addition to low-carbon emission and the improvement on the efficient use of resources, the Company also actively promotes green development in the course of its business operation by the introduction of a new service of trading in used mobile handsets for new ones. This service not only helps promote social sustainable development, but also is well-received by the majority of consumers. Those used mobile handsets collected through this trade-in program will be collected by qualified third parties for recycling.

3. CARE FOR THE EMPLOYEES

The Company has developed relevant management systems for recruitment, compensation, promotion and basic fringe benefits in accordance with applicable laws and regulations.

The Company has established a comprehensive system for human resource management to safeguard the legal rights of the staff members. With regard to the work environment, the Company formulated safety rules for work environment and standardized the work safety measures, and regularly organizes fire safety trainings and exercises for the staff. With regard to the staff training, the Company has in place a comprehensive training mechanism for the staff's growth and training. Training of various work skills are provided to the staff members based on their own quality and job requirements commencing from their jointing the Company. In addition, the Company established a fair and impartial appraisal and promotion system in accordance with the laws so as to ensure the equality between male and female employees, and among different regions. The Company also has in place a bottom-up reporting and complaining system to protect employees' rights and interests. For the year ended December 31, 2016, the Company did not commit any infringement on the rights and interests of the employees and was not subject to any complaints or penalties relating to the employment.

3.1 Rights and Benefits

Employment

The Company continuously keeps tracks of and strictly abides by the national and local laws and regulations relating to employment such as the Labor Law of the People's Republic of China, the Law of the People's Republic of China on Employment Contracts and the Employment Promotion Law of the People's Republic of China, and improves the Company's internal staff management system in accordance with the documents relating to the employment issued by competent ministries including the Ministry of Resources and Social Security. During the year, the Company did not committed any acts which violated any applicable laws and regulations relating to employment or brought any significant impact on the Company.

The Company recruits its employees strictly based on national and local laws and regulations. It has formulated a complete and standardized recruitment process and established a Contract Management System. The Company will enter into formal employment contracts with all employees according to the laws and has in place a standard contract template. The contracts and the staff handbooks clearly set out that the Company complies with national laws and regulations related to the protection of the employees. The Company established a reasonable attendance and leave system according to the laws to avoid any compulsory labor events. At the same time, the Company centralized the management of its staff record through the E-HR system. The Company strictly prohibits the recruitment of child labor and information on the identity of a worker under the age of 18 cannot be input into the E-HR system. No case of sex discrimination was found in the recruitment process. For the year ended December 31, 2016, the ratio of male to female employees was about 4: 6.

In addition to fair opportunity for employment, the Company established a fair and reasonable remuneration system to ensure that the remuneration of the employees is in line with national regulations. At the same time, the Company also actively provides job opportunity to the veterans and disabled persons. During this year, three disabled persons were employed to work at the Head Office.

Employees' fringe benefits

The Company has set up a diversified and comprehensive fringe benefits system for its employees covering the basic necessities of the staff. The Company makes contributions to the basic five insurances and one fund for its employees. At the same time, the Company also help its employees to purchase supplementary medical insurances at preferential premiums and provides the low-paid employees with rent-free staff accommodation within only 10 minutes of walking distance from the Company. Holiday benefits are also provided to employees on holidays. For example, rice balls are given to the employees on the Lantern Festival and honey on the National Day. Birthday gift will be given to an employee on his/her birthday and subsidy for wedding and funeral. Any tooling cost payable by an employee can also be reduced to half. In addition, employees may purchase mobile handsets in internal presales. The Company also awards domestic and oversea trips and bonus to the employees with outstanding performance.

Statistics of Performance Indicators relating to Employees' Rights and Benefits for 2016	
Ratio of employment contract executed (%)	100%
Complaint made by the employees (case)	0
Employee discrimination (case)	0
Amount of funeral grieving money (RMB)	300,000

Note: The data set out above related to the Head Office of the Company only.

3.2 Health and Safety

The Company continuously keeps tracks of and strictly abides by the national and local laws and regulations relating to employee’s safety and health such as the Labor Law of the People's Republic of China, the Fire Prevention Law of the People’s Republic of China and the Regulation on Work-Related Injury Insurances and has established relevant management system for employees’ health and safety to ensure the hygiene and safety of the work environment.

With regard to safety and protection, the Company has in place working safety regulations and regularly organized safety training and exercises for the staff to enhance their safety awareness. With regard to the decoration of the stores, the Company also formulated the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd. which sets out clear procedures on inspection and acceptance of decoration and renovation works so as to ensure that safe and environmentally friendly materials are used for the decoration of the shops. With regard to the employees’ health, the Company provides medical examination and purchases medical insurances for the employees in accordance with applicable laws and regulations, and established a system related to work injury protection. At the same time, the Company also reviewed the qualification of the catering service provider for the staff's breakfast/lunch to ensure the provision of healthy meals for its staff, and from time to time invites professionals to hold seminars on health. In addition, the Company provides its staff with free fruit, coffee/honey and breakfast biscuits every day.

Statistics of Performance indicators relating to health and safety for 2016	
Seminar on health (times)	3
Safety training (times)	1
Number of work injuries (persons)	0

Note: The data set out above related to the Head Office of the Company only

3.3 Learn As We Grow

The Company has established a comprehensive training regime in line with its strong emphasis on staff training and growth.

Training for new employees

The Company provides training to new employees through a combination of "group learning and proactive individual learning". Upon joining the Company, each new employee is given a "Probation Tracking Form for New Employees" to be jointly completed by the employee and his/her immediate supervisor, as part of the "1+1" mutual aid initiative between an employee and his/her supervisor designed to facilitate smooth completion of the probation period. Induction training for new employees typically covers an overview of the Group's development, business profiles, corporate culture, remuneration and benefits, and rules and regulations, as well as professional aptitudes. Such training is aimed at quickly familiarizing the new employees with the working environment and work processes. Meanwhile, a new employee is required to enroll in transitional training during the first month of formal appointment following the probation period. Such training is designed to help streamline the transition from probation to formal appointment and to highlight the role and requirements for a formally appointed staff, so that such employee can be mentally prepared for better integration into his/her job position.

Training for management trainee

As a back-up force supporting the development and expansion of the Company, the management trainees play an important role at both the Head Office and the branch companies. Training for management trainees generally includes:

At the Head Office level: management trainees at the Head Office and outstanding management trainees recommended by the branch companies participate in a 30-day secluded training session held in Chengdu. The training camp is designed to forge mental strengths, solidarity and unity. Specialized lectures are complemented by practical tasks, outward bound training and action-based learning, all aiming to facilitate the transition from a school campus context to a social context. Currently, management trainees who have completed the training are growing to become the backbone at the Company occupying important positions.

At the branch companies level: in addition to training at the Head Office, the branch companies also provide vigorous training to management trainees. For example, our Shanghai Company has organized a week-long full-time training session personally taught by senior management members of the branch with close reference to frontline business, and the effect of such training has been remarkable.

Training for the management

The Company organizes an annual "Red Apple Training Camp" for outstanding members of the management at the Head Office and branch companies. This secluded training session is conducted mainly in the form of closed-off lectures given by veteran managers of the Company or other experts. The training camp provides an excellent opportunity for communication and interaction among management personnel from different companies. Participants of the training camp are enjoying stable career development.

Other forms of training

Reading sessions: a morning reading session is held at the Head Office daily from Monday to Friday each week, during which employees can communicate with each other by sharing their thoughts and views.

Beijing Digital micro learning: Group-wide sharing of applicable knowledge derived from useful on-job experience for individual study during fragmented time slots.

Beijing Digital Business Studies WeChat Official Account (迪信通商學匯企業微信公眾號): information on general knowledge and experience is disseminated through the WeChat official account to facilitate better learning of staff during fragment time slots.

Individual learning + group assessment: this category comprises mainly business training. Relevant materials are centrally published via the Company's system and individual employees sit for online assessment through the online examination platform after learning.

Statistics of performance indicators relating to training for 2016

Item	2015	2016
Staff training (number of participants)	100	200
Staff training ratio (%)	50%	90%
Funds committed to staff training (RMB)	300,000	200,000

Notes:

1. *The data set out above relates to the Head Office of the Company only.*

2. *The staff training ratio has increased substantially while expenditure reduced as a result of more extensive use of internal trainer teams and the E-learning during the year.*

4. PRODUCT LIABILITY

The Company emphasizes aspects of product liability such as customer service, consumer protection, intellectual property rights and honest advertising. We strictly comply with national and local laws and regulations relating to product liability, including the Law of the People's Republic on the Protection of Consumer Rights and Advertising Law of the People's Republic of China, and keep ourselves informed of updates on these laws and regulations on a regular basis. We have formulated comprehensive rules for the administration of relevant matters based on relevant laws and regulations.

4.1 Products and services

Product quality assurance

The Company enters into contracts with suppliers in accordance with the law. Such contracts stipulate that the ratio of products returned for maintenance must be lower than the industry average. For the year ended December 31, 2016, 95% of the Company sales revenue was generated from sales of mobile handsets under the top 20 domestic brands, providing strong assurance for the quality of merchandise sold.

Percentage breakdown of the Company's mobile handset sales for 2016 by brand	
Brand	**Percentage of sales**
Huawei	24.77%
Apple	21.79%
Oppo	11.75%
Vivo	10.86%
Samsung	8.13%
Mi	5.09%
Honor	2.99%
Gionee	2.94%
Coolpad	2.47%
Meizu	2.38%
LeTV	1.68%
Lenovo	1.41%
ZTE	0.99%
Meitu	0.76%
HTC	0.23%
Others	1.78%

Service quality assurance

To ensure the quality of its services, the Company has stipulated detailed provisions for the reception of guests in the "Rules for Daily Store Management" and other rules and regulations. Service quality is constantly emphasized in new employee training and weekly store manager training sessions, which also cover details such as the servicing process, personal appearance and dress code.

The Company has formulated the "Beijing Digital Pledge of Service" to ensure that customers enjoy services of the highest quality provided by our Company. While national regulations currently in force require a seller to guarantee that all merchandise items sold are refundable within 7 days, the Company has offered the customers with a service plan of even higher standards: all customers are free to return purchased merchandise for any reason or at all, within 7 days. To monitor the implementation of this policy by branch companies and outlets, the Head Office has engaged a third-party organization to conduct due diligence on the branch companies and outlets by way of mystery shopping, buying and returning mobile handsets and grading the response of branch companies and outlets. Moreover, it is expressly stated in the Pledge of Service that the Company shall assume full responsibility for the return of goods owing to quality or service issues, and shall in addition offer a compensatory transportation fee of RMB30. Meanwhile, the Company encourages customers to voice their complaints on servicing issues by offering a reward of RMB300 to customers whose complaints have proved to be valid.

Our branch companies have continued to make their own investigations into ways to enhance service quality. For example, our Beijing Company has launched the "Full-hearted Loyalty" program, calling for whole-hearted services by setting up "Full-hearted Loyalty" areas in the outlets. Relevant standards such as "Beijing Company Display Standards for the Full-hearted Loyalty Area" and "Rules for the Appraisal and Point-scoring of the Full-hearted Loyalty Program" have been formulated to unify and standardize our service details. To further optimize the service quality of Beijing Digital, bespoke services such as free Wi-Fi, umbrellas, iced and hot drinks, power-charging for electronic products and first-aid kits, etc. are also provided.

Addressing customers' complaints

The Company has formulated the "Beijing Digital Regulations for the Management of Complaints", on the basis of which an online plus offline mechanism for handling the customers' complaints has been established. Online channels for complaints include the hotline for complaints and new media such as Weibo, WeChat and Baidu Tieba, whereas offline complaints are handled mainly through our outlets.

In accordance with the Company's rules, upon receiving a phone call of complaint or reading a message of complaint on online platforms such as Weibo, WeChat or Baidu Tieba, a customer service representative must get back to the complaining customer immediately, offer apologies, and mark the contact details of the customer. Thereafter, the customer service representative should contact the branch company involved in the complaint within 2 hours, and the officer in-charge of such branch company shall draw up a solution and report to the Head Office within 2 hours. The complaint must be settled within 72 hours. In the event of special circumstances requiring extended time for handling, the customer must be consulted. To avoid repeated complaints, the customer service representative is required to contact the customer after the settlement to see if he/she is satisfied with the solution. If the customer is not satisfied, the branch company must seek another solution. When a customer takes a complaint to an outlet, the receptionist should entertain him/her in a well-mannered attitude and enquire with patience the reasons for the complaint. Free drinks, Wi-Fi connection and other privileges should be provided to the customer and the complaint should be handled instantly and properly.

4.2 Advertising and intellectual property rights

The Company strictly complies with the Advertising Law of the People's Republic of China and provides relevant training to its staff to ensure familiarity with advertising laws and regulations. Promotional literature of all significant marketing campaigns must be examined and approved by the Head Office's Legal Department before publication. In the meantime, the Company also exercises stringent management over the use of logos through standardized design and administration of all logos. During the year ended December 31, 2016, there was no incident of the Company's infringement upon any third-party's intellectual property rights resulting in a material impact on the Company.

Prohibition against counterfeits represents a top priority task for the Company, in connection with which the "Beijing Digital Measures for the Administration of Intellectual Property Rights" have been formulated. During the year ended December 31, 2016, there was one incident of infringement, which has been properly settled: the Company filed a complaint with the industrial and commercial administration authorities after the unauthorized use of the Company's logo by 5 privately-owned shops in Lanzhou had been brought to its attention. After due consultation, the 5 privately-owned shops were admitted into the Beijing Digital franchise system and brought under central management.

4.3 Protection of consumers' privacy

The Company manages consumers' information through the members' information system and prevents the leakage of consumers' information by setting access limits for staff at different levels. During the year ended December 31, 2016, there was no incident of leakage of consumers' information.

4.4 Supply-chain management

The Company manages its suppliers on the basis of well-defined procurement approval processes and supplier entrance standards and related rules. The Company requires all suppliers to be in compliance with relevant national laws and regulations and to furnish relevant documents evidencing their qualifications. Whenever a new supplier is appointed, an application is required to be made through the OA system accompanied by relevant qualification documents of the supplier. Such application shall be examined by the Procurement Department, Finance Department and Systems Department (in that order). If approved, a supplier code will be generated in the Oracle system, on the basis of which all future procurements shall be conducted. The appointment of suppliers by branch companies is also subject to examination by the Procurement Department at the Head Office according to the aforesaid procedure. Currently, the Company's merchandise suppliers are mainly top-ranking brand mobile handset manufacturers.

In connection with suppliers of engineering work, the Company has also imposed restrictions on their choice of materials in the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd. stipulating priority for green and environmentally friendly materials, in addition to requiring compliance with relevant legal and regulatory documents and standards promulgated by national and local authorities.

5. ANTI-CORRUPTION

The Company strictly complies with national and local laws and regulations relating to anti-bribery, blackmailing and fraud, including the Law of the People's Republic on Commercial Bribery and Law of the People's Republic of China on the Countering of Improper Competition, and keeps itself informed of updates on these laws and regulations on a regular basis.

Anti-corruption management

On the basis of relevant laws and regulations, the Company has formulated administrative rules and documents for preventive as well as punitive purposes, such as the "Anti-bribery Regulations", "Procedures and Measures for Dealing with Fraud", "Beijing Digital Rules for Procurement Control" and "Rules for Honest Practices".

The Company has adopted an internal control policy to prevent such misconducts as corruption. The Company's internal audit department performs internal audit to monitor daily operations of our subsidiaries. In addition, our finance department at the Head Office also performs regular check on the cash outflow of the subsidiaries. The staff members of the procurement department will be rotated among departments from time to time for various terms which will help prevent the occurrence of corruption in the business operations. In addition, in order to avoid the occurrence of misconducts, the officers in charge of certain departments, including financial manager, must attend all important meetings (e.g. such as the meeting held for discussion of the rents of the stores).

To further regulate the business practices between the Company and our business partners, the Company has implemented internal control procedures to ensure the compliance with high standards of business ethics. Prior to establishing a business relation with a new counterparty, the business department must perform a due diligence on its background, including a due diligence on its daily business activities and the instructions adopted or usually adopted by such counterparty. Price quotations for the services or products to be purchased should be sought under all practicable circumstances so as to ensure that reasonable prices are charged in line with current market prices. Upon having been purchased, the services or products should be confirmed and verified with sufficient supporting documents. Unless properly authorized, a staff member is not permitted to place any order through his/her personal account, nor is he/she permitted to ask any advance payments from the employees or representatives of the Company's customers. In addition, all contracts entered into by the Company and our principal business partners contain covenants on compliance with such applicable laws and regulations as anti-bribery and anti-money laundering laws and regulations.

The Company's internal audit team strictly reviews the anti-corruption system on a regular basis. The internal audit team consists of eight members who are holders of bachelor's degree with background knowledge on financial, accounting or management. They perform internal audits for all subsidiaries each year to check whether they operate in compliance with our internal control policies. If it is determined that there exists any irregularity in the staff member's practice or business operation, the internal audit team will carry out an ad hoc inspection and record all actions they have taken and their findings. They will make a recommendation on the improvement on the internal control system and submit their report to the senior management. Our senior management will inspect the internal control system to see if there exists any defects or deficiencies, and make timely enhancements.

The Company has set up a hotline for our timely awareness on any activities related to corruption and fraudulent business activities in strict confidentiality. The Company ensures that the Board is able to obtain legal advice in a timely manner and report any unusual activities, if applicable, to the competent authorities. The Board assesses and evaluates the efficiency of the anti-corruption measures on an annual basis. The annual review covers the scopes and effectiveness of the anti-corruption measures related to the operations and business, the Company's risk management capabilities, the performance of the internal audit team, any deficiencies found and the corresponding remedies. The Company also provides our employees and senior management with training on industry practices, policies and legal perspective on business ethics and anti-corruption, anti-fraud, anti-money laundering and other commercial crimes on half-yearly basis.

For the year ended December 31, 2016, the Company was not aware of any incidents which violated the applicable laws and regulations and materially affected the Company.

Reporting on corruption

The Company has established an online whistleblowing system for anonymous reporting. The Legal Department is responsible for collecting and organizing information reported and disseminating such information to relevant departments and outlets, which are required to submit preliminary response plans within one week.

Statistics of performance indicators relating to anti-corruption		
Item	**2015**	**2016**
Anti-corruption training session (times)	1	3
Acceptance of bribery (case)	0	0

Notes:

1. *The data set out above relates to the Group as a whole.*

2. *Anti-corruption training refers to anti-corruption training specifically designed for procurement officers, sales representatives, the responsible person for finance and other senior management discussing the different forms and consequences of corruption. The anti-corruption aspects included in other general training sessions, such training for new employees, are not included here.*

6. COMMUNITY WELFARE

The Company fulfills its social responsibility by actively establishing the communication mechanisms with the neighboring communities, and rolling out community programs tailored to their needs. The Company's vigorous "community engagement" is evidenced by activities such as tutorials on the use of mobile handsets for senior citizens in the communities, free provision of bottled water to parents of candidates sitting for university entrance examinations, provision of 10 free services, including power-charging, umbrellas on rainy days, screen protectors and Internet access, to people working or living in the vicinity of the Company's outlets, and free drinking water to sanitary workers. Our outlets also serve as contact points for lost children, who can seek assistance there.

Moreover, the Company has actively provided employment opportunities to the physically impaired and retired members of the armed forces. As at the end of the year, employment was provided to at least 23 physically impaired persons and 76 retired military personnel.

In connection with education, our Chairman has been making donations to the North China University of Technology Education Foundation on an ongoing basis. The Company also serves as an internship base for Renmin University.

The Company has also organized donations in a proactive manner in times of natural disasters such as floods and earthquakes. During the year ended December 31, 2016, donations raised for various causes amounted to over RMB200,000 in aggregate.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Beijing Digital Telecom Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 102 to 174, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
As at 31 December 2016, the balance of trade receivables amounted to RMB1,865,574,000 and provision for impairment amounted RMB93,314,000. The determination as to whether a trade receivable is collectable involves management's judgement, which includes checking the age of the balance, recent historical payment patterns and assessing any other available information concerning the creditworthiness of the counterparties. The Group uses these information to determine whether a provision for impairment is required either for a specific transaction or for a customer's overall balance. *Reference to Disclosures* Details of recoverability of trade receivables was in note 24.	We evaluated the assumptions and methodology by reviewing the Group's historical collection. We obtained and re-tested the ageing analysis prepared by management. We also vetted the management's assumptions and bases underlying the provision for impairment of trade receivables by corroborating to underlying facts and circumstances of the material balances and performed sample testing on the receivable balances. In order to assess these judgements we considered the overdue period, the customers' historical payment patterns and whether any post year-end payments were received up to the date of completion of our audit procedures. We also obtained corroborative evidence including correspondence between the parties involved, attempts made by management to recover the amounts outstanding and checking to the credit status of significant counterparties, where available. We tested overdue trade receivable balances where no provision was recognised to check that there were any indicators of impairment. This included verifying if payments were received since the year-end, reviewing historical payment patterns and any correspondence with customers on expected settlement dates. In assessing the overall provision for impairment, we also considered the consistency of management's application of the policy for recognising provisions with that of the prior year. We have also assessed the adequacy of the Group's disclosures in the financial statements.

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
The Group performs impairment review of goodwill annually on a value-in-use basis. This annual impairment test was significant to our audit because the balance of goodwill amounted to RMB57,476,000 as at 31 December 2016 which was material. In addition, management's assessment process is complex and highly judgemental and is based on assumptions, specifically revenue growth, profit margins and discount rates, which are affected by expected future market or economic conditions. *Reference to Disclosures* Details of impairment assessment of goodwill was in note 16.	We evaluated the management's future cash flow forecasts and the process by which there were determined and approved, including the forecasts with business operation and development and comparison of the underlying calculations. We tested the key assumptions for the growth rates in the cash flow forecasts by comparing them to historical results, and economic forecasts; and the discount rates by independently estimating a range based on market data. Further, we also involved our internal valuation specialist to review the fair value models adopted by the Group. We also assessed the adequacy of the Group's disclosures in the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Wai Lap, Philip.

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

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	7	**15,177,171**	15,830,720
Cost of sales		**(13,321,491)**	(13,796,603)
Gross profit		**1,855,680**	2,034,117
Other income and gains	7	**90,036**	85,483
Selling and distribution expenses		**(1,043,639)**	(1,141,452)
Administrative expenses		**(319,673)**	(341,487)
Other expenses		**(27,113)**	(39,037)
Finance costs	9	**(111,201)**	(168,448)
Share of profits and losses of:			
Joint ventures		**(1,816)**	1,117
Associates		**(657)**	67
PROFIT BEFORE TAX	8	**441,617**	430,360
Income tax expense	12	**(84,541)**	(73,637)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**357,076**	356,723
Attributable to:			
Owners of the parent		**356,410**	357,062
Non-controlling interests		**666**	(339)
		357,076	356,723
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted (RMB)	14	**0.53**	0.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**157,538**	154,222
Goodwill	16	**57,476**	57,476
Other intangible assets	17	**853**	785
Investments in joint ventures	18	**31,806**	2,111
Investments in associates	19	**8,077**	8,067
Available-for-sale investments	20	**15,075**	15,075
Deferred tax assets	21	**37,984**	60,976
Total non-current assets		**308,809**	298,712
CURRENT ASSETS			
Inventories	22	**2,175,606**	2,148,058
Properties under development	23	**316,156**	282,718
Trade receivables	24	**1,772,260**	1,870,659
Prepayments, deposits and other receivables	25	**1,135,447**	1,021,113
Due from related parties	27	**13,582**	3,662
Pledged deposits	26	**815,367**	1,080,808
Cash and cash equivalents	26	**783,084**	441,844
Total current assets		**7,011,502**	6,848,862
CURRENT LIABILITIES			
Trade and bills payable	28	**443,240**	551,460
Other payables and accruals	29	**403,134**	398,155
Interest-bearing bank borrowings	30	**3,056,403**	3,152,293
Due to related parties	27	**8,848**	665
Tax payable		**239,007**	198,499
Total current liabilities		**4,150,632**	4,301,072
NET CURRENT ASSETS		**2,860,870**	2,547,790
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,169,679**	2,846,502

	Notes	**2016 RMB'000**	2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	*30*	**–**	48,000
NET ASSETS		**3,169,679**	2,798,502
EQUITY			
Equity attributable to owners of the parent			
Share capital	*31*	**666,667**	666,667
Other reserves	*32*	**2,443,029**	2,086,619
		3,109,696	2,753,286
Non-controlling interests		**59,983**	45,216
Total equity		**3,169,679**	2,798,502

Liu Donghai
Director

Liu Songshan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent						
	Share capital RMB'000 *(Note 31)*	Capital reserve* RMB'000 *(Note 32)*	Statutory reserve funds* RMB'000 *(Note 32)*	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	666,667	528,263	140,039	1,064,565	2,399,534	21,669	2,421,203
Total comprehensive income for the year	–	–	–	357,062	357,062	(339)	356,723
Capital contribution by non-controlling shareholders	–	–	–	–	–	400	400
Acquisition of a subsidiary	–	–	–	–	–	29,942	29,942
Disposal of interest in a subsidiary	–	–	–	–	–	(6,456)	(6,456)
Share issue expenses	–	(3,310)	–	–	(3,310)	–	(3,310)
Transfer from retained profits	–	–	35,672	(35,672)	–	–	–
At 31 December 2015 and 1 January 2016	**666,667**	**524,953**	**175,711**	**1,385,955**	**2,753,286**	**45,216**	**2,798,502**
Total comprehensive income for the year	**–**	**–**	**–**	**356,410**	**356,410**	**666**	**357,076**
Capital contribution by non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**14,100**	**14,100**
Disposal of interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Transfer from retained profits	**–**	**–**	**35,708**	**(35,708)**	**–**	**–**	**–**
At 31 December 2016	**666,667**	**524,953**	**211,419**	**1,706,657**	**3,109,696**	**59,983**	**3,169,679**

* *These reserve accounts comprise the consolidated reserves of RMB2,443,029,000 (2015: RMB2,086,619,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**441,617**	430,360
Adjustments for:			
Finance costs	9	**111,201**	168,448
Share of profits and losses of joint ventures		**1,816**	(1,117)
Share of profits and losses of associates		**657**	(67)
(Reversal of provision)/provision for impairment of trade receivables	8	**(2,620)**	11,829
Provision for impairment of amounts due from related parties	8	**635**	–
Provision/(reversal of provision) for impairment of other receivables	8	**1,595**	(218)
Provision for impairment of inventories	8	**24,334**	23,825
Depreciation	8	**61,930**	92,165
Amortisation of intangible assets	8	**612**	388
Gain on disposal of a subsidiary		**(1)**	–
Loss/(gain) on disposal of items of property, plant and equipment	8	**644**	(53)
Foreign exchange loss/(gain), net		**(574)**	–
		641,846	725,560
Decrease/(increase) in trade receivables		**101,019**	(206,793)
Increase in prepayments, deposits and other receivables		**(50,739)**	(109,112)
Increase in inventories		**(51,882)**	(235,857)
Increase in properties under development		**(33,438)**	(91,669)
Decrease in trade and bills payable		**(108,220)**	(152,049)
Decrease in other payables and accruals		**(15,100)**	(16,813)
Increase in amounts due from related parties		**(10,555)**	(1,492)
Increase/(decrease) in amounts due to related parties		**8,183**	(1,074)
Cash from/(used in) operations		**481,114**	(89,299)
Income tax paid		**(21,041)**	(29,858)
Net cash flows from/(used in) operating activities		**460,073**	(119,157)
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of a subsidiary		**(98)**	–
Purchases of items of property, plant and equipment		**(70,334)**	(85,789)
Purchases of items of other intangible assets		**(680)**	(554)
Proceeds from disposal of items of property, plant and equipment		**4,444**	1,919
Purchases of available-for-sale investments		**–**	(8,020)
Decrease in interest in a subsidiary		**–**	11,722
Acquisition of interests in associates		**–**	(8,000)
Acquisition of interests in joint ventures		**(31,511)**	–
Acquisition of a subsidiary		**–**	(85,612)
Prepayment arising from acquisitions		**(50,992)**	–
Advances of loans to an associate		**(14,498)**	–
Net cash flows used in investing activities		**(163,669)**	(174,334)

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue expenses	**–**	(3,310)
New bank loans	**5,379,578**	7,646,932
Capital contribution from non-controlling shareholders	**33,912**	400
Decrease/(increase) in pledged deposits	**265,441**	(725,426)
Repayment of bank loans	**(5,523,468)**	(6,350,111)
Interest paid	**(111,201)**	(168,448)
Net cash flows from financing activities	**44,262**	400,037
NET INCREASE IN CASH AND CASH EQUIVALENTS	**340,666**	106,546
Cash and cash equivalents at beginning of year	**441,844**	335,298
Effect of foreign exchange rate changes, net	**574**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	**783,084**	441,844
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**783,084**	441,844
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION	**783,084**	441,844

1. CORPORATE AND GROUP 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, the PRC.

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

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

Information about subsidiaries

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

Name of the principal subsidiaries	Issued ordinary/ registered share capital RMB	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Beijing Dphone Trading Co., Ltd.* (北京迪信商貿有限責任公司)	100,000,000	100	–	(1)
Beijing Dphone Electronic Communication Technology Co., Ltd. * (北京迪信通電子通信技術有限公司)	10,000,000	100	–	(1)
Beijing Shengduo Trading Co., Ltd. * (北京勝多商貿有限責任公司)	10,000,000	100	–	(1)
Jiangsu Shengduo Technology Trading Co., Ltd. * (江蘇勝多科貿有限責任公司)	10,000,000	100	–	(1)
Jiangsu Chuangfa Trading Co., Ltd. * (江蘇創發商貿有限責任公司)	5,000,000	–	100	(1)
Jiangsu Dphone Communication Technology Co., Ltd. * (迪信通通訊科技江蘇有限公司)	20,000,000	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital RMB	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Shanghai Chuanda Communication Technology Co., Ltd. * (上海川達通信技術有限公司)	10,000,000	100	–	(1)
Shanghai Dixin Electronic Communication Technology Co., Ltd. * (上海迪信電子通信技術有限公司)	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)	20,000,000	100	–	(1)
Hefei Dphone Communication Technology Co., Ltd. * (合肥迪信通通信技術有限公司)	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)	10,000,000	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)	20,000,000	100	–	(1)
Beijing Dixinhaotian Trading Co., Ltd. * (北京迪信昊天商貿有限公司)	10,000,000	100	–	(1)
Guangxi Dphone Electronic Communication Technology Co., Ltd. * (廣西迪信通電子通信技術有限公司)	15,000,000	100	–	(1)
Zhejiang Dphone Trading Co., Ltd. * (浙江迪信通商貿有限公司)	10,000,000	100	–	(1)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital RMB	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Sichuan Yijialong Communication Technology Chain Co., Ltd. * (四川億佳隆通訊連鎖有限公司)	5,000,000	100	–	(1)
Beijing Dphone Fengze Electronic Equipment Co., Ltd. * (北京迪信通豐澤電子設備有限公司)	5,000,000	–	100	(1)
Jinan Dixin Electronic Communication Technology Co., Ltd. * (濟南迪信電子通信技術有限公司)	10,500,000	100	–	(1)
Nanyang Dphone Electronic Communication Technology Co., Ltd. * (南陽迪信通電子通信技術有限公司)	8,000,000	–	100	(1)
Qingdao Dphone Communication Technology Co., Ltd. * (青島迪信通通信技術有限公司)	5,000,000	–	100	(1)
Hunan Zhongxuntong Electronic Science and Technology Co., Ltd. * (湖南中訊通電子科技有限公司)	5,000,000	100	–	(1)
Neimenggu Dphone Electronic Communication Technology Co., Ltd. * (內蒙古迪信通電子通信技術有限公司)	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)	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)	20,000,000	100	–	(1)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital RMB	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Tianjin Dphone Electronic Communication Technology Co., Ltd. * (天津迪信通電子通信技術有限公司)	30,000,000	100	–	(1)
Gaobeidian Dphone Electronic Science and Technology Co., Ltd. * (高碑店市迪信通電子科技有限公司)	30,000,000	100	–	(1)
Guangdong Dphone Trading Co., Ltd. * (廣東迪信通商貿有限公司)	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)	10,000,000	100	–	(1)
Ningbo Hi-tech Zone Wencui Technology Co., Ltd. * (寧波高新區文翠科技有限公司)	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)	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)	2,000,000	100	–	(1)
Henan Dphone Trading Co., Ltd. * (河南迪信通商貿有限公司)	10,000,000	60	–	(1)
Wuhan Yitongda Communication Equipment Co., Ltd. * (武漢易通達通訊器材有限公司)	2,000,000	–	100	(1)

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of the principal subsidiaries	Issued ordinary/ registered share capital RMB	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Yunnan Dphone Electronic Communication Technology Co., Ltd. * (雲南迪信通電子通信技術有限公司)	20,000,000	–	100	(1)
Beijing Tailongji Trading Co., Ltd. * (北京市泰龍吉貿易有限公司)	10,000,000	100	–	(2)
Shenzhen Hua'aotong Electronic Technology Co., Ltd. * (深圳市華奧通電子有限公司)	20,000,000	–	100	(3)
Yunfu SCI Commercial Properties Co., Ltd. ("Yunfu SCI")* (雲浮深商投商用置業有限公司)	120,000,000	–	75	(4)

Notes:

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

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

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

(4) *Development and sale of properties*

* *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.

There is no subsidiary that has non-controlling interest that is material to the Group during the year.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27, and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

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

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to IFRSs 2012-2014 Cycle* issued in September 2014 sets out amendments to a number of IFRSs. Details of the amendments are as follows:

- *IFRS 5 Non-current Assets Held for Sale* and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in IFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities*[1]
Amendments to IFRS 1 included in *Annual Improvements 2014-2016 Cycle*	*First-time Adoption of International Financial Reporting Standards*[2]
Amendments to IAS 28 included in *Annual Improvements 2014-2016 Cycle*	*Investments in Associates or Joint Ventures*[2]

[1] *Effective for annual periods beginning on or after 1 January 2017*
[2] *Effective for annual periods beginning on or after 1 January 2018*
[3] *Effective for annual periods beginning on or after 1 January 2019*
[4] *No mandatory effective date yet determined but available for adoption*

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

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 Directors of the Company anticipate that the new and revised IFRSs, excluding IFRS 9, IFRS 15 and IFRS 16, may result in changes in accounting policies but are unlikely to have material impact on the Group's results of operations and financial position upon application.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

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

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 replaces IAS 17 *Leases*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

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

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.

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

Business combinations and goodwill *(Continued)*

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 and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

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.

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

Fair value measurement *(Continued)*

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

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

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

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

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

Related parties *(Continued)*

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

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

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

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

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

Intangible assets (other than goodwill)

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

Software copyrights

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

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 lessee, rentals payable under operating leases, net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, 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.

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

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

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.

Subsequent measurement

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

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 profit or loss. The loss arising from impairment is recognised in 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 unlisted equity investments. 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.

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 profit or loss.

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

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.

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

Impairment of financial assets

The Group 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.

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

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

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 profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 other expenses in profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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 payables, other payables, interest-bearing bank borrowings and amounts 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 profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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

Inventories

Inventories 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.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost comprising land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period and net realisable value.

Properties under development are classified as current assets unless those will not be realised in one normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Provisions

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

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

Income tax

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

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

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

Income tax *(Continued)*

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, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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 scheme

The employees of the Group's subsidiaries which operate 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 their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

Vendor rebates

Volume-related vendor rebates are recognised as a deduction from cost of sales on an accrual basis according to the expected entitlement earned up to the reporting date for each relevant supplier contract. Rebates relating to items purchased but still held at the reporting date are deducted from the carrying value of these items so that the cost of inventories is recorded net of applicable rebates.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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 at 31 December 2016 was RMB57,476,000 (2015: RMB57,476,000). Further details are given in note 16 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 24 to the financial statements.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

(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 sale of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(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 differences to the extent that it is probable that tax profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 21 to the financial statements.

6. OPERATING SEGMENT INFORMATION

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

(a) The mobile telecommunications devices segment mainly engages in the sale of mobile telecommunications devices and accessories.

(b) The properties segment mainly engages in the development and sale of properties.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax.

6. OPERATING SEGMENT INFORMATION *(Continued)*

Segment assets and segment liabilities are both managed separately by operating segments.

Year ended 31 December 2016	Mobile telecommunications devices RMB'000	Properties RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	15,177,171	–	15,177,171
Revenue			15,177,171
Segment results	539,911	(2,764)	537,147
Reconciliation:			
Interest income	15,660	11	15,671
Finance costs	(111,167)	(34)	(111,201)
Profit/(loss) before tax	444,404	(2,787)	441,617
Segment assets	6,955,005	365,306	7,320,311
Segment liabilities	3,898,001	252,631	4,150,632
Other segment information:			
Impairment losses recognised in profit or loss	23,754	190	23,944
Depreciation and amortisation	62,482	60	62,542

Information about major customers

During the year, the Group had no customers from whom the revenue derived individually accounted for more than 10% of the Group's total revenue.

Geographical information

Since the Group solely operates in Mainland China and all of the non-current assets of the Group are located in Mainland China, geographical segment information as required by IFRS 8 *Operating Segments* is not presented.

7. REVENUE, OTHER INCOME AND GAINS

Revenue 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	
	2016	2015
	RMB'000	RMB'000
Revenue		
Sales of mobile telecommunications devices and accessories	**14,676,963**	15,088,123
Including:		
Retail of mobile telecommunications devices and accessories	**8,426,306**	8,423,136
Sales of telecommunications devices and accessories to franchisees	**2,818,234**	2,743,507
Wholesale of mobile telecommunications devices and accessories	**3,432,423**	3,921,480
Service income from mobile carriers	**383,605**	593,035
Other service fee income	**116,603**	149,562
	15,177,171	15,830,720
Other income and gains		
Interest income	**15,671**	14,694
Government grants *(note (a))*	**67,270**	65,165
Gain on disposal of items of property, plant and equipment	**35**	53
Others	**7,060**	5,571
	90,036	85,483

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

8. PROFIT BEFORE TAX

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of inventories sold and services provided	**13,321,491**	13,796,603
Depreciation *(note 15)*	**61,930**	92,165
Amortisation of intangible assets *(note 17)*	**612**	388
Lease payments under operating leases	**357,472**	406,948
Auditors' remuneration	**3,999**	3,734
Employee benefit expense (including directors' remuneration as set out in *note 10*):		
Wages and salaries	**454,522**	459,710
Pension scheme contributions	**61,847**	55,905
	516,369	515,615
Provision/(reversal of provision) for impairment of trade receivables *(note 24)*	**(2,620)**	11,829
Provision for impairment of amounts due from related parties	**635**	–
Provision/(reversal of provision) for impairment of other receivables *(note 25)*	**1,595**	(218)
Write-down of inventories to net realisable value *(note 22)*	**24,334**	23,825
Loss/(gain) on disposal of items of property, plant and equipment	**644**	(53)

9. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest on bank loans	**111,201**	168,448

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,627**	2,588
Pension scheme contributions	**195**	205
	1,822	2,793

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Mr. Lv Tingjie	**61**	61
Mr. Leng Rongquan*(i)*	**–**	31
Mr. Li Wencai	**210**	263
Mr. Bian Yongzhuang*(i)*	**56**	74
	327	429

There were no other emoluments payable to the independent non-executive directors during year.

Note:

(i) *Mr. Leng Rongquan resigned on 2 June 2015 and was replaced by Mr. Bian Yongzhuang as an independent non-executive director on 2 June 2015.*

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors, non-executive director and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2016				
Executive directors:				
Mr. Liu Songshan	**–**	**269**	**39**	**308**
Mr. Liu Donghai	**–**	**255**	**39**	**294**
Ms. Liu Wencui	**–**	**288**	**39**	**327**
Ms. Liu Hua	**–**	**177**	**39**	**216**
Mr. Liu Yajun	**–**	**255**	**39**	**294**
	–	**1,244**	**195**	**1,439**
Non-executive director:				
Mr. Qi Xiangdong	**–**	**56**	**–**	**56**
	–	**1,300**	**195**	**1,495**
2015				
Executive directors:				
Mr. Liu Songshan	–	449	41	490
Mr. Liu Donghai	–	409	41	450
Ms. Liu Wencui	–	409	41	450
Ms. Liu Hua	–	409	41	450
Mr. Liu Yajun	–	409	41	450
	–	2,085	205	2,290
Non-executive director:				
Mr. Qi Xiangdong	–	74	–	74
	–	2,159	205	2,364

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

11. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the year is as follows:

	Number of employees Year ended 31 December	
	2016	2015
Directors and the chief executive	–	1
Non-director and non-chief executive	**5**	4
	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 of the Group are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,059**	1,908
Pension scheme contributions	**307**	164
	2,366	2,072

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	
	2016	2015
Nil to HK$1,000,000	**5**	4

12. INCOME TAX EXPENSE

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which became effective on 1 January 2008, except for Jiangsu Shengduo Technology Trading Co., Ltd. and Sichuan Yijialong Communication Technology Chain Co., Ltd., two subsidiaries of the Company which were taxed at preferential rates of 12.5% and 15%, respectively, for the year ended 31 December 2016. The major components of income tax expense are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current:		
Tax charge for the year	**61,549**	106,749
Deferred *(note 21)*	**22,992**	(33,112)
Total tax charge for the year	**84,541**	73,637

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of the subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before tax	**441,617**	430,360
Tax at the statutory tax rate	**110,404**	107,590
Lower tax rates for certain entities	**(30,956)**	(12,066)
Adjustments in respect of current tax of previous periods	**2,759**	3,347
Profits attributable to associates and joint ventures	**618**	(296)
Effect of unrealised profit to be realised at a different tax rate	**–**	(29,051)
Expenses not deductible for tax	**1,230**	1,846
Tax losses utilised from previous periods	**(5,844)**	(3,577)
Tax losses not recognised	**6,330**	5,844
Tax charge at the Group's effective rate	**84,541**	73,637

The share of tax attributable to associates and joint ventures amounting to RMB377,000 (2015: RMB17,000) and nil (2015: RMB279,000), respectively, is included in "Share of profits of associates and joint ventures" in the consolidated statement of profit or loss and other comprehensive income.

13. DIVIDENDS

The directors did not propose a dividend for the year ended 31 December 2016.

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

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 666,667,000 (2015: 666,667,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

The calculation of basic earnings per share is based on:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**356,410**	357,062
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**666,667,000**	666,667,000

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2016					
At 31 December 2015 and at 1 January 2016:					
Cost	**71,330**	**348,157**	**75,860**	**38,401**	**533,748**
Accumulated depreciation	**(18,570)**	**(291,737)**	**(50,483)**	**(18,736)**	**(379,526)**
Net carrying amount	**52,760**	**56,420**	**25,377**	**19,665**	**154,222**
At 1 January 2016, net of accumulated depreciation	**52,760**	**56,420**	**25,377**	**19,665**	**154,222**
Additions	**14,096**	**36,008**	**11,993**	**8,237**	**70,334**
Disposals	**(14)**	**–**	**(8,748)**	**(4,441)**	**(13,203)**
Depreciation provided during the year	**(2,353)**	**(44,112)**	**(11,103)**	**(4,362)**	**(61,930)**
Depreciation transferred	**8**	**–**	**5,930**	**2,177**	**8,115**
At 31 December 2016, net of accumulated depreciation	**64,497**	**48,316**	**23,449**	**21,276**	**157,538**
At 31 December 2016:					
Cost	**85,412**	**384,165**	**79,105**	**42,197**	**590,879**
Accumulated depreciation	**(20,915)**	**(335,849)**	**(55,656)**	**(20,921)**	**(433,341)**
Net carrying amount	**64,497**	**48,316**	**23,449**	**21,276**	**157,538**

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2015					
At 31 December 2014 and at 1 January 2015:					
Cost	63,258	278,329	65,637	37,337	444,561
Accumulated depreciation	(15,544)	(215,755)	(42,221)	(16,923)	(290,443)
Net carrying amount	47,714	62,574	23,416	20,414	154,118
At 1 January 2015, net of accumulated depreciation	47,714	62,574	23,416	20,414	154,118
Additions	8,072	61,883	13,468	2,366	85,789
Acquisition of a subsidiary	–	7,945	101	300	8,346
Disposals	–	–	(3,346)	(1,602)	(4,948)
Depreciation provided during the year	(3,026)	(75,982)	(10,107)	(3,050)	(92,165)
Depreciation transferred	–	–	1,845	1,237	3,082
At 31 December 2015, net of accumulated depreciation	52,760	56,420	25,377	19,665	154,222
At 31 December 2015:					
Cost	71,330	348,157	75,860	38,401	533,748
Accumulated depreciation	(18,570)	(291,737)	(50,483)	(18,736)	(379,526)
Net carrying amount	52,760	56,420	25,377	19,665	154,222

As at 31 December 2016, the Group have not obtained title certificates for certain of the buildings with an aggregate net carrying amount of approximately RMB14,096,000 (2015: Nil). The directors were of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2016.

16. GOODWILL

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January:		
Cost and net carrying amount	**57,476**	57,302
Cost at 1 January, net of accumulated impairment	**57,476**	57,302
Acquisition of a subsidiary	**–**	174
At 31 December	**57,476**	57,476

Impairment testing of goodwill

The carrying amounts of goodwill allocated to each of the cash-generating units which are subsidiaries of the Company are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Changsha 958598 Electronic Communication Equipment Co., Ltd.	**490**	490
Shenyang Tongliansihai Electronic Communication Technology Co., Ltd.	**381**	381
Sichuan Yijialong Communication Technology Chain Co., Ltd.	**34,650**	34,650
Luoyang Dphone Electronic Communication Technology Co., Ltd.	**5,739**	5,739
Shangqiu Dphone Electronic Communication Technology Co., Ltd.	**1,729**	1,729
Xiamen Dphone Electronic Communication Technology Co., Ltd.	**495**	495
Yunnan Dphone Electronic Communication Technology Co., Ltd.	**7,792**	7,792
Wuhan Yitongda Communication Equipment Co., Ltd.	**1,235**	1,235
Xi'an Dphone Electronic Communication Technology Co., Ltd.	**3,790**	3,790
Beijing Jinyitongda Communication Equipment Maintenance Co., Ltd.	**351**	351
Xinyang Beixing Science Trading Co., Ltd.	**650**	650
Yunfu SCI Commercial Properties Co., Limited	**174**	174
	57,476	57,476

16. GOODWILL *(Continued)*

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation. To calculate this, cash flow projections are prepared based on financial budgets as approved by the Directors which cover a period of five years. At 31 December 2016, the pre-tax discount rate applied to the cash flow projections was 16% to 18% (2015: 16% to 18%).

The growth rate used to extrapolate the cash flows of the cash-generating units beyond the five-year period was 3% as at 31 December 2016 (2015: 3%). The directors believe that this growth rate is conservative and reliable for the purpose of impairment testing.

Assumptions were used in the value in use calculation of the cash-generating units noted above for 31 December 2016 and 31 December 2015. 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 margins 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 the units, regard has been given to the applicable borrowing rate of the Group during the year.

The values assigned to the key assumptions on market development, gross margins, expenses and discount rates are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

	Software copyrights RMB'000
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	**785**
Additions	**680**
Amortisation provided during the year	**(612)**
At 31 December 2016	**853**
At 31 December 2016:	
Cost	**4,519**
Accumulated amortisation	**(3,666)**
Net carrying amount	**853**
31 December 2015	
Cost at 1 January 2015, net of accumulated amortisation	**614**
Additions	**554**
Acquisition of a subsidiary	**5**
Amortisation provided during the year	**(388)**
At 31 December 2015	**785**
At 31 December 2015:	
Cost	**3,839**
Accumulated amortisation	**(3,054)**
Net carrying amount	**785**

18. INVESTMENTS IN JOINT VENTURES

	As at 31 December **2016** **RMB'000**	2015 RMB'000
Share of net assets	**28,087**	2,111
Goodwill	**3,719**	–
	31,806	2,111

Particulars of the Group's joint ventures are as follows

Name	Investment cost RMB'000	Place of registration and business	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Hollard-D. Phone (Beijing) Technology Development Co., Ltd.*	2,500	PRC/Mainland China	50	50	50	Technology research and consulting service
Guangzhou Zhongqi Energy Technology Co., Ltd.*	20,487	PRC/Mainland China	46	46	46	Technology research and consulting service
Shenzhen Chuanshi Electronic Technology Ltd.*	11,024	PRC/Mainland China	50	50	50	Technology research and consulting service

* *English translations of names for identification purposes only*

The above investments are directly held by the Company.

The following table illustrates the financial information of the Group's joint ventures:

	2016 **RMB'000**	2015 RMB'000
Share of the joint ventures' profit/(loss) for the year	**(1,816)**	1,117

19. INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Share of net assets	**3,876**	3,866
Goodwill on acquisition	**4,201**	4,201
	8,077	8,067

Particulars of the Group's associates are as follows:

Name	Percentage of issued shares held	Place of registration and business	Particulars of ownership interest attributable to the Group	Principal activities
Shenzhen Dixin Nuclear Communications Co., Ltd. *	Ordinary shares	Mainland China	20	Wholesale and retail of communication equipment
Shanxi Hartcourt Intermediation Information Technology Co., Ltd. *	Ordinary shares	Mainland China	40	Providing POS terminal equipment and services

* *English translations of names for identification purposes only*

The Group's shareholdings in the associates all comprise equity shares held by the Company, except for Shanxi Hartcourt Intermediation Information Technology Co., Ltd., the shareholding in which is held through a wholly-owned subsidiary of the Company.

19. INVESTMENTS IN ASSOCIATES *(Continued)*

The following table illustrates the financial information of the Group's associates:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Share of the associates' (loss)/profit for the year	**(657)**	67

20. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Unlisted equity investments, at cost	**15,075**	15,075

The unlisted equity investments are equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each reporting date because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of them in the near future.

21. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

	Deductible temporary differences RMB'000	**Unrealised profit** RMB'000	**Total** RMB'000
Gross deferred tax assets at 1 January 2015	27,864	–	27,864
Deferred tax credited to profit or loss during the year	4,061	29,051	33,112
Gross deferred tax assets at 31 December 2015 and 1 January 2016	31,925	29,051	60,976
Deferred tax credited to profit or loss during the year	(649)	(22,343)	(22,992)
At 31 December 2016	31,276	6,708	37,984

There were no significant unrecognised deferred tax assets in respect of deductible temporary differences and unused tax credits as at 31 December 2016 and 2015.

22. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Merchandise for resale	**2,199,333**	2,170,970
Consumable supplies	**607**	913
	2,199,940	2,171,883
Less: provision against inventories	**(24,334)**	(23,825)
	2,175,606	2,148,058

23. PROPERTIES UNDER DEVELOPMENT

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	**282,718**	–
Additions	**33,438**	91,669
Acquisition of a subsidiary	**–**	191,049
At 31 December	**316,156**	282,718

24. TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**1,865,574**	1,969,307
Less: impairment of trade receivables	**(93,314)**	(98,648)
	1,772,260	1,870,659

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

Endorsed bills receivable

The Group endorsed certain bills receivable (the "Endorsement") accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers at 31 December 2016 with an aggregate carrying amount of RMB26,732,000 (2015: RMB57,000,000). 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 Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables.

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 year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

24. TRADE RECEIVABLES *(Continued)*

Trade receivables factoring

As part of its normal business, the Group entered into a trade receivable 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 risks and rewards with regard to trade receivables. Accordingly, it has not derecognised the full carrying amounts, and the proceeds from the Arrangement are recorded as bank borrowings. The original carrying value of trade receivables transferred under the Arrangement that have not been settled as at 31 December 2016 was nil (2015: RMB53,720,000), and the proceeds from the Arrangement in the same amount are recorded as bank borrowings.

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 90 days	**1,672,855**	1,753,546
91 to 180 days	**38,874**	39,931
181 to 365 days	**30,608**	40,940
Over 1 year	**29,923**	36,242
	1,772,260	1,870,659

24. TRADE RECEIVABLES *(Continued)*

Trade receivables factoring *(Continued)*

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	**98,648**	86,819
Provision/(reversal of provision) for impairment of trade receivables *(note 8)*	**(2,620)**	11,829
Amount written off as uncollectible	**(2,714)**	–
At 31 December	**93,314**	98,648

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Neither past due nor impaired	**1,449,835**	1,540,451
Past due but not impaired:		
Less than 90 days	**231,261**	224,731
91 to 180 days	**36,379**	37,983
181 to 365 days	**35,892**	36,981
Over 1 year	**18,893**	30,513
	1,772,260	1,870,659

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no significant recent history of default.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Prepayments	**958,270**	904,747
Deposits and other receivables	**184,000**	121,594
	1,142,270	1,026,341
Less: impairment of other receivables	**(6,823)**	(5,228)
	1,135,447	1,021,113

The movements in the provision for impairment of other receivables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	**5,228**	5,446
Provision/(reversal of provision) for impairment of other receivables *(note 8)*	**1,595**	(218)
At 31 December	**6,823**	5,228

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash and bank balances	**783,084**	441,844
Time deposits	**815,367**	1,080,808
	1,598,451	1,522,652
Less: pledged time deposits –		
pledged for bank borrowings	**806,404**	1,046,976
pledged for bank acceptance notes	**8,963**	33,832
Cash and cash equivalents, denominated in RMB	**783,084**	441,844

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between three months and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27. BALANCES WITH RELATED PARTIES

The amounts due from/to related companies of the Group and subsidiaries of the Company are trade in nature, interest-free and repayable on demand.

28. TRADE AND BILLS PAYABLE

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables	**422,872**	479,610
Bills payable	**20,368**	71,850
	443,240	551,460

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 90 days	**408,350**	511,776
91 to 180 days	**18,214**	19,523
181 to 365 days	**12,319**	15,106
Over 1 year	**4,357**	5,055
	443,240	551,460

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

29. OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Advances from customers	**237,826**	199,885
Payroll and welfare payable	**34,637**	61,762
Accrued expenses	**6,642**	9,664
Other payables	**124,029**	126,844
	403,134	398,155

30. INTEREST-BEARING BORROWINGS

	2016		2015	
	Maturity	**RMB'000**	Maturity	RMB'000
Current				
Bank loans:				
Unsecured, repayable within one year	**2017**	**1,598,474**	2016	2,429,750
Secured, repayable within one year	**2017**	**1,409,929**	2016	720,543
Current portion of long term bank loans – unsecured	**2017**	**48,000**	2016	2,000
		3,056,403		3,152,293
Non-current				
Bank loans:				
Unsecured		**–**	2017	48,000
		3,056,403		3,200,293
The bank loans bear interest at rates per annum in the range of		**2.50% to 6.40%**		3.55% to 7.28%

Certain of the Group's bank loans are secured by:

(i) pledged trade receivables, which had a carrying value at the end of the reporting period of nil (2015: RMB67,150,000); and

(ii) pledged deposits, which had an aggregate carrying value at the end of the reporting period of RMB806,404,000 (2015: RMB1,046,976,000).

31. SHARE CAPITAL

Shares

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Issued and fully paid:		
667,000,000 (2015: 667,000,000) ordinary shares	**666,667**	666,667

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** RMB'000
At 31 December 2015 and 2016	667,000,000	666,667

32. OTHER RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Statutory reserve funds

Pursuant to the relevant PRC laws and regulations, Sino-foreign equity joint ventures registered in the PRC are required to transfer a certain percentage, as approved by the board of Directors, of their profit after income tax, as determined in accordance with the PRC accounting rules and regulations, to the reserve funds, the enterprise expansion fund and the employee bonus and welfare fund. These funds are restricted as to use.

In accordance with the relevant PRC laws and regulations, each of the PRC domestic companies is required to transfer 10% of their 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.

32. OTHER RESERVES *(Continued)*

Distributable reserves

For dividend purposes, the amounts which the PRC companies can legally distribute by way of a dividend are determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP.

In accordance with the Company Law of the PRC, profit after tax of the PRC companies can be distributed as dividends after the appropriation to the statutory reserve funds as set out above.

33. 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.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within a year	**319,348**	312,376
In the second to fifth years, inclusive	**484,803**	525,259
After five years	**119,718**	139,233
	923,869	976,868

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for:		
Properties under development	**42,794**	6,497

35. RELATED PARTY TRANSACTIONS

(a) The following table presents the total amounts of transactions that have been entered into with related parties during the years ended 31 December 2016 and 2015, as well as the balances with related parties as at 31 December 2016 and 31 December 2015:

		Sales to related parties[(i)] RMB'000	Purchases from related parties[(i)] RMB'000	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Associates:					
Shenzhen Dixinjuhe	**2016**	**2,198**	**279**	**–**	**1,830**
Communications Co., Ltd.	2015	–	–	–	–
Shanxi Hartcourt Intermediation	**2016**	**–**	**–**	**–**	**667**
Information Technology Co., Ltd.	2015	–	–	–	–
Joint ventures:					
Hollard-D.Phone (Beijing)	**2016**	**–**	**17,844**	**50**	**6,264**
Technology Development Co., Ltd	2015	–	84	–	665
Guangzhou Zhongqi Energy	**2016**	**11,454**	**–**	**7,919**	**–**
Technology Co., Ltd	2015	–	–	–	–
Fellow subsidiaries:					
Beijing Dphone Communication	**2016**	**140**	**2**	**4,806**	**87**
Services Co., Ltd[1]	2015	5,530	569	4,106	40
Beijing Dixin Alliance	**2016**	**70**	**–**	**78**	**–**
Technology Co., Ltd.[1]	2015	–	–	–	–
A company significantly influenced by the controlling shareholders					
Beijing Tianxingyuanjing	**2016**	**5,220**	**1,594**	**729**	**–**
Technology Development Co., Ltd.[2]	2015	–	–	–	–

35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) The following table presents the total amounts of transactions that have been entered into with related parties during the years ended 31 December 2016 and 2015, as well as balances with related parties as at 31 December 2016 and 31 December 2015: *(Continued)*

[1] *The investments in the fellow subsidiaries, Beijing Dphone Communication Services Co., Ltd. and Beijing Dixin Alliance Technology Co., Ltd. are directly held by the controlling shareholder of the Company.*

[2] *The investment in the entity, Beijing Tianxingyuanjing Technology Development Co., Ltd. is held by Mr Liu Donghai and Mr Jinxin, who are the controlling shareholder and CEO of the Company, respectively. They hold 25% equity interest aggregately and have significant influence over the entity.*

Note:

(i) The transaction prices were determined based on prices the Group transacted with independent third party customers and suppliers.

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

	For the year ended 31 December	
	2016	2015
	Unaudited	Unaudited
	RMB'000	RMB'000
Salaries, allowances, bonuses and other expenses	**4,523**	6,220

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	As at 31 December 2016		
	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	**–**	**15,075**	**15,075**
Trade receivables	**1,772,260**	**–**	**1,772,260**
Financial assets included in prepayments, deposits and other receivables	**177,177**	**–**	**177,177**
Due from related parties	**13,582**	**–**	**13,582**
Pledged deposits	**815,367**	**–**	**815,367**
Cash and cash equivalents	**783,084**	**–**	**783,084**
	3,561,470	**15,075**	**3,576,545**

	As at 31 December 2015		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	15,075	15,075
Trade receivables	1,870,659	–	1,870,659
Financial assets included in prepayments, deposits and other receivables	116,366	–	116,366
Due from related parties	3,662	–	3,662
Pledged deposits	1,080,808	–	1,080,808
Cash and cash equivalents	441,844	–	441,844
	3,513,339	15,075	3,528,414

36. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade and bills payable	**443,240**	551,460
Financial liabilities included in other payables and accruals	**124,029**	126,884
Due to related parties	**8,848**	665
Interest-bearing borrowings	**3,056,403**	3,200,293
	3,632,520	3,879,302

37. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of cash and cash equivalents, pledged deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, trade and bills payables, financial liabilities included in other payables and accruals, amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair 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 the reporting period approximated to their corresponding carrying amounts due to their short term maturities.

As at 31 December 2016, the fair value information has not been disclosed for certain available-for-sale investments in equity instruments that do not have a quoted market price in an active market and are measured at cost less any impairment because their fair value cannot be measured reliably. The reason why the fair value cannot be measured reliably is because the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The carrying amount of these available-for-sale investments of the Group was RMB15,075,000 (2015: RMB15,075,000). All of them are unlisted equity investments in China held by the Group.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade receivables and trade and bills payables as well as other receivables and payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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 profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2016	**100**	**(963)**
	(100)	**963**
2015	100	(3,042)
	(100)	3,042

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

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

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

2016

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit after tax and equity RMB'000
If RMB weakens against USD	5	1,917
If RMB strengthens against USD	(5)	(1,917)
If RMB weakens against HKD	5	268
If RMB strengthens against HKD	(5)	(268)

In the year of 2015, the Group solely operated in Mainland China and all the transactions were settled in functional currency RMB. Thus the Group did not have significant foreign currency risk for the year ended 31 December 2015.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of 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 Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

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 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.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

31 December 2016	**On demand RMB'000**	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**More than 12 months RMB'000**	**Total RMB'000**
Interest-bearing borrowings	**–**	**2,183,506**	**911,272**	**–**	**3,094,778**
Trade and bills payables	**–**	**408,350**	**34,890**	**–**	**443,240**
Financial liabilities included in other payables and accruals	**–**	**108,384**	**15,645**	**–**	**124,029**
Due to related parties	**–**	**8,848**	**–**	**–**	**8,848**
	–	**2,709,088**	**961,807**	**–**	**3,670,895**

31 December 2015	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	More than 12 months RMB'000	Total RMB'000
Interest-bearing borrowings	–	1,684,513	1,503,565	53,444	3,241,522
Trade and bills payables	–	511,776	39,684	–	551,460
Financial liabilities included in other payables and accruals	–	102,015	24,829	–	126,844
Due to related parties	–	665	–	–	665
	–	2,298,969	1,568,078	53,444	3,920,491

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

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.

During the year, the Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at the end of the reporting periods are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Interest-bearing loans	**3,056,403**	3,200,293
Less: cash and cash equivalents	**(783,084)**	(441,844)
Net debt	**2,273,319**	2,758,449
Total equity	**3,169,679**	2,798,502
Net debt and total equity	**5,442,998**	5,556,951
Gearing ratio	**42%**	50%

39. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of a subsidiary

On 15 June 2016, the Board of the Company passed a resolution in relation to the acquisition of a 60% interest in Digitone Mobiles Private Limited ("Digitone Mobiles") for the development in the India market. The purchase consideration was USD2,500,000 in cash, paid up by the end of 2016. As at the date of the approval of the consolidated financial statements, the acquisition has not been completed. The acquisition will be accounted for using the acquisition method in the Company's annual financial statements upon the completion of acquisition, anticipated to be in 2017.

(b) Acquisition of an associate

On 15 June 2016, the Board of the Company passed a resolution in relation to the proposed investment in Spice Online Retail Private Limited ("Spice Online"), an unlisted company incorporated in India that specialises in the sale of mobile telecommunications devices and accessories. The Company would acquire a 49% interest in Spice Online at a consideration of USD2,400,000. Upon the completion, the Company would expand into the India market to further develop their business. As at the date of approval of the consolidated financial statements, the acquisition has not been completed. The acquisition will be accounted for using the acquisition method in the Company's annual financial statements upon the completion of acquisition, anticipated to be in 2017.

(c) Capital Injection from non-controlling shareholders

On 18 September 2016, the Board of the Company passed a resolution in relation to the capital injection from non-controlling shareholders of New Idea Investment Pte. Limited ("New Idea"), a wholly owned subsidiary of the Company. The new non-controlling shareholders, ZTE (H.K.) Limited and Shanghai Wisdomont Pushang Investment Center (Limited partnership), would acquire 20% and 8% interests in New Idea at a consideration of USD2,040,000 and USD816,000, respectively. The capital injection by the non-controlling shareholders was completed on 4 January 2017.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016	2015
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**41,797**	46,306
Intangible assets	**737**	505
Investments in subsidiaries	**608,756**	423,256
Investments in joint ventures	**31,806**	2,111
Investment in an associate	**1,206**	1,861
Available-for-sale investments	**15,075**	15,075
Deferred tax assets	**4,368**	2,563
Total non-current assets	**703,745**	491,677
CURRENT ASSETS		
Inventories	**301,632**	239,882
Trade and bills receivables	**451,125**	745,218
Prepayments, deposits and other receivables	**179,164**	193,210
Due from subsidiaries	**1,865,856**	2,088,980
Pledged deposits	**674,927**	483,923
Cash and cash equivalents	**130,263**	289,190
Total current assets	**3,602,967**	4,040,403

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2016 **RMB'000**	2015 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	**1,096,148**	738,270
Other payables and accruals	**46,655**	102,562
Interest-bearing bank borrowings	**1,524,582**	1,867,790
Due to subsidiaries	**354,212**	505,561
Tax payable	**11,514**	188
Total current liabilities	**3,033,111**	3,214,371
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,273,601**	1,317,709
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**–**	48,000
NET ASSETS	**1,273,601**	1,269,709
EQUITY		
Share capital	**666,667**	666,667
Reserves (note)	**606,934**	603,042
Total equity	**1,273,601**	1,269,709

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2014 and 1 January 2015	524,284	38,164	43,710	606,158
Total comprehensive income for the year	–	–	194	194
Share issue expenses	(3,310)	–	–	(3,310)
Transfer from retained profits	–	20	(20)	–
At 31 December 2015 and 1 January 2016	520,974	38,184	43,884	603,042
Total comprehensive income for the year	–	–	3,892	3,892
Transfer from retained profits	–	389	(389)	–
At 31 December 2016	**520,974**	**38,573**	**47,387**	**606,934**

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.