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 2017

Contents

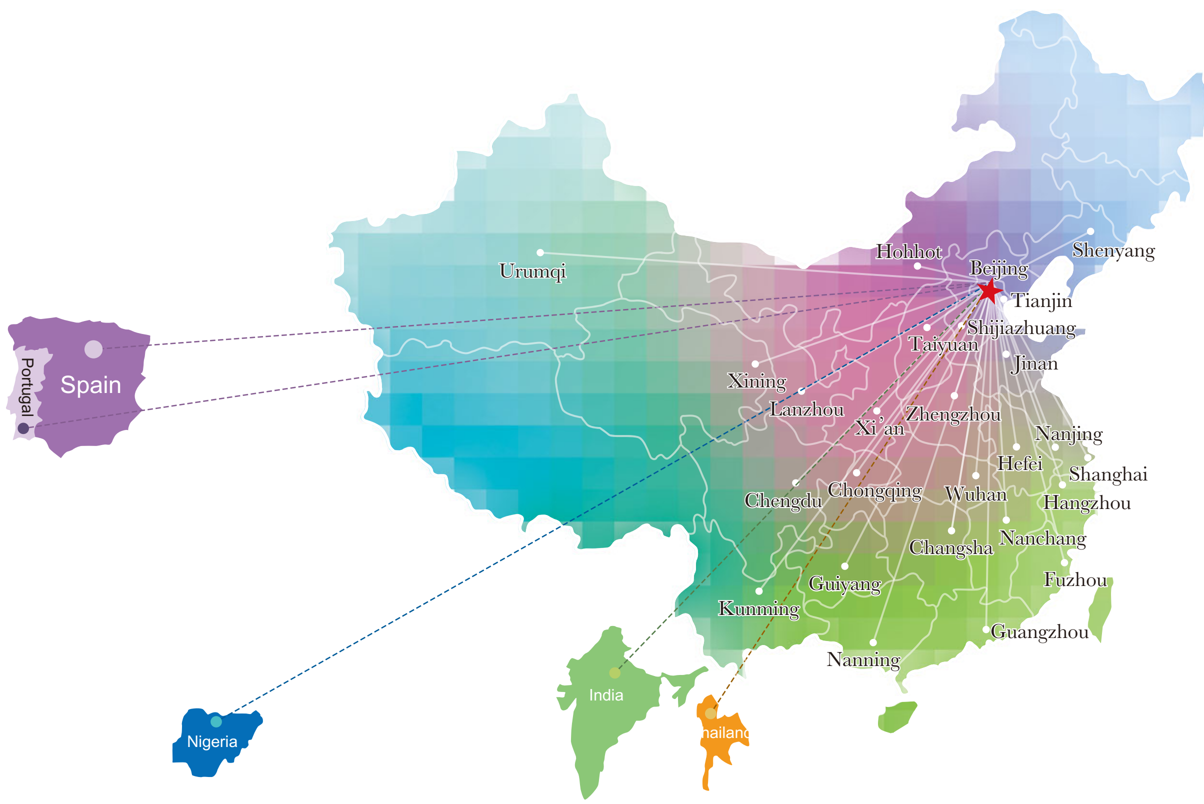
COMPANY PROFILE

Beijing Digital Telecom Co., Ltd. (the "**Company**" or "**Beijing Digital**") was founded in 2001 with more than 100 subsidiaries (collectively, the "**Group**"or "**We**") and over 1,700 independently operated outlets and franchised outlets covering 22 provinces and four municipalities in China as at December 31, 2017. 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.

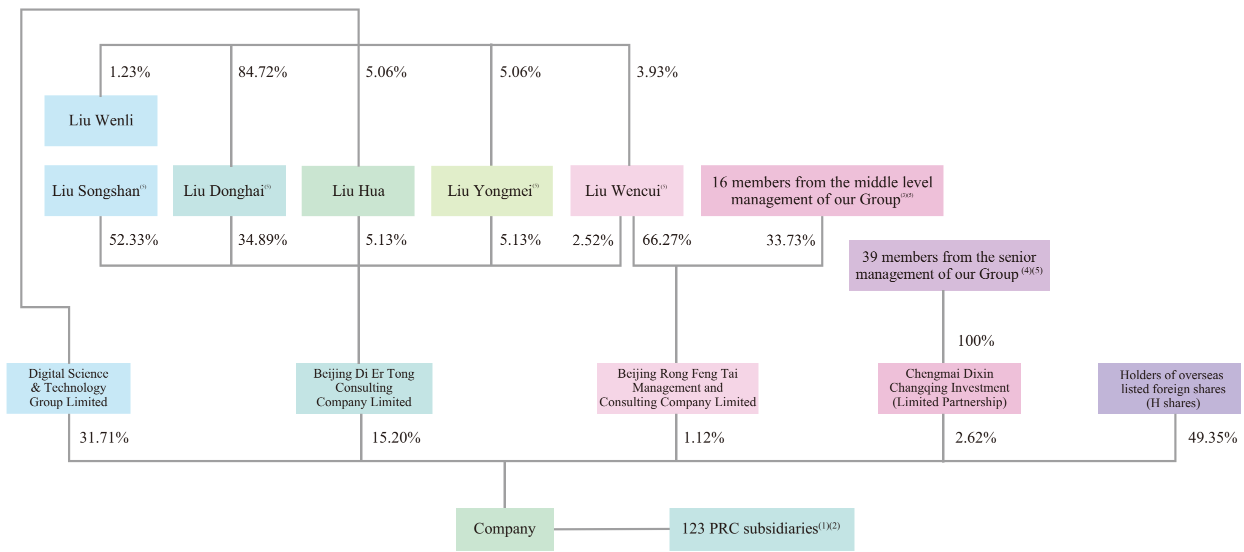
In 2017, the Group intended to launch a number of new businesses such as mobile rental and trade-in to satisfy the demand of mobile consumers. Besides, the Group established the all-new technology retail brand "UP+" to promote retail business across China. Given that the Group prepared to enter into Southern Asia market and successfully gained a market presence in Africa in 2016, the Group cooperated with the brand manufacturer of Xiaomi (小米) to commence its establishment of retail networks in Western Europe and Southeast Asia in 2017.

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, 2017 is set out as follows:



Notes:

(1) *As of the latest practicable date, 106 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: 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) *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.*

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

(vi) *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. Shenzhen DIGITONE Investment Holdings Co., Limited holds 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).*

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

(viii) 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.

(ix) 80% of the equity interests of Beijing Dixin Alliance Technology Co., Ltd (北京迪信雲聚科技有限公司) is held by us and the remaining 20% is held by Mr. Jin Xin.

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

(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 123 subsidiaries spreading across 21 provinces and four municipalities. These subsidiaries are mainly to operate individual standalone outlets and liaise with local wholesalers.

(3) As at December 31, 2017, 16 members from the middle level management of the Group include, Luo Jianjun (3.33%), Cao Qin (1.33%), Hu Ping (1.33%), Zhao Shuang (1.33%), Hou Qinghong (0.93%), Huang Qiuli (0.82%), Jiang Shan (0.82%), Jiang Xuefu (0.82%), Li Yunping (0.82%), Li Xuehua (0.64%), Qi Qin (0.64%), Zhang Shuangping (0.64%), Hu Minghua (0.53%), Tian Hong (0.53%), Dong Shaorong (0.40%) and Pei Qidi (0.13%). The remaining four persons who had ceased to assume any role in the management team of the Company were Zhang Wenkai (16.00%), Zhang Hui (1.33%), Li Jing (0.82%) and Li Dong (0.53%).

(4) As at December 31, 2017, 39 members from the senior management of the 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%), Ji Li (0.97%), Jing Shulin (0.57%), Sun Gang (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 ia a member of senior management of our Company. The remaining four persons who had ceased to assume any role in the management team of the Company were Feng Lei (1.14%), Pang Hong (0.57%), Wang Zhifeng (0.86%) and Wang Zhenfeng (0.57%).

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

PRINCIPAL OPERATING SUBSIDIARIES

As of the latest practicable date, we had 123 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, 2017, 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, 2017, 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, 2017, 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, 2017, 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, 2017, 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 October 23, 2006 in the PRC with a registered capital of RMB5 million. During the year ended December 31, 2017, 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

Non-executive Directors

Mr. Qi Xiangdong
Ms. Zhang Yunfei

Independent Non-executive Directors

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

Supervisors

Ms. Wei Shuhui
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. Liu Songshan
Mr. Bian Yongzhuang

REMUNERATION AND ASSESSMENT COMMITTEE

Mr. Bian Yongzhuang *(Chairman)*
Ms. Zhang Yunfei
Mr. Vincent Man Choi, Li

STRATEGY COMMITTEE

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

REGISTERED OFFICE

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

HEADQUARTERS

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

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

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below. The amounts for the year ended 31 December 2016 in the five year financial summary have been restated as a result of business combinations for the entity under common control, as detailed in note 2.3 to the financial statements.

Items	For the year ended December 31,				
	2017	2016 (Restated)	2015	2014	2013
Consolidated Statement of Profit or Loss					
Revenue	**15,974,316**	15,177,126	15,830,720	14,358,609	12,812,024
Gross Profit	**2,000,168**	1,855,678	2,034,117	1,976,592	1,737,962
Profit for the year	**322,947**	357,011	356,723	318,360	274,192
Other comprehensive income profit/(loss) for the year	**(1,075)**	–	–	–	–
Total comprehensive income for the year	**321,872**	357,011	356,723	318,360	274,192
Other comprehensive Attributable to:					
Owners of the parent	**321,415**	356,358	357,062	318,133	266,441
Non-controlling interests	**457**	653	(339)	227	7,751
Earning per share attributable to ordinary equity holders of the parent – Basic and diluted (RMB/per share)	**0.48**	0.53	0.54	0.55	0.53
Consolidated Balance Sheet					
Non-current assets	**377,571**	308,809	298,712	247,947	250,853
Current assets	**7,976,072**	7,013,306	6,848,862	5,199,352	4,357,137
Total assets	**8,353,643**	7,322,115	7,147,574	5,447,299	4,607,990
Current liabilities	**4,245,759**	4,152,501	4,301,072	3,026,096	3,164,467
Total assets less current liabilities	**4,107,884**	3,169,614	2,846,502	2,421,203	1,443,523
Non-current liabilities	**596,542**	–	48,000	–	–
Net assets	**3,511,342**	3,169,614	2,798,502	2,421,203	1,443,523
Share Capital	**666,667**	666,667	666,667	666,667	500,000
Reserves	**2,764,392**	2,442,977	2,086,619	1,732,867	923,655
Equity attributable to owners of the parent	**3,431,059**	3,109,644	2,753,286	2,399,534	1,423,655
Non-controlling interests	**80,283**	59,970	45,216	21,669	19,868

Items	For the year ended December 31,				
	2017	2016 (Restated)	2015	2014	2013
Consolidated Statement of Cash Flow					
Net cash flows from/(used in) operating activities	**69,585**	461,744	(119,157)	(790,582)	(15,297)
Net cash flows used in investment activities	**(638,591)**	(163,668)	(174,334)	(81,790)	(107,872)
Net cash flows from/(used in) financing activities	**400,278**	44,262	400,037	905,731	(104,627)
Net increase/(decrease) in cash and cash equivalents	**(168,728)**	342,338	106,546	33,359	(227,796)
Cash and cash equivalents at beginning of year	**784,756**	441,844	335,298	301,939	529,735
Effect of foreign exchange rate changes on cash flow	**(1,149)**	574	–	–	–
Cash and cash equivalents at end of year	**614,879**	784,756	441,844	335,298	301,939

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, 2017. The total revenue of the Company increased by 5.25% to RMB15,974,000,000. The net profit for the year of 2017 amounted to RMB323,000,000, representing a decrease rate of 9.54%. The sales volume decreased by 217,200 units or 2.03% to 10,470,200 units in 2017 as compared with that of last year. For detailed analysis on the financial data, please refer to the results announcement for the year of 2017.

In early 2017, an election for the new session of the Board of Directors was held. Aiming at achieving its operation targets and driven by our culture of innovation, the new Board of Directors and the management will lead the business and functional departments of the Group to strengthen the development of its core business and improve the quality of its services, and at the same time further optimize its profitability structure and enhance its management in order to effectively achieve its objectives and tasks strictly in accordance with its rules and regulations.

With regard to our domestic offline business, we continued opening more quality physical outlets and provided various services such as 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 in our outlets, for which satisfactory results were achieved. With regard to our domestic online business, we put our best efforts on increasing the number of our on-line ecommerce platforms and gained a foothold on third-party platforms such as Dangdang.com and Vipshop, which made us become one of the main-stream online suppliers. With regard to our domestic O2O business, we upgraded the "Guixiang Sale Helper (貴祥銷售助手)" and the "Cuihua Project (萃花項目)", the systems that connect the online and offline inventory, logistic operation and the provision of services so as to propel the sustainable synergy for online and offline integration. With regard to the quality of our services, we continued to enrich the concept of "full-hearted loyalty" and see 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 continued our friendly cooperation with domestic and foreign mobile phone manufacturers in order to procure more and better products in order 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. Moreover and most importantly, we launched a new brand "UP+" for our information technology and electronic products to the retail market in response to the young consumers' preference on sale channels and mode of business operation. This new brand promptly became one of the trendsetters in the domestic digital communication product retail market and attracted high attention from the mobile carriers, which has become the focus of the thorough cooperation between the mobile carriers and Beijing Digital in 2018.

With regard to overseas market, deeply rooted on our globalization strategy for our business and our successful penetration into Africa market in 2016, we commenced to discuss cooperation with Xiaomi to jointly participate in negotiations for entering into other overseas markets such as Spain, Portugal and Thailand during the second half of 2017. Based on local Mi Homes, the Group planned to build its local retail networks in Western Europe and Southeast Asia. Leveraged on Beijing Digital's remarkable retail operational capability, our retail channels in Nigeria have currently been substantially expanded and became the faster growing channel distributor for Xiaomi in the country. In the future, Beijing Digital shall steadily expand its presence from Nigeria to the western Africa, from India to South Asia, from Spain to Europe and from Thailand to Southeast Asia respectively. We shall take advantage of our valuable experience in management of distribution channels and manufacturing resources to build up Beijing Digital's reputation from a domestic renowned mobile handset chain store to an international renowned mobile handset chain store in five years.

Looking ahead for 2018, 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 2018, we shall carry out a comprehensive upgrade of the image of the stores under Beijing Digital brand based on the design plan made by an internationally well-known designer and expand our product portfolio by offering smart hardware and trendy products. We shall actively construct our new digital retail system integrating new technology for retail business such as facial recognition, electronic fence, G-sensor and cloud shelf for our UP+ brand and corporate with retailers, internet and mobile carries to build model stores. No matter what we do for repositioning and upgrading Beijing Digital brand or exploring the brand positioning of UP+, we do it just for crafting more delightful experience to the consumers.

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, 2017, the Group sold 10,470,200 mobile handsets, representing a decrease of 217,180 sets or 2.03% compared with 10,687,380 sets for the same period last year. Operating revenue for the year of 2017 amounted to RMB15,974,316,400, representing an increase of RMB797,190,170 or 5.25% from RMB15,177,126,230 for the same period last year. Net profit for the year of 2017 amounted to RMB322,947,070, representing a decrease of RMB34,064,060 or 9.54% from RMB357,011,130 for the same period last year.

II. FINANCIAL POSITION AND OPERATING RESULTS

(I) Overview

For the year ended December 31, 2017, the Group recognized net profit of RMB322,947,070, representing a decrease of RMB34,064,060 or 9.54% from RMB357,011,130 for the same period in 2016. Net profit attributable to the owners of the parent amounted to RMB322,490,090, representing a decrease of RMB33,867,650 or 9.50% from RMB356,357,740 for the same period in 2016.

(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,			Percentage of change
	2016 RMB'000	**2017 RMB'000**	Change RMB'000	
Operating revenue	15,177,126.23	**15,974,316.40**	797,190.17	5.25%
Cost of sales	(13,321,448.00)	**(13,974,148.49)**	(652,700.49)	4.90%
Gross profit	1,855,678.23	**2,000,167.91**	144,489.68	7.79%
Other income and gains	90,036.41	**56,555.81**	(33,480.60)	(37.19%)
Selling and distribution expenses	(1,043,686.33)	**(1,068,995.15)**	(25,308.82)	2.42%
Administrative expenses	(319,688.64)	**(353,423.24)**	(33,734.60)	10.55%
Other expenses	(27,113.06)	**(52,325.91)**	(25,212.85)	92.99%
Finance costs	(111,201.22)	**(182,740.98)**	(71,539.76)	64.33%
Investment gains	(2,473.07)	**1,648.47**	4,121.54	(166.66%)
Profit before tax	441,552.32	**400,886.91**	(40,665.41)	(9.21%)
Income tax expense	(84,541.19)	**(77,939.84)**	6,601.35	(7.81%)
Total net profit for the year after taxation	357,011.13	**322,947.07**	(34,064.06)	(9.54%)
Attributable to owners of the parent	356,357.74	**322,490.09**	(33,867.65)	(9.50%)
Attributable to minority interests	653.39	**456.98**	(196.41)	(30.06%)

1. Operating revenue

Operating revenue of the Group for the year ended December 31, 2017 amounted to RMB15,974,316,400, representing an increase of RMB797,190,170 or 5.25% from RMB15,177,126,230 for the same period in 2016. Increase in revenue was mainly driven by the increase in three areas as follows:

(1) increase in revenue from franchisees and wholesale business owed to the efforts in exploring new franchisees and third party wholesalers, as the Group intended to expand its sales through wholesale during the year;

(2) increase in revenue from retail was in line with the development of market shares of domestic brands, such as Huawei, Xiaomi, VIVO and OPPO, who continuously launched and released new products;

(3) increase in revenue from the sale of properties was due to the completion of construction and delivery of the residential units and business premises.

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

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

	For the year ended December 31,					
	2016		2017		Change	Percentage of change
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	
(1) Sales of mobile telecommunications devices and accessories	14,676,917.89	96.70%	**15,257,138.41**	**95.51%**	580,220.52	3.95%
Including: Sales from retail of mobile telecommunications devices and accessories	8,426,305.88	55.51%	**8,466,621.41**	**53.00%**	40,315.53	0.48%
Sales of telecommunications devices and accessories to franchisees	2,818,234.01	18.57%	**3,116,197.87**	**19.51%**	297,963.86	10.57%
Wholesale of mobile telecommunications devices and accessories	3,432,378.00	22.62%	**3,674,319.13**	**23.00%**	241,941.13	7.05%
(2) Service income from mobile carriers	383,604.85	2.53%	**369,174.67**	**2.31%**	(14,430.18)	(3.76%)
(3) Other service fee income	116,603.49	0.77%	**128,055.15**	**0.80%**	11,451.66	9.82%
(4) Revenue from the sale of properties	–	–	**219,948.17**	**1.38%**	219,948.17	–
Total	15,177,126.23	100.00%	**15,974,316.40**	**100.00%**	797,190.17	5.25%

The Group's service income from mobile carriers amounted to RMB369,174,670 for the year ended December 31, 2017, representing a decrease of RMB14,430,180 or 3.76% from RMB383,604,850 for the same period in 2016. 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 2017.

The following table sets forth our service income from each of the major mobile carriers for 2017 and 2016:

	For the year ended December 31,					
Items	2016		2017		Change	Percentage of change
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	
China Mobile	168,109.81	43.82%	**163,162.17**	**44.20%**	(4,947.64)	(2.94%)
China Unicom	47,332.27	12.34%	**39,624.13**	**10.73%**	(7,708.14)	(16.29%)
China Telecom	168,109.92	43.83%	**166,302.63**	**45.05%**	(1,807.29)	(1.08%)
Dixintong Telecommunications Services	52.85	0.01%	**85.74**	**0.02%**	32.89	62.23%
Total	383,604.85	100.00%	**369,174.67**	**100.00%**	(14,430.18)	(3.76%)

"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, 2017 amounted to RMB13,974,148,490, representing an increase of RMB652,700,490 or 4.90% from RMB13,321,448,000 for the same period in 2016, which was mainly due to the increase in cost of sales in tandem with the increase in operating revenue.

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

	For the year ended December 31,					
	2016		**2017**		**Change**	**Percentage of change**
	RMB'000	% of total costs	**RMB'000**	**% of total costs**	RMB'000	
(1) Sales of mobile telecommunications devices and accessories	13,261,834.68	99.55%	**13,716,811.98**	**98.16%**	454,977.30	3.43%
Including: Sales from retail of mobile telecommunications devices and accessories	7,139,365.48	53.59%	**7,122,226.58**	**50.97%**	(17,138.90)	(0.24%)
Sales of telecommunications devices and accessories to franchisees	2,761,591.15	20.73%	**3,025,591.40**	**21.65%**	264,000.25	9.56%
Wholesale of mobile telecommunications devices and accessories	3,360,878.05	25.23%	**3,568,994.00**	**25.54%**	208,115.95	6.19%
(2) Service income from mobile carriers	56,944.13	0.43%	**42,253.00**	**0.30%**	(14,691.13)	(25.80%)
(3) Other service fee income	2,669.19	0.02%	**2,925.28**	**0.02%**	256.09	9.59%
(4) Cost of the sale of properties	–	–	**212,158.23**	**1.52%**	212,158.23	–
Total	13,321,448.00	100.00%	**13,974,148.49**	**100.00%**	652,700.49	4.90%

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, 2017 amounted to RMB2,000,167,910, representing an increase of RMB144,489,680, or 7.79%, from RMB1,855,678,230 for the same period in 2016. Our overall gross profit margins for the year ended December 31, 2016 and 2017 were 12.23% and 12.52%, respectively. Increase in our overall gross profit margin as compared with 2016 was primarily driven by the increase in the gross profits from sales of mobile telecommunications devices and accessories attributable to the increase in the sales of domestic brand handsets with higher gross profits.

	For the year ended December 31,							
	2016			2017				
	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	1,415,083.21	76.26%	9.64%	**1,540,326.43**	**77.01%**	**10.10%**	125,243.22	8.85%
Including: Sales from retail of mobile telecommunications devices and accessories	1,286,940.40	69.36%	15.27%	**1,344,394.83**	**67.21%**	**15.88%**	57,454.43	4.46%
Sales of telecommunications devices and accessories to franchisees	56,642.86	3.05%	2.01%	**90,606.47**	**4.53%**	**2.91%**	33,963.61	59.96%
Wholesale of mobile telecommunications devices and accessories	71,499.95	3.85%	2.08%	**105,325.13**	**5.27%**	**2.87%**	33,825.18	47.31%
(2) Service income from mobile carriers	326,660.72	17.60%	85.16%	**326,921.67**	**16.34%**	**88.55%**	260.95	0.08%
(3) Other service fee income	113,934.30	6.14%	97.71%	**125,129.87**	**6.26%**	**97.72%**	11,195.57	9.83%
(4) Revenue from the sale of properties	–	–	–	**7,789.94**	**0.39%**	**3.54%**	7,789.94	–
Total	1,855,678.23	100.00%	12.23%	**2,000,167.91**	**100.00%**	**12.52%**	144,489.68	7.79%

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

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

Items	For the year ended December 31, 2016 RMB	2017 RMB	Change RMB	Percentage of change
Sales of mobile handsets (in RMB thousands)	14,032,471.13	**14,568,434.62**	535,963.49	3.82%
Sales volume (in handsets)	10,687,383.00	**10,470,204.00**	(217,179.00)	(2.03%)
Average selling price (RMB/per handset)	1,312.99	**1,391.42**	78.43	5.97%

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, 2017 amounted to RMB56,555,810, representing a decrease of RMB33,480,600 or 37.19% from RMB90,036,410 for the same period in 2016, which was primarily attributable to decreased government grants in 2017.

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

Items	For the year ended December 31, 2016 RMB'000	2017 RMB'000	Change RMB'000	Percentage of change
Interest income	15,671.05	**12,657.05**	(3,014.00)	(19.23%)
Government grants	67,270.07	**39,909.62**	(27,360.45)	(40.67%)
Gain on disposal of property, plant and equipment	34.74	**199.96**	165.22	475.59%
Gain on foreign exchange	1,403.29	**–**	(1,403.29)	(100.00%)
Investment gain on disposal of subsidiaries	1.14	**–**	(1.14)	(100.00%)
Others	5,656.12	**3,789.18**	(1,866.94)	(33.01%)
Total	90,036.41	**56,555.81**	(33,480.60)	(37.19%)

6. *Selling and distribution expenses*

Items	Selling and distribution expenses 2016 RMB'000	Selling and distribution expenses 2017 RMB'000	% of total expenses 2016	% of total expenses 2017	Change RMB'000	Percentage of change
	For the year ended December 31,					
Staff salaries	455,810.90	**469,269.08**	43.67%	**43.90%**	13,458.18	2.95%
Office expenses	17,398.49	**17,685.68**	1.67%	**1.65%**	287.19	1.65%
Travelling expenses	3,768.31	**3,766.44**	0.36%	**0.35%**	(1.87)	(0.05%)
Transportation expenses	15,593.86	**15,314.04**	1.49%	**1.43%**	(279.82)	(1.79%)
Business entertainment expenses	3,371.64	**3,263.34**	0.32%	**0.31%**	(108.30)	(3.21%)
Communication expenses	4,310.75	**4,660.00**	0.41%	**0.44%**	349.25	8.10%
Rentals and property management expenses	343,877.76	**350,601.07**	32.95%	**32.80%**	6,723.31	1.96%
Repair expenses	6,113.07	**5,645.49**	0.59%	**0.53%**	(467.58)	(7.65%)
Advertising and promotion expenses	64,868.07	**66,912.89**	6.22%	**6.26%**	2,044.82	3.15%
Depreciation expenses	7,862.46	**7,895.42**	0.75%	**0.74%**	32.96	0.42%
Amortisation of leasehold improvement	42,651.80	**44,066.33**	4.09%	**4.12%**	1,414.53	3.32%
Amortisation of low-cost consumables	5,819.96	**6,223.16**	0.56%	**0.58%**	403.20	6.93%
Market management fees	16,282.92	**15,818.29**	1.56%	**1.48%**	(464.63)	(2.85%)
Utilities	36,861.59	**37,843.55**	3.53%	**3.54%**	981.96	2.66%
Others	19,094.75	**20,030.37**	1.83%	**1.87%**	935.62	4.90%
Total	1,043,686.33	**1,068,995.15**	100.00%	**100.00%**	25,308.82	2.42%

Total selling and distribution expenses for the year ended December 31, 2017 amounted to RMB1,068,995,150, representing an increase of RMB25,308,820 or 2.42% from RMB1,043,686,330 for the same period in 2016, which was mainly due to the increase in staff salaries, rentals and property management expenses, advertising and promotion expenses and amortisation of leasehold improvement.

Total staff salaries for the year ended December 31, 2017 amounted to RMB469,269,080, representing an increase of RMB13,458,180, or 2.95%, from RMB455,810,900 for the same period in 2016. Such increase was due to the Group's routine annual salary increment.

Total rentals and property management expenses for the year ended December 31, 2017 amounted to RMB350,601,070, representing an increase of RMB6,723,310, or 1.96%, from RMB343,877,760 for the same period in 2016. Such increase was due to the increase in the number of independent shops with higher rentals.

Total advertising and promotion expenses for the year ended December 31, 2017 amounted to RMB66,912,890, representing an increase of RMB2,044,820, or 3.15%, from RMB64,868,070 for the same period in 2016. Such increase was attributable to the increase in advertising expenses on soft and hard advertisements in order to increase the influence of the brand in 2017.

Total amortisation of leasehold improvement for the year ended December 31, 2017 amounted to RMB44,066,330, representing an increase of RMB1,414,530 or 3.32%, from RMB42,651,800 for the same period in 2016. Such increase was attributable to the increase in amortisation of leasehold improvement as a result of the scheduled amortization of the existing shops together with the leasehold improvement for the new independent shops in 2017.

7. *Administrative expenses*

Items	For the year ended December 31, Administrative expenses		% of total expenses			Percentage
	2016	**2017**	2016	**2017**	**Change**	**of change**
	RMB'000	**RMB'000**			RMB'000	
Staff salaries	140,410.64	**143,984.74**	43.92%	**40.74%**	3,574.10	2.55%
Tax expenses	1,790.03	**1,049.33**	0.56%	**0.30%**	(740.70)	(41.38%)
Office expenses	24,919.43	**25,388.92**	7.79%	**7.18%**	469.49	1.88%
Depreciation expenses	9,955.00	**12,176.13**	3.11%	**3.45%**	2,221.13	22.31%
Amortisation of intangible assets	612.25	**524.56**	0.19%	**0.15%**	(87.69)	(14.32%)
Amortisation of leasehold improvements	1,459.80	**1,460.54**	0.46%	**0.41%**	0.74	0.05%
Amortisation of low-cost consumables	5,331.77	**4,946.90**	1.67%	**1.40%**	(384.87)	(7.22%)
Travelling expenses	13,506.55	**14,157.50**	4.22%	**4.01%**	650.95	4.82%
Rental and property management fees	13,594.39	**14,294.29**	4.25%	**4.04%**	699.90	5.15%
Business entertainment expenses	12,331.71	**11,733.17**	3.86%	**3.32%**	(598.54)	(4.85%)
Communication expenses	3,829.44	**3,895.27**	1.20%	**1.10%**	65.83	1.72%
Agency fees	11,276.52	**13,581.62**	3.53%	**3.84%**	2,305.10	20.44%
Transportation expenses	15,494.18	**15,761.93**	4.85%	**4.46%**	267.75	1.73%
Financial institution charges	53,313.49	**78,093.20**	16.68%	**22.10%**	24,779.71	46.48%
Others	11,863.44	**12,375.14**	3.71%	**3.50%**	511.70	4.31%
Total	319,688.64	**353,423.24**	100.00%	**100.00%**	33,734.60	10.55%

The Group's total administrative expenses for the year ended December 31, 2017 amounted to RMB353,423,240, representing an increase of RMB33,734,600, or 10.55%, from RMB319,688,640 for the same period in 2016. Such increase in administrative expenses was primarily attributable to the increase in staff salaries, agency fees and financial institution charges.

Total staff salaries for the year ended December 31, 2017 amounted to RMB143,984,740, representing an increase of RMB3,574,100, or 2.55%, from the total staff salaries amounting to RMB140,410,640 for the same period in 2016. Such increase was due to the Group's routine annual salary increment.

Total agency fees for the year ended December 31, 2017 amounted to RMB13,581,620, representing an increase of RMB2,305,100, or 20.44%, from the total agency fees amounting to RMB11,276,520 for the same period in 2016. Such increase was attributable to the increase in consultation agency fee for the issuance of a corporate bond by the Company in 2017.

Total financial institution charges for the year ended December 31, 2017 amounted to RMB78,093,200, representing an increase of RMB24,779,710, or 46.48%, from the total financial institution charges amounting to RMB53,313,490 for the same period in 2016. Such increase was attributable to the change of payment methods substantially from cash to Alipay, Wechat and installment payment.

8. *Other expenses*

Other expenses include impairment losses on assets, exchange loss and non-operating expenses. For the years ended December 31, 2016 and 2017, other expenses amounted to RMB27,113,060 and RMB52,325,910, respectively.

	For the year ended December 31,			
Items	2016 RMB'000	**2017** **RMB'000**	**Change** RMB'000	**Percentage of change**
Impairment losses on assets	23,943.72	**39,881.26**	15,937.54	66.56%
Financial cost – exchange loss	–	**4,547.39**	4,547.39	–
Non-operating expenses	3,169.34	**7,897.26**	4,727.92	149.18%
Total	27,113.06	**52,325.91**	25,212.85	92.99%

The Group's total other expenses for the year ended December 31, 2017 amounted to RMB52,325,910, representing an increase of RMB25,212,850 or 92.99% from RMB27,113,060 for the same period in 2016. The increase was mainly attributable to the increase in impairment losses on assets for the current period. The increase in impairment losses on assets was caused by the increase in the balance of trade and other receivables resulting in the increase in the provisions for bad debts.

9. *Finance costs*

Item	For the year ended December 31, Finance costs			Percentage of change
	2016 RMB'000	**2017 RMB'000**	Change RMB'000	
Finance costs – interest expenses	111,201.22	**182,740.98**	71,539.76	64.33%

The Group's total finance costs for the year ended December 31, 2017 amounted to RMB182,740,980, representing an increase of RMB71,539,760, or 64.33%, from RMB111,201,220 for the same period in 2016. Such increase in finance costs was primarily attributable to the interest expense of the corporate bond issued in the current year and the increase in the interest rates from the major borrowing banks of our short-term borrowings.

10. *Income tax expenses*

Our income tax expenses for the stated periods included PRC Corporate Income Tax ("**CIT**") and deferred income tax. In accordance with the Corporate Income Tax Implementation Regulations, our PRC subsidiaries have been required to pay tax at an income tax rate of 25% as from January 2008. For the year ended December 31, 2017, 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 engaged in an industry encouraged by the State. Jiangsu Shengduo Technology Trading Co., Ltd. has been entitled to full exemption of CIT 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, 2016 and 2017, our effective tax rates were 19.15% and 19.44%, respectively. During the year ended December 31, 2017, 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, 2016 RMB'000	**2017 RMB'000**	Change RMB'000	Percentage of change
Income tax in the PRC for the year	61,548.97	**75,579.53**	14,030.56	22.80%
Deferred tax	22,992.22	**2,360.31**	(20,631.91)	(89.73%)
Total	84,541.19	**77,939.84**	(6,601.35)	(7.81%)

The Group's total income tax expense for the year ended December 31, 2017 amounted to RMB77,939,840, representing a decrease of RMB6,601,350 or 7.81% compared with the total income tax expense of RMB84,541,190 for the same period in 2016. Such decrease was primarily attributable to the lower total profits 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, 2016 RMB'000	**2017 RMB'000**
Net cash generated from operating activities	461,743.80	**69,584.98**
Net cash used in investing activities	(163,668.43)	**(638,590.70)**
Net cash generated from financing activities	44,261.93	**400,277.66**
Net increase in cash and cash equivalents	342,337.30	**(168,728.06)**
Cash and cash equivalents at beginning of the year	441,844.00	**784,755.66**
Effect of changes of foreign exchange rate on cash flow	574.36	**(1,148.11)**
Cash and cash equivalents at end of the year	784,755.66	**614,879.49**

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 inflow of RMB69,584,980 for the year ended December 31, 2017.

For the year ended December 31, 2017, we had net cash inflow from operating activities of RMB69,584,980, primarily due to (i) profit before tax of RMB400,886,910 in line with the Group's remarkable operating results; (ii) an increase of receivables from operating activities owing to more favourable credit terms offered to the wholesale customers which offset the effect of cash inflow from the net profits; and (iii) shorter credit period for the trade payables offered by the suppliers which in turn decreased the payables from operating activities.

2. *Net cash used in investing activities*

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

For the year ended December 31, 2017, we had net cash outflow from investing activities of RMB638,590,700, which was primarily attributable to (i) the purchase and construction of fixed assets and decoration costs of RMB42,353,000 in connection with the opening of new outlets and the renovation of old ones; (ii) the investment of RMB49,175,000 in the joint ventures and associated companies; (iii) expenses on the purchase of bank financial products of RMB210,000,000; and (iv) entrusted loans and loans to the third parties of RMB322,119,000.

3. *Net cash generated from financing activities*

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

For the year ended December 31, 2017, we had net cash inflow from financing activities of RMB400,277,660, primarily due to (i) bank loans of RMB7,341,360,000 and repayment of bank loans of RMB7,250,579,000; (ii) cash of RMB595,500,000 received from issuance of a corporate bond; and (iii) interest payment to banks of RMB147,949,000.

(IV) Balance Sheet Items

1. *Trade and bills receivables*

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

	As of December 31,			
	2016 RMB'000 Restated	**2017** **RMB'000**	**Fluctuation** RMB'000	**Percentage of Fluctuation**
Trade receivables	1,865,594.10	**2,087,991.71**	222,397.61	11.92%
Bills receivables	–	**2,678.37**	2,678.37	–
	1,865,594.10	**2,090,670.08**	225,075.98	12.06%
Less: Impairment for trade receivables	(93,317.88)	**(103,864.49)**	(10,546.61)	11.30%
	1,772,276.22	**1,986,805.59**	214,529.37	12.10%

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

	As of December 31,			
	2016 RMB'000 Restated	**2017** **RMB'000**	**Fluctuation** RMB'000	**Percentage of Fluctuation**
Franchisees	637,465.03	**847,160.49**	209,695.46	32.90%
Supermarket customers	161,515.15	**145,307.30**	(16,207.85)	(10.03%)
Mobile carriers	483,863.32	**471,993.69**	(11,869.63)	(2.45%)
Third party wholesale customers	582,750.60	**612,605.23**	29,854.63	5.12%
Property buyers	–	**10,925.00**	10,925.00	–
Total	1,865,594.10	**2,087,991.71**	222,397.61	11.92%

To enhance sales of our handsets and enlarge our market share, we granted credit periods of 30–120 days to certain customers in 2017. 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, 2017 amounted to RMB1,984,127,220, representing an increase of RMB211,851,000 or 11.95%, from RMB1,772,276,220 as of December 31, 2016. Our trade receivables before deducting impairment as of December 31, 2017 amounted to RMB2,087,991,710, representing an increase of RMB222,397,610, or 11.92% from RMB1,865,594,100 as of December 31, 2016.

Trade receivable from franchisees as of December 31, 2017 amounted to RMB847,160,490, representing an increase of RMB209,695,460 or 32.90%, from RMB637,465,030 as of December 31, 2016. Such increase was primarily attributable to: (i) an increase in trade receivables from the franchisees in line with increased revenue from them; and (ii) extension of the credit periods for some of creditworthy franchisees.

Trade receivable from supermarket customers as of December 31, 2017 amounted to RMB145,307,300, representing a decrease of RMB16,207,850 or 10.03%, from RMB161,515,150 as of December 31, 2016. Such decrease was primarily attributable to the decrease of revenue from supermarket customers.

Amounts receivable from mobile carriers as of December 31, 2017 amounted to RMB471,993,690, representing a decrease of RMB11,869,630 or 2.45%, from RMB483,863,320 as of December 31, 2016. There was no substantial change in the outstanding amounts for both years.

Trade receivables from property buyers as of December 31, 2017 amounted to RMB10,925,000. The balance as of December 31, 2016 was nil, mainly owing to the initial recognition of revenue from the property segment of the Group.

Trade receivable from third party wholesale customers as of December 31, 2017 amounted to RMB612,605,230, representing an increase of RMB29,854,630 or 5.12%, from RMB582,750,600 as of December 31, 2016. Such increase was primarily attributable to the increased wholesale sales to third party wholesale customers and mobile carriers.

As of the date of this annual report, an amount of approximately RMB1,837,239,650 in our trade receivables as of December 31, 2017 were subsequently settled.

Our management regularly monitors the recoverability of our overdue balances of trade receivables and provides for impairment of these trade receivables as appropriate. Our provisions for impairment of trade receivables as of December 31, 2017 amounted to RMB103,864,490, representing an increase of RMB10,546,610 or 11.30% from RMB93,317,880 as of December 31, 2016, primarily owing to the increased risk from bad debt resulting from the increase of outstanding trade receivables. Our Directors believe that our provisions for impairment on trade receivables are adequate.

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

Items	As of December 31, 2016 RMB'000	**2017 RMB'000**
Within 90 days	1,672,870.63	**1,846,330.54**
91 to 180 days	38,874.13	**43,495.20**
181 to 365 days	30,608.25	**72,557.82**
Over 1 year	29,923.21	**24,422.03**
Total	1,772,276.22	**1,986,805.59**

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

Item	For the year ended December 31, 2016 Number of days	**2017 Number of days**	**Change in number of days**	**Percentage of change**
Average trade receivables turnover days	43	**42**	(1)	(2.33%)

For the year ended December 31, 2017, our average trade receivables turnover days was 42 days, which was substantially the same as that for 2016.

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:

	As of December 31,			
	2016 RMB'000	**2017 RMB'000**	**Fluctuation** RMB'000	**Percentage of Fluctuation**
Prepayments	958,281.06	**1,129,281.92**	171,000.86	17.84%
Other receivables	184,140.09	**237,692.27**	53,552.18	29.08%
Total	1,142,421.15	**1,366,974.19**	224,553.04	19.66%
Less: Impairment for other receivables	(6,823.42)	**(9,209.53)**	(2,386.11)	34.97%
	1,135,597.73	**1,357,764.66**	222,166.93	19.56%

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, 2017 amounted to RMB1,129,281,920, representing an increase of RMB171,000,860, or 17.84% from RMB958,281,060 as of December 31, 2016. Such increase was mainly attributable to the increased local procurement by the subsidiaries with shorter credit period and increased requirement of prepayment for procurement when compared with centralized procurement.

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. *Inventories*

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

Items	As of December 31, 2016 RMB'000	**2017 RMB'000**	Change RMB'000	Percentage of change
Merchandise for sale	2,199,376.09	**2,318,661.06**	119,284.97	5.42%
Consumables	607.04	–	(607.04)	(100%)
Total	2,199,983.13	**2,318,661.06**	118,677.93	5.39%
Less: Provision against inventories	(24,333.71)	**(21,062.44)**	3,271.27	(13.44%)
Total	2,175,649.42	**2,297,598.62**	121,949.20	5.61%

Our inventories as of December 31, 2017 amounted to RMB2,297,598,620, representing an increase of RMB121,949,200 or 5.61% from RMB2,175,649,420 as of December 31, 2016. Such increase was mainly attributable to the increased unit price of mobile handsets.

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

Period	As of December 31, 2016 RMB'000	**2017 RMB'000**	Change RMB'000	Percentage of change
Within 30 days	2,130,718.44	**2,161,171.29**	30,452.85	1.43%
31 to 60 days	32,906.03	**80,313.21**	47,407.18	144.07%
60 to 90 days	19,793.50	**34,443.90**	14,650.40	74.02%
Over 90 days	16,565.16	**42,732.66**	26,167.50	157.97%
Total	2,199,983.13	**2,318,661.06**	118,677.93	5.39%

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

Item	For the year ended December 31, 2016 Number of days	**2017 Number of days**	**Change in number of days**	**Percentage of change**
Average inventory turnover days	58	**58**	0	0.00%

Average inventory turnover days for the year ended December 31, 2017 was 58 days, which was the same as that in 2016.

5. *Properties under development and completed properties held for sale*

Item	For the year ended December 31, 2016 RMB'000	**2017 RMB'000**	**Change** RMB'000	**Percentage of change**
Properties under development	316,155.83	**82,121.40**	(234,034.43)	(74.03%)
Completed properties held for sale	–	**119,593.55**	119,593.55	–
Total	316,155.83	**201,714.95**	(114,440.88)	(36.20%)

For the year ended December 31, 2017, the Group had properties under development of RMB82,121,400 and completed properties held for sale of RMB119,593,550. Decrease in the amount for properties under development and increase in the amount for completed properties held for sale were mainly due to the completion of the procedures for the filing for construction completion for the completed residential units and business premises, and some of them had already been delivered to the buyers during the year.

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, 2016 RMB'000	**2017 RMB'000**	Change RMB'000	Percentage of change
Trade payables	422,871.97	**381,412.86**	(41,459.11)	(9.80%)
Bills payables	20,367.62	**50,521.66**	30,154.04	148.05%
Total	443,239.59	**431,934.52**	(11,305.07)	(2.55%)

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

Items	As of December 31, 2016 RMB'000	**2017 RMB'000**	Change RMB'000	Percentage of change
Within 90 days	408,350.17	**376,066.77**	(32,283.40)	(7.91%)
91 to 180 days	18,213.70	**38,312.45**	20,098.75	110.35%
181 to 365 days	12,319.18	**13,089.16**	769.98	6.25%
Over 1 year	4,356.54	**4,466.14**	109.60	2.52%
Total	443,239.59	**431,934.52**	(11,305.07)	(2.55%)

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

Item	For the year ended December 31, 2016 Number of days	**2017 Number of days**	**Change in number of days**	**Percentage of change**
Average trade and bills payables turnover days	12	**11**	(1)	(8.33%)

Our trade payables are non-interest bearing and are normally settled within 30–45 days. Our trade and bills payables for the year ended December 31, 2017 amounted to RMB431,934,520, representing a decrease of RMB11,305,070 or 2.55% from RMB443,239,590 for the year ended December 31, 2016. The decrease in trade and bills payables for this period was mainly due to the decrease in centralized procurement made by the Group's headquarters and the increase in local procurement made by subsidiaries. Local procurement is mainly settled on cash with shorter credit periods.

7. *Other payables and accruals*

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

Items	As of December 31, 2016 RMB'000	**As of December 31, 2017 RMB'000**	**Change** RMB'000	**Percentage of change**
Advances from customers	237,879.79	**193,324.22**	(44,555.57)	(18.73%)
Payroll and welfare payables	34,637.39	**32,606.17**	(2,031.22)	(5.86%)
Accrued expenses	6,642.24	**10,126.34**	3,484.10	52.45%
Other payables	125,844.01	**109,408.52**	(16,435.49)	(13.06%)
Bond interest payables	–	**33,750.00**	33,750.00	–
Total	405,003.43	**379,215.25**	(25,788.18)	6.37%

Our advances from customers represent advance payments by customers for their purchases. Our advances from customers as of December 31, 2017 amounted to RMB193,324,220, representing a decrease of RMB44,555,570 or 18.73% from RMB237,879,790 as of December 31, 2016. The decrease was primarily due to the recognition of the advance payment received from the property buyers upon the delivery of the residential units and business premises to them.

Our payroll and welfare payables represent accrued payroll and welfare expenses to our employees. Our payroll and welfare payables as of December 31, 2017 amounted to RMB32,606,170, representing a decrease of RMB2,031,220 or 5.86% from RMB34,637,390 as of December 31, 2016. 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 order to control the labour costs of the Group, and such service fees will not be included in the item "payroll and welfare payables".

Our accrued expenses represent other current liabilities. Our accrued expenses as of December 31, 2017 amounted to RMB10,126,340, representing an increase of RMB3,484,100 or 52.45% from RMB6,642,240 as of December 31, 2016. Such increase was primarily due to the investment in an associate by the Company with the resources of its self-owned shops, which increased its other current liabilities in 2017.

Our other payables as of December 31, 2017 amounted to RMB109,408,520, representing a decrease of RMB16,435,490 or 13.06% from RMB125,844,010 as of December 31, 2016. Such decrease was primarily due to the decrease in the investment received in advance for the prior period as a result of the completion of change in business registration in this period.

As of December 31, 2017, our interest payables amounted to RMB33,750,000 incurred from the unpaid bond interest payables for the corporate bond in the principal of RMB600,000,000 issued in the current year.

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, 2016 RMB'000	**2017 RMB'000**	Change RMB'000	Percentage of change
Current assets				
Inventories	2,175,649.42	**2,297,598.62**	121,949.20	5.61%
Properties under development	316,155.83	**82,121.40**	(234,034.43)	(74.03%)
Completed properties held for sale	–	**119,593.55**	119,593.55	–
Trade and bills receivables	1,772,276.22	**1,986,805.59**	214,529.37	12.10%
Prepayments, deposits and other receivables	1,135,597.73	**1,357,764.66**	222,166.93	19.56%
Loan receivables	–	**300,000.00**	300,000.00	–
Due from related parties	13,504.28	**53,887.40**	40,383.12	299.04%
Available-for-sale investment	–	**210,000.00**	210,000.00	–
Pledged deposits	815,367.28	**953,420.83**	138,053.55	16.93%
Cash and cash equivalents	784,755.66	**614,879.49**	(169,876.17)	(21.65%)
Total current assets	7,013,306.42	**7,976,071.54**	962,765.12	13.73%
Current liabilities				
Interest-bearing loans and other loans	3,056,402.54	**3,147,183.55**	90,781.01	2.97%
Trade and bills payables	443,239.59	**431,934.52**	(11,305.07)	(2.55%)
Other payables and accruals	405,003.43	**379,215.25**	(25,788.18)	(6.37%)
Tax payable	239,007.42	**285,124.20**	46,116.78	19.30%
Due to related parties	8,847.97	**2,300.98**	(6,546.99)	(73.99%)
Total current liabilities	4,152,500.95	**4,245,758.50**	93,257.55	2.25%
Net current assets	2,860,805.47	**3,730,313.04**	869,507.57	30.39%

Our net current assets as of December 31, 2017 amounted to RMB3,730,313,040, representing an increase of RMB869,507,570 or 30.39% from RMB2,860,805,470 as of December 31, 2016. Such growth was primarily due to the increase in working capital requirement as a result of the expansion of business scale and finance from long-term debts.

9. *Capital expenditure*

For the year ended December 31, 2017, the Group's capital expenditure amounted to RMB42,353,000, 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, 2017 and December 31, 2016 and the balance with the related parties as of December 31, 2017 and December 31, 2016.

	Year	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 Dixin Nuclear Communication Co., Ltd.[1]	**2017**	**–**	**13,274.62**	**–**	**1,493.25**
	2016	2,198.39	278.69	–	1,829.67
Shanxi Hartcourt Intermediation Information Technology Co., Ltd[5]	**2017**	**–**	**–**	**–**	**666.60**
	2016	–	–	–	666.60
Beijing Xinyi Technology Co., Ltd.[1]	**2017**	**–**	**–**	**10,279.04**	**–**
	2016	–	–	–	–
Shanghai Diju Information Technology Co., Ltd.[5]	**2017**	**26,676.19**	**–**	**–**	**–**
	2016	–	–	–	–
Joint ventures:					
Hollard-D.Phone (Beijing) Technology Development Co., Ltd.[2]	**2017**	**–**	**2,727.31**	**2,533.28**	**–**
	2016	–	17,844.44	49.95	6,264.10
Guangzhou Zhongqi Energy Technology Limited Company[2]	**2017**	**70,369.59**	**12,897.79**	**36,911.49**	**–**
	2016	11,454.16	–	7,919.31	–

	Year	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
Fellow subsidiaries:					
Beijing Dphone Communication Services Co., Ltd.[3]	**2017**	**220.11**	**–**	**3,986.90**	**141.13**
	2016	139.58	2.14	4,806.47	87.60
Guang'an Dixin Cloud Communication Technology Co., Ltd.[3]	**2017**	**395.58**	**–**	**149.89**	**–**
	2016	–	–	–	–
Company significantly influenced by the controlling shareholder					
Beijing Tianxingyuanjing Technology Development Co., Ltd[4]	**2017**	**–**	**–**	**26.80**	**–**
	2016	5,220.21	1,594.34	728.55	–
Subsidiaries of non-controlling shareholders					
Beijing Digital China Limited[6]	**2017**	**–**	**1,088.85**	**–**	**–**
	2016		–	–	–
Digital China (Shenzhen) Limited[6]	**2017**	**–**	**68.54**	**–**	**–**
	2016	–	–	–	–

1 The investments in the associates, Shenzhen Dixin Nuclear Communciations Co., Ltd. and Beijing Xinyi Technology Co., Ltd. are 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 Guang'an Dixin Cloud Communication Technology Co., Ltd. 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.

5 Investments in Shanxi Hartcourt Intermediation Information Technology Co., Ltd. and Shanghai Diju Information Technology Co., Ltd. are held by our subsidiaries Shanghai Dixin Electronic Communication Technology Co., Ltd. and Shanghai Chuanda Communication Technology Co., Ltd., respectively.

6 Beijing Digital China Limited, Digital China (Shenzhen) Limited and Digital China (HK) Limited are all controlled by the ultimate holding company. Digital China Group Co., Ltd. Digital China (HK) Limited is the non-controlling shareholder of the Company and holds 23.75% equity interests of the Company.

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

11. *Interest – bearing bank and other borrowings*

For the year ended December 31, 2017, 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:

	As at December 31,	
	2016	**2017**
	RMB'000	**RMB'000**
Current		
Bank loans:		
Unsecured, repayable within one year	1,598,473.59	**1,083,000.00**
Secured, repayable within one year	1,409,928.95	**2,064,183.55**
Current portion of long term bank loans – unsecured	48,000.00	**–**
	3,056,402.54	**3,147,183.55**
Non-current		
Corporate bond:		
Non-current portion	–	**596,542.09**
	3,056,402.54	**3,743,725.64**
The bank loans bear interest at rates per annum in the range of	2.50%–6.40%	**3.50%–7.90%**

During the year ended December 31, 2017, 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 carried 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, 2017 amounted to RMB3,147,183,550, representing an increase of RMB90,781,010 or 2.97% from RMB3,056,402,540 as of December 31, 2016. Such increase was primarily due to the higher financing need resulting from the increasing working capital requirement in line with the expanding business activities of the Company.

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.

On April 5, 2017, we issued a corporate bond with a term of three years in the total principal of RMB600,000,000 with annual interest rate of 7.5%. Interest will be paid in arrears each year. The mature date is April 5, 2020.

Our Directors confirmed that during the year ended December 31, 2017 and up to the date of this annual report, 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. 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, 2017, 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:

	As of December 31,			
Items	2016	**2017**	**Change**	**Percentage of change**
Current ratio	1.69	**1.88**	0.19	11.24%
Gearing ratio	41.75%	**47.12%**	5.37%	12.86%
Net debt-to-equity ratio	71.67%	**89.11%**	17.44%	24.33%

Current ratio is our current assets divided by our current liabilities at the end of each financial period. Our current ratio remained relatively stable during the year ended December 31, 2017.

Gearing ratio is net debt divided by the sum of net debt and total equity at the end of each financial period and multiplied by 100%. Net debt includes interest-bearing bank loans plus bonds payable, less cash and cash equivalents. Our gearing ratio increased from 41.75% as of December 31, 2016 to 47.12% as of December 31, 2017. Such increase was primarily due to the Company's higher growth in net debt than in total equity for 2017 as a result of the issuance of a corporate bond. Total equity as of December 31, 2017 amounted to RMB3,511,341,280, representing an increase of RMB341,727,380 or 10.78% from RMB3,169,613,900 as of December 31, 2016, and growth in total equity was primarily due to the increase in shareholding equity capital for 2017. The Group's total retained profit as of December 31, 2017 amounted to RMB1,996,851,680, representing an increase of RMB290,240,180 or 17.01% from the total retained profit of RMB1,706,611,500 for the same period in 2016. Surplus reserves as of December 31, 2017 amounted to RMB243,661,390, representing an increase of RMB32,248,910 or 15.25% from RMB211,412,480 as of December 31, 2016. Net debt as of December 31, 2017 amounted to RMB3,128,846,150, representing an increase of RMB857,199,270 or 37.73% from RMB2,271,646,880 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, 2017 was 89.11%, which was 17.44% higher than 71.67% as of December 31, 2016, representing an increase ratio of 24.33%. This was primarily due to the Company's higher growth in net debt than in total equity for 2017. Net debt as of December 31, 2017 amounted to RMB3,128,846,150, representing an increase of RMB857,199,270, or 37.73% from RMB2,271,646,880 as of December 31, 2016. Increase issued in our net debt was primarily due to a corporate bond of RMB596,542,090 issued in 2017.

(VI) Material acquisitions and disposals

Details of the Group's material acquisitions during the year ended December 31, 2017 are set out in the section headed "Material investments".

(VII) Contingent liabilities

As of December 31, 2017, 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, 2017			Unit: HK$'000
Account holder	**Banker**	**Account number**	**Balance**
Beijing Digital Telecom Co., Ltd.	Standard Chartered Bank (Hong Kong) Limited	44717867377	6,201.96

As of December 31, 2017, HK$877,133,140 out of the net proceeds had been utilised. As of December 31, 2017, the balance of the proceeds in the special account amounted to HK$6,201,960 (including accrued interest of HK$10,700).

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 applied as to approximately 53.86% in the expansion of our retail and distribution network, approximately 13.53% in the repayment of bank loans, approximately 6.34% in the upgrade of information systems for further enhancement of our management ability, approximately 3.93% in the upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC, approximately 5.02% in multi-functional mobile Internet projects and approximately 9.06% as working capital and for other general corporate purpose. The applications of our proceeds as of the date indicated are set out in the following table:

Items	**For the year ended December 31, 2017** **Amount paid** HK$'000	**Percentage**
Expansion of retail and distribution network	472,414.94	53.86%
Repayment of bank loans	118,703.28	13.53%
Upgrade of information system to further improve management capability	55,584.09	6.34%
Upgrade of existing outlets and establishment of new call centers and new after-sales services system in the PRC	34,472.32	3.93%
Undertaking multi-functional mobile Internet projects	44,060.18	5.02%
Working capital and other general corporate purpose	79,459.95	9.06%
Payment of listing agency fees	72,438.38	8.26%
Total	877,133.14	100.00%

(IX) Foreign exchange rate risks

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 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.

2017

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit after tax and equity RMB'000**
If RMB weakens against USD	**5.00**	**2,493.00**
If RMB strengthens against USD	**(5.00)**	**(2,493.00)**
If RMB weakens against HKD	**5.00**	**194.00**
If RMB strengthens against HKD	**(5.00)**	**(194.00)**

2016

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit after tax and equity RMB'000
If RMB weakens against USD	5.00	1,917.00
If RMB strengthens against USD	(5.00)	(1,917.00)
If RMB weakens against HKD	5.00	268.00
If RMB strengthens against HKD	(5.00)	(268.00)

(X) Pledge of assets

As of December 31, 2017, the Group had no other pledge of assets except for the pledged deposits amounting to RMB953,420,830.

(XI) Material investments

As of December 31, 2017, the Group had no material investment.

(XII) Equity arrangements

For the year ended December 31, 2017, no equity subscription was conducted by the Group. As of the date of this annual report, no equity scheme was made by the Group.

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

For the year ended December 31, 2017, the Group had 7,465 employees. Salary costs and employees' benefit expenses amounted to approximately RMB613,253,820 for the twelve months ended December 31, 2017. Remunerations for the Group's existing employees include salaries, performance-based bonus, social insurance, housing provident fund and other benefits.

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

(XIV) Capital

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

(XV) Future material investment

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

III. BUSINESS OUTLOOK FOR 2018

For the year of 2018, the 4G communications market will substantially be saturated, and it is expected that less consumers will have intention to buy new mobile handsets. The commercialization of 5G technology is going to be put on the agenda, which will bring an unstoppable new trend to the retail market. Facing such changes in the market, we have to enhance the Company's performances with the focus on the following aspects:

(I) 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, negotiate rent reduction with the landlords and cooperate 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.

(II) 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 2018, 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 and Tmall's flagship stores to realize the synergy effect of OTO.

(III) To enhance our cooperation with three major mobile carriers

On the one hand, we shall jointly operate our outlets with the mobile carriers, and on the other hand, 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.

(IV) To continue enhancing our brand value

In 2018, 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.

(V) 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 opened a dedicated customer services and call center to fulfil the demand for after-sale services from the customers as much as possible. In 2018, 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.

(VI) To continue expanding into oversea markets of mobile handsets

In 2017, we cooperated with Transsion to achieve satisfactory results in African market and our market shares have gradually been increased. In 2018, we shall continue to enhance our competitive edges in that region. Meanwhile, the Company will actively expand its retail and distribution of mobile handsets business in Thailand, Spain, Portugal and Bangladesh.

(VII) To actively introduce new retail concept in the mobile telecommunications devices industry by providing customers new shopping experience in advance of the upcoming revolution on the retail market

In 2017, we opened the brand new D.Phone UP+ stores in a number of cities, such as Beijing and Shanghai. Unlike the traditional retail stores, the new concept stores provide customers unrivaled shopping experience through differentiable, fashionable, thematic, interesting, humanized, entertaining, daily-used and smart products.

USE OF PROCEEDS FROM LISTING

Details for the use of the proceeds from listing for the year ended December 31, 2017 are set out in the section headed "Use of Proceeds" under "Management Discussion and Analysis".

FINAL DIVIDEND

The Board did not recommend any final dividend for the year ended December 31, 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Donghai (劉東海), aged 51, 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 from March 2011 to December 2013 and the internal risk control officer of the Company from June 2001 to March 2011. He is primarily responsible for formulating the overall business strategies of the Company and overseeing the execution of the business strategies and the operation of the Company.

Prior to joining our Group, from April 1991 to March 1993, he served as the sales director of Beijing Hamamatsu Technology Co., Ltd. (北京濱松光子技術有限公司), which was set up as a company providing comprehensive services including research, development and provision of a variety of products for photonics field as a whole, mainly responsible for formulating sales policies, proposals and targets, and planning and overseeing the implementation of sales proposals. 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 60, 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 44, 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 43, 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.

Non-Executive Directors

Mr. Qi Xiangdong (齊向東), aged 54, joined the Company in June 2015 and has been a non-executive Director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. Mr. Qi 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.

Ms. Zhang Yunfei (張雲飛), aged 45, joined the Company in July 2017 and has been a non-executive director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of the Company. Subsequent to the spin-off of Lenovo Group in 2000, Ms. Zhang served as general manager in Jinan Digital China Limited (濟南神州數碼有限公司), deputy general manager in Digital China Technology Development Company Limited (神州數碼科技發展有限公司), supervisor of Digital China (China) Limited (神州數碼(中國)有限公司) and Guangzhou Digital China Information Technology Co., Ltd. (廣州神州數碼信息科技有限公司), financial manager of Digital China (China) Limited (神州數碼(中國)有限公司), Guangzhou Digital China Information Technology Co., Ltd. (廣州神州數碼信息科技有限公司) and Shanghai Digital China Limited (上海神州數碼有限公司), and was responsible for overall financial management of the IT distribution companies under Digital China Holding Limited. From March 2016 to December 2017, she was the chief financial officer of Digital China Group Co., Ltd.

Ms. Zhang graduated from China Europe International Business School in 2009 with a master's degree in business administration.

Independent Non-Executive Directors

Mr. Lv Tingjie (吕廷杰), aged 62, 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 64, 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. 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. and Fujian Anjing Food Company Limited (a company listed on the Shanghai Stock Exchange, Stock code: 603345) from July 2013 and September 2017, respectively.

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 57, joined our Company in January 2014 and has been an independent non-executive Director since then, mainly responsible for attending the meetings of the Board, voting on the resolutions considered at the meetings of the Board, and overseeing the management of our Company.

Mr. Li has over 30 years of experience in the accounting industry. Since September 2016, Mr. Li has been a partner for ShineWing Certified Public Accountants (信永中和會計師事務所(特殊普通合夥)). 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)). He also served as a partner for Asian Alliance (HK) CPA Limited (華融(香港)會計師事務所有限公司), Pan-China (H.K.) CPA Limited (天健(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) in Hong Kong. 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. Moreover, Mr. Li has been an independent non-executive director of Qinhuangdao Port Co., Ltd. (a company listed on the Hong Kong Stock Exchange (stock code: 03369) since June 2013.

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, 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
Wei Shuhui (魏淑慧)	54	Chairwoman of Board of Supervisors and employee representative Supervisor	June 6, 2017	May 1999
Li Wanlin (李萬林)	55	Supervisor	May 20, 2014	May 2014
Hu Yuzhong (胡玉忠)	59	Supervisor	May 20, 2014	May 2014

SUPERVISORS

Ms. Wei Shuhui (魏淑慧), aged 54, joined the Group in May 1999 and has been an employee representative Supervisor and chairwoman of Board of Supervisors since June 2017. She has also acted as head sales representative of various retail shops of Beijing Dphone Electronic Communication Technology Co., Ltd. (北京迪信通電子通信技術有限公司) since May 1999. Ms. Wei is primarily responsible for reviewing and providing written comments on the regular reports of the Company, reviewing financial statements of the Company and supervising behaviors of Directors and senior management members.

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

Mr. Li Wanlin (李萬林), aged 55, 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 59, 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)	46	General manager	December 25, 2013	January 1999
Qi Feng (齊峰)	48	Vice general manager	November 24, 2009	August 2003
Zhou Qing (周清)	49	Vice general manager	November 24, 2009	May 2002
Huang Jianhui (黃建輝)	57	Vice general manager	April 12, 2011	July 2010
Su Fengjuan (蘇鳳娟)	34	Chief financial officer	November 7, 2016	February 2009
Li Dongmei (李冬梅)	39	Secretary to the Board and chief legal officer	November 24, 2009	April 2006

Mr. Jin Xin (金鑫), aged 46, 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). 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 middle 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 48, 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 49, 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 safety 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 safety 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. Huang Jianhui (黃建輝), aged 57, 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 34, 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.

Ms. Li Dongmei (李冬梅), aged 39, joined the Company in April 2006 and has served as the secretary to the Board and the chief legal officer since November 2009, and also one of the joint company secretaries since March 2014. Ms. Li is primarily responsible for preparing for the Board meetings and Shareholders' meetings, disclosing data of the Company in a complete, accurate and prompt manner, ensuring the Directors, Supervisors and senior management members to have complied with law, regulations and rules, providing legal opinions for the operation and management of the Company as well as participating in the drafting of contracts and negotiations for material contracts. In November 2016, she was appointed as vice president of the Company, and is responsible for the securities affairs, material investment and legal affairs.

Prior to joining our Group, she served as the legal manager of Enn Group Co., Ltd. (新奧集團股份有限公司) from September 2004 to April 2006. The principal business activities of this company were production, application and sales of clean energy. Ms. Li was responsible for the listing related work of 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 Hong Kong 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 of directors of the Company (the “**Board**”) is pleased to present the Group’s report together with the audited financial statements for the year ended December 31, 2017.

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 of the Company 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 168.

RESULTS

The results of the Group for the year ended December 31, 2017 are set out on pages 124 to 130 of the financial statements in this annual report.

BUSINESS REVIEW

Operating Results and Financial Positions

For the year ended December 31, 2017, the Group sold 10,470,200 mobile handsets, representing a decrease of 217,180 sets or 2.03% compared with 10,687,380 sets for the same period last year. Operating revenue for the year of 2017 amounted to RMB15,974,316,400, representing an increase of RMB797,190,170 or 5.25% from RMB15,177,126,230 for the same period last year. Net profit for the year of 2017 amounted to RMB322,947,070, representing a decrease of RMB34,064,060 or 9.54% from RMB357,011,130 for the same period last year.

For a detailed analysis on the Group’s operating results and financial positions, please refer to the section headed “Management Discussion & Analysis” set out from page 13 to page 39 of this annual report.

MAJOR RISK FACTORS AND UNCERTAINTY

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

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

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

Risk for Overstocking Inventory

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

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

Risk of Liquidity

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

Solution: The Group has implemented a management system for the Group's capital pool since many years ago. The revenues of the Group's subsidiaries will be collected on real-time basis and the fund's flow is strictly controlled by the Group. In order to ensure the reasonable use of our funds, the Company issued corporate bond in the principal of RMB600 million to replace part of current short-term loan for our liquidity in April 2017 with in order to increase the efficient use of the cash flow used in our operating activities.

FUTURE PROSPECT

For the Group's future development and business outlook, please refer to the section headed "Management Discussion & Analysis" set out on page 43 and page 44 in this annual report.

EMPLOYEES, ENVIRONMENTAL POLICIES AND PERFORMANCE AND RELEVANT LAWS AND REGULATIONS

For the analysis on the Group's environmental policies and performances, its relationship with its employees, and relevant laws and regulations, please refer to the section headed "Environmental, Social and Governance Report" set out from page 90 to page 117 in this annual report.

FINAL DIVIDENDS

The Board does not recommend any final dividend for the year ended December 31, 2017.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years are set out on page 8 to page 9 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, 2017 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 2017, the Company's transaction volume with its five largest customers accounted for 11.15% of the Company's operating revenue for the year ended December 31, 2017. The Company's transaction volume with its single largest customer accounted for 4.56% of the Company's operating revenue for the year 2017.

Major Suppliers

For the year 2017, the Company's transaction volume with its five largest suppliers accounted for 35.65% of the Company's operating costs for the year ended December 31, 2017. The Company's transaction volume with its single largest supplier accounted for 12.73% of the Company's operating costs for the year 2017.

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 175 to 176.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2017 are set out in note 33 to the financial statements on page 192.

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 128 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the PRC Company Law, amounted to approximately RMB1,996,853,000 (as at December 31, 2016 (restated): approximately RMB1,706,612,000).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and its subsidiaries as at December 31, 2017 are set out in note 32 to the financial statements on page 191.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year ended December 31, 2017 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 (resigned on July 28, 2017)

Non-executive Directors:

Mr. Qi Xiangdong
Ms. Zhang Yunfei (appointed on July 28, 2017)

Independent Non-executive Directors:

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

Supervisors:

Ms. Wei Shuhui (appointed on June 6, 2017)
Mr. Li Wanlin
Mr. Hu Yuzhong
Ms. Xiao Hong (resigned on June 6, 2017)

Ms. Liu Hua resigned from her position as executive Director due to personal development reason, and Ms. Zhang Yunfei was appointed as a non-executive Director, effective from July 28, 2017.

Ms. Xiao Hong resigned from her position as employee representative Supervisor due to expiry of term, and Ms. Wei Shuhui was appointed as employee representative Supervisor, effective from June 6, 2017.

BIOGRAPHIES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of the Directors, Supervisors and senior management are set out on pages 45 to 53 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, 2017 in accordance with Rule 3.13 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The members of the second session of the Board, namely Mr. Liu Donghai, Mr. Liu Yajun, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Hua, Mr. Lv Tingjie and Mr. Vincent Man Choi, Li entered into service agreements with the Company respectively on June 8, 2014 with a fixed term of three years effective from the Listing Date until the expiry of the second session of the Board of the Company. Mr. Qi Xiangdong and Mr. Bian Yongzhuang were appointed respectively as a non-executive Director and an independent non-executive Director on June 2, 2015. They entered into service agreements with the Company respectively on June 2, 2015 effective from June 2, 2015 until the expiry of the second session of the Board.

In light of the election of the Board during the year, the members of the third session of the Board, namely Mr. Liu Donghai, Mr. Liu Yajun, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Hua, Mr. Qi Xiangdong, Mr. Lv Tingjie, Mr. Bian Yongzhuang and Mr. Vincent Man Choi, Li entered into service agreements with the Company respectively on June 6, 2017 with a fixed term of three years commencing from June 6, 2017 and ending at the expiry of the third session of the Board. Ms. Zhang Yunfei was appointed as a non-executive Director on July 28, 2017, and has entered into a service agreement with the Company on July 28, 2017 for a term commencing from July 28, 2017 until the expiry of the third session of the Board. The service agreements entered into between the Company and each of the Directors are subject to renewal in accordance with the Company's Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

The members of the second session of the Board of Supervisors of the Company, namely Ms. Xiao Hong, Mr. Li Wanlin and Mr. Hu Yuzhong entered into service agreements with the Company respectively on June 8, 2014 with a fixed term of three years effective from the Listing Date until the expiry of the second session of the Board of Supervisors of the Company.

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

Save as disclosed above, none of the Directors 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, 2017, 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, 2017.

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 170 to 172.

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 169.

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

During the reporting period, the election of the Board of Directors was held at which the members of the Board were re-elected, effective on June 6, 2017. The third session of the Board of Directors is composed of Mr. Liu Donghai (chairman), Mr. Liu Songshan (vice-chairman), Mr. Liu Yajun (vice-chairman) and Ms. Liu Hua as executive Directors; Mr. Qi Xiangdong as non-executive Director; and Mr. Lv Tingjie, Mr. Bian Yongzhuang and Mr. Vincent Man Choi, Li, as independent non-executive Directors. For details, please refer to the Company's announcements dated March 30, 2017 and June 6, 2017 and the circular dated April 21, 2017.

Ms. Liu Hua resigned from her position as executive Director and member of Remuneration and Assessment Committee due to personal development reason, effective from July 28, 2017. On the same day, Ms. Zhang Yunfei was appointed as non-executive Director and member of Remuneration and Assessment Committee. For details, please refer to the Company's announcements dated July 6, 2017 and July 28, 2017 and the circular dated July 13, 2017.

During the reporting period, the election of the Board of Supervisors was held at which Ms. Xiao Hong resigned from her position as employee representative Supervisor due to expiry of term, Ms. Wei Shuhui was appointed as employee representative Supervisor and chairwoman of the Board of Supervisors, forming the third session of the Board of Supervisors with two other re-appointed shareholder representative Supervisors Mr. Hu Yuzhong and Mr. Li Wanlin, effective on June 6, 2017. For details, please refer to the Company's announcements dated March 30, 2017 and June 6, 2017 and the circular dated April 21, 2017.

During the reporting period, Mr. Bai Ren resigned as vice general manager of the Company due to personal reason with effect from June 6, 2017.

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

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

As at December 31, 2017, the interests and short positions of the Directors of the Company (the "**Directors**"), Supervisors of the Company (the "**Supervisors**") and chief executives of the Company (the "**Chief Executives**") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**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.*

   Liu Hua resigned from her porition as executive director on July 28, 2017.

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 66.27% 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, 2017, 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 Code.

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, 2017, to the knowledge of the Directors, the following persons (other than the Directors, the Supervisors and the Chief Executives) had interests or short positions in the shares 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

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)*
Lenovo Group Limited	H shares	Beneficial owner	32,435,500 (long position)	9.86	4.87
Digital China Group Co., Ltd. ("**Digital China Group**") *(Note 3)*	H shares	Interest of controlled corporation	158,350,000 (long position)	48.14	23.75
Digital China (China) Limited ("**Digital China China**") *(Note 3)*	H shares	Interest of controlled corporation	158,350,000 (long position)	48.14	23.75
Digital China (HK) Limited ("**Digital China**") *(Note 3)*	H shares	Beneficial owner	158,350,000 (long position)	48.14	23.75
Dawn Galaxy International Limited	H shares	Beneficial owner	42,000,000 (long position)	12.77	6.30

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

Save as disclosed above, as of December 31, 2017, there is no other person (other than the Directors, the Supervisors and the Chief Executives) 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 or 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, 2017, 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, 2017.

PRE-EMPTIVE RIGHTS

During the year ended December 31, 2017, 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, 2017.

DIRECTORS AND SUPERVISORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the year of 2017, 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 2017:

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.

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

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, 2017 as set out above and stated 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 40 to the financial statements of this annual report on pages 195 to 196 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, 2017, 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, 2017, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

PERMITTED INDEMNITY PROVISION

The Company purchased an insurance covering the liability of the Directors and the senior management with a validity period of 12 months with effect from March 31, 2017, and was renewed in March 2018. Except for such insurance, the Company has no valid permitted indemnity provisions (as defined in Companies (Directors' Report) Regulation of the Chapter 622D of Hong Kong Laws) during the year ended December 31, 2017 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 44 to the financial statements on page 205.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Company's annual results for 2017 and the financial statements prepared in accordance with IFRSs for the year ended December 31, 2017.

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, 2017, 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, 2017. 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.

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

By order of the Board
Liu Donghai
Chairman

Beijing
March 28, 2018

BOARD OF SUPERVISORS' REPORT

In 2017, all members of the Board of Supervisors of the Company (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 30, 2017, the Company held the eleventh meeting of the second session of the Board of Supervisors in Beijing. The meeting was held by way of conference call, and all of three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Ms. Xiao Hong, the chairwoman. Upon voting, the resolutions on "the Company's annual report and the annual results announcement for 2016", "the Company's report of the Board of Supervisors for 2016", "the Company's financial statements (draft) for 2016", "the election of new session of the Board of Supervisors" and "the Company's appointment of accounting firm for 2017" were approved.

2. On June 6, 2017, the Company held the first meeting of the third session of the Board of Supervisors in Beijing. The meeting was a physical meeting, and all of three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Ms. Wei Shuhui, the employee representative Supervisor. Upon voting, the resolutions on "the election of the chairman of the third session of the Board of Supervisors" and "the determination of remunerations for the third session of the Board of Supervisors" were approved.

3. On August 30, 2017, the Company held the second meeting of the third session of the Board of Supervisors in Beijing. The meeting was held by way of conference call, and all of three supervisors of the Company attended the meeting which met the quorum as required under the Articles of Association and thus was lawful and effective. The meeting was chaired by Ms. Wei Shuhui, the chairwoman. Upon voting, the resolution on "the Company's interim report and the interim results announcement for 2017" was approved.

II. SUPERVISION WORK OF THE BOARD OF SUPERVISORS IN 2017

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 2017

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 complied 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 2017. 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 Internal Control of the Company

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 2017. As shown in "The Report on Internal Control for Beijing Digital Telecom Co., Ltd. for 2017" and "The Internal Control Plan for Beijing Digital Telecom Co., Ltd. for 2018" 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 2017, the Board of Supervisors 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 2017 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 2017 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 connected transactions, please see the section “II. Financial Position and Operating Results – Management Discussion & Analysis” in the 2017 annual report.

For details of the Company’s capital raising, please see the section “II. Financial Position and Operating Results – Management Discussion & Analysis” in the 2017 annual report.

The Board of Supervisors 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 2017, 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 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 2017.

IV. THE WORK PLAN OF THE BOARD OF SUPERVISORS FOR THE YEAR 2018

1. The election of the Board of Supervisors was successfully held. The members of the third session of the Board of Supervisors will be committed to the due performance of their duties as Supervisors.

2. The Board of Supervisors will continue to 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 smooth progress and expected capital returns from them.

3. The Board of Supervisors will continue to strengthen its supervision on the implementation of the Company’s procurement and sales plan for 2018.

4. The Board of Supervisors will continue to strengthen its supervision on the utilization of the proceeds in a reasonable and regulated manner for 2018.

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, 2017.

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, 2017, the Company has complied with the code provisions set out in the CG Code. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

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

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

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

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

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

The Board may dedicate certain authorities to the chairman during the recess of the Board, as defined and specified in the Company's constitutions.

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

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

The Company purchased an insurance policy covering the liability of the Directors and senior management with a valid period of 12 months effective from March 31, 2017 to March 30, 2018 in March 2017. In March 2018, the Company renewed the insurance with a valid period from March 31, 2018 to March 30, 2019.

Board Composition

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

Executive Directors:

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

Non-executive Directors:

Mr. Qi Xiangdong
Ms. Zhang Yunfei

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, 2017, 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 possesses 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.

Mr. Vincent Man Choi, Li, an independent non-executive Director of the Company, is currently the partner for the external auditor of Digital China, a substantial shareholder of the Company. Mr. Vincent Man Choi, Li confirmed and the Directors, having made all reasonable enquiries, confirmed that to the best of their knowledge, information and belief, he did not involve in the auditing work of Digital China, nor participate in any decision-making on Digital China's investment in the Company, taking from all respect of measures. Accordingly, the Company is of the view that Mr. Vincent Man Choi, Li meets the requirements concerning his independence as independent non-executive Director as stipulated in Rule 3.13 of the Listing Rules.

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 independence pursuant to Rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

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

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

As the code provision in the CG Code requires Directors to disclose the number and nature of offices held in listed companies or organizations and other significant commitments as well as their 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, Zhang Yunfei, 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

In light of the election of the Board of Directors during the year, the members of the third session of the Board of the Company, namely Mr. Liu Donghai, Mr. Liu Yajun, Mr. Liu Songshan, Ms. Liu Wencui, Ms. Liu Hua, Mr. Qi Xiangdong, Mr. Lv Tingjie, Mr. Bian Yongzhuang and Mr. Vincent Man Choi, Li entered into service agreements with the Company respectively on June 6, 2017 with a fixed term of three years commencing from June 6, 2017 and ending at the expiry of the third session of the Board of the Company. Ms. Zhang Yunfei was appointed as a non-executive Director on July 28, 2017, and has entered into a service agreement with the Company on July 28, 2017 for a term commencing on July 28, 2017 until the expiry of the third session of the Board of Directors. The service agreements entered into between the Company and each of the Directors are subject to renewal in accordance with the Company's Articles of Association and applicable laws, rules and regulations or early termination in accordance with their respective terms.

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

In accordance with the Articles of Association, the Company shall establish the Board of Directors which is accountable to the shareholders at general meetings. Directors shall be elected at the general meetings, with a term of office of three years. Upon expiry of their term of office, Directors are eligible for re-election. At the 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, nine Board meetings and two general meetings were held and the attendance of each Director at these Board meetings and the general meetings is set out in the table below:

Name of Director	Attended Board Meetings/ Eligible to Attend Board Meetings	Attended General Meetings/ Eligible to Attend General Meetings
Mr. Liu Donghai	9/9	2/2
Mr. Liu Yajun	9/9	2/2
Mr. Liu Songshan	9/9	2/2
Ms. Liu Wencui	9/9	2/2
Ms. Liu Hua (resigned on July 28, 2017)	5/5	1/1
Mr. Qi Xiangdong	9/9	2/2
Ms. Zhang Yunfei (appointed on July 28, 2017)	4/4	1/1
Mr. Lv Tingjie	9/9	2/2
Mr. Bian Yongzhuang	9/9	2/2
Mr. Vincent Man Choi, Li	9/9	2/2

A total of 33 Board's resolutions were passed at nine 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 2017 was held on February 22, 2017 at which one resolution was considered and approved.

2. The second meeting of the second session of the Board for the year 2017 was held on March 30, 2017 at which nine resolutions were considered and approved.

3. The third meeting of the second session of the Board for the year 2017 was held on April 17, 2017 at which one resolution was considered and approved.

4. The first meeting of the third session of the Board for the year 2017 was held on June 6, 2017 at which 11 resolutions were considered and approved.

5. The second meeting of the third session of the Board for the year 2017 was held on July 6, 2017 at which two resolutions were considered and approved.

6. The third meeting of the third session of the Board for the year 2017 was held on July 31, 2017 at which one resolution was considered and approved.

7. The fourth meeting of the third session of the Board for the year 2017 was held on August 30, 2017 at which five resolutions were considered and approved.

8. The fifth meeting of the third session of the Board for the year 2017 was held on September 10, 2017 at which one resolution was considered and approved.

9. The sixth meeting of the third session of the Board for the year 2017 was held on December 20, 2017 at which two resolutions were considered and approved.

Shareholders' General Meeting

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

On June 6, 2017, the Company held the annual general meeting for the year 2016 in Beijing. Five shareholders or their proxies holding 337,700,500 shares of the Company, representing 50.66% of the total number of the shares of the Company, attended the meeting. The meeting was chaired by our Chairman, Mr. Liu Donghai. Certain Directors, Supervisors, senior management members also attended the meeting. Nine ordinary resolutions and one special resolution were approved by open voting at the meeting.

On July 28, 2017, the Company held the first extraordinary general meeting for the year 2017 in Beijing. Six shareholders or their proxies holding 524,601,000 shares of the Company, representing 78.69% of the total number of the shares of the Company, attended the meeting. The meeting was chaired by our Chairman, Mr. Liu Donghai. Certain Directors, Supervisors, senior management members also attended the meeting. Two ordinary resolutions were approved upon open voting at the meeting.

Model Code for Securities Transactions

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

During the year ended December 31, 2017, 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, 2017, the Nomination Committee has held two committee meetings and the attendance of each member of the Nomination Committee at the meetings is set out in the table below:

Name of Director	Attended/ Eligible to attend
Mr. Lv Tingjie	2/2
Mr. Bian Yongzhuang	2/2
Mr. Liu Songshan	2/2

Details of the aforesaid meetings is as follows:

At the first meeting of the Nomination Committee of the Board for the year 2017 held on March 30, 2017, the resolutions on “the nomination of Mr. Liu Donghai, Mr. Liu Songshan, Mr. Liu Yajun, Ms. Liu Wencui, Ms. Liu Hua as executive Directors of the third session of the Board”, “the nomination of Mr. Qi Xiangdong as non-executive Director of the third session of the Board” and “the nomination of Mr. Vincent Man Choi, Li, Mr. Lv Tingjie and Mr. Bian Yongzhuang as independent non-executive Directors of the third session of the Board” were approved.

At the second meeting of the Nomination Committee of the Board for the year 2017 held on June 6, 2017, the resolution on “the election of Mr. Lv Tingjie as Chairman of the Nomination Committee” was 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. Zhang Yunfei. Apart from Ms. Zhang Yunfei who is a non-executive Director, both of the other members are independent non-executive Directors.

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

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

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

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

4. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including 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, 2017, 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. Zhang Yunfei (appointed on July 28, 2017)	0/0
Ms. Liu Hua (resigned on July 28, 2017)	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 2017 held on June 6, 2017, the resolution on "the election of Mr. Bian Yongzhuang as chairman of the Remuneration and Assessment Committee" was approved.

The Remuneration and Assessment Committee has reviewed the remuneration of Directors and senior management members for the year 2017, 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, 2017 are set out in note 10 to the financial statements on pages 170 to 171 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, 2017 is as follows:

Remuneration band (RMB)	Number of individuals
Below 300,000	5
300,000 to 500,000	1
Over 500,000	1

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, 2017, the Audit Committee has held six 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	6/6
Mr. Lv Tingjie	6/6
Mr. Bian Yongzhuang	6/6

Details of the meetings are as follows:

At the first meeting of the Audit Committee of the Board for the year 2017 held on March 30, 2017, the resolutions on "the Company's annual report for the year 2016 and the annual results announcement for 2016", "the Company's audit result and communication report for 2016", "the Company's internal control report for 2016 and internal control plan for 2017" and "the Company's appointment of accounting firm for 2017" were approved.

At the second meeting of the Audit Committee of the Board for the year 2017 held on June 6, 2017, the resolution on "the election of Mr. Vincent Man Choi, Li as chairman of the Audit Committee" was approved.

At the third meeting of the Audit Committee of the Board for the year 2017 held on July 14, 2017, the resolution on "the Company's interim review plan report for 2017 issued by Ernst & Young" was approved.

At the fourth meeting of the Audit Committee of the Board for the year 2017 held on August 30, 2017, the resolutions on "the Company's interim review result report for 2017 issued by Ernst & Young" and "the Company's interim report and interim results announcement for 2017" were approved.

At the fifth meeting of the Audit Committee of the Board for the year 2017 held on November 8, 2017, the resolution on "relevant advisory services in relation to revenue recognition upon the adoption of IFRS 15" was approved.

At the sixth meeting of the Audit Committee of the Board for the year 2017 held on December 20, 2017, the resolution on "the Company's annual audit plan report for 2017 issued by Ernst & Young" was 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 financial year as well as the audit report prepared by the External Auditor in relation to accounting issues and major findings in course of audit.

Strategy Committee

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

The principal duties of the Strategy Committee include the following:

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

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

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

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

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

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

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

During the year ended December 31, 2017, the Strategy Committee has held one committee meeting and the attendance of each member of the Strategy Committee at the meeting is set out in the table below:

Name of Director	Attended/ Eligible to attend
Mr. Liu Donghai	1/1
Mr. Liu Yajun	1/1
Mr. Liu Songshan	1/1
Mr. Lv Tingjie	1/1
Mr. Qi Xiangdong	1/1

Details of the meeting are as follows:

At the first meeting of the Strategy Committee of the Board for the year 2017 held on June 6, 2017, the resolution on "the election of Mr. Lv Tingjie as Chairman of the Strategy Committee" was 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, 2017, 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 121 to 123 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

The Company's risk management and internal control system has the following key features: (i) the responsible persons of the key 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, 2017, the Company engaged Ernst & Young to provide audit-related services and Ernst & Young did not provide any non-audit services. The total remuneration paid or payable to Ernst & Young and other auditors of subsidiaries for statutory audit by the Company for audit-related services amounted to RMB4,543,000 in 2017.

JOINT COMPANY SECRETARIES

Ms. Li Dongmei ("**Ms. Li**"), one of the joint company secretaries of the Company, is responsible for advising the Board on corporate governance matters and ensuring compliance with the Board policies and procedures, and the applicable laws, rules and regulations. In July 2017, the Company made an application to the Stock Exchange for confirmation of Ms Li's qualification being in compliance with the requirements under Rule 3.28 of the Listing Rules for the performance of her duties as a company secretary. The application was considered and approved by the Stock Exchange on July 18, 2017. Meanwhile, in order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company continues to engage Ms. Ng Sau Mei ("**Ms. Ng**"), senior manager of TMF Hong Kong Limited (a company secretarial service provider), as another joint company secretary of the Company to assist Ms. Li to discharge her duties as company secretary of the Company. Ms. Li is the primary contact person of Ms. 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, 2017.

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 company secretary at her email address: Jojo.Ng@tmf-group.com.

CHANGE IN CONSTITUTIONAL DOCUMENTS

There was no material change to the Articles of Association during the year ended December 31, 2017.

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, 2017. This report was prepared based on relevant provisions under the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Listing Rules.

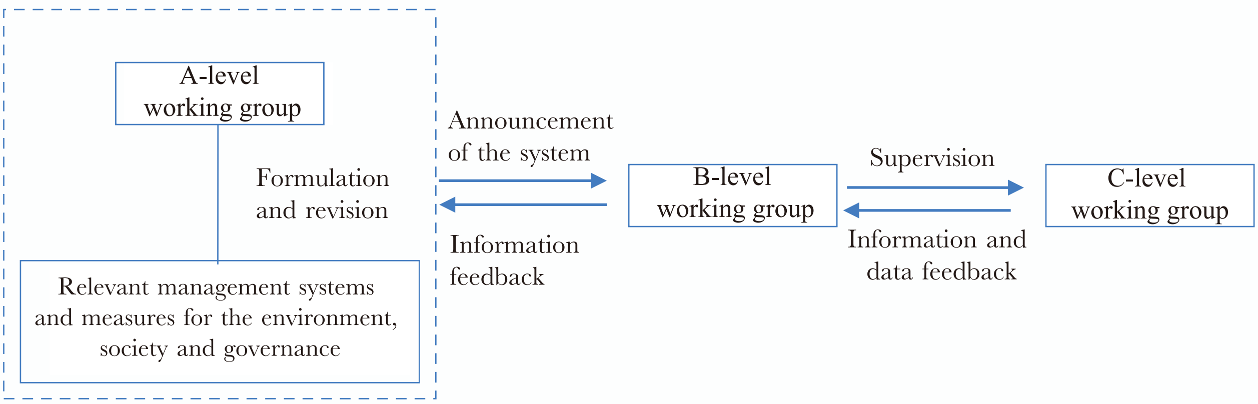
1. ENVIRONMENTAL, SOCIAL AND GOVERNANCE SYSTEM

The Group is committed to achieving a high level of performance on environmental, social and governance issues in order to protect the interests of the shareholders, increase corporate value and fulfill our social responsibilities.

1.1 Core philosophy and management framework

The core philosophy of the Company on environment, society and governance focuses on shouldering our environmental and social responsibility in the course of the enterprise's development. Adherence to this core philosophy, we continued to improve our environmental, social and governance performance and 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 Group follows the motto of "Satisfaction to the customers and the staff" under which we place emphasis on the duty of care for our products and services, 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. With regard to our employees, we also place emphasis on taking care of their needs, protecting their legal rights and interests, caring for their health and safety and supporting their growth and development.

The Group 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 labours. 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 policies and the system on environmental, social and governance issues of the Company.



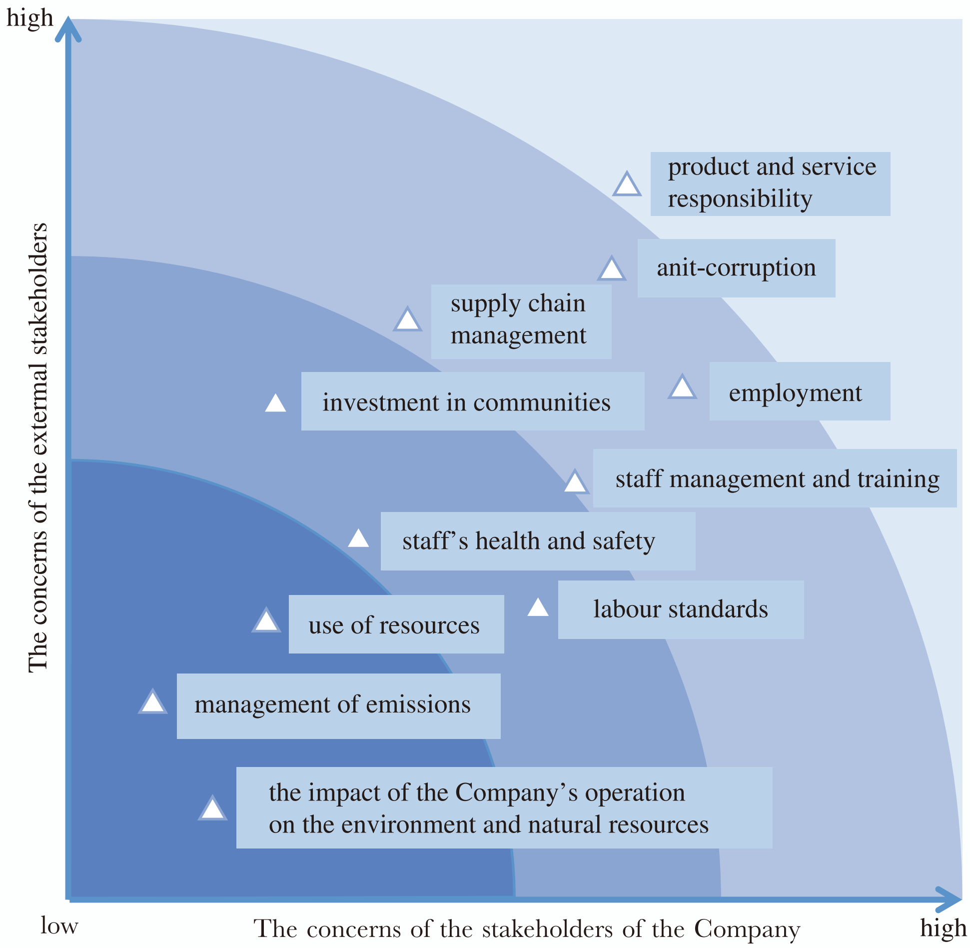
1.2 The involvement of stakeholders

The Group places importance on the communication with the stakeholders and actively strengthens the communication with them through various mean of communication in order to understand their needs and thoroughly consider such needs in the course of corporate development as our response to them. Based on the characteristics of our business, our key stakeholders include the shareholders, suppliers, consumers, communities, employees, the government and regulators. For the year ended December 31, 2017, based on our communication with the stakeholders, we have identified the following environmental, social and governance issues that the stakeholders concern about:

Key stakeholders	Descriptions of the stakeholders	Major means of communication	Subjects of concern
Shareholders	Incorporated bodies which make investment in the Company and hold a certain percentage of the Shares of the Company	Shareholders' general meetings, annual and interim reports, results announcements, corporate announcements	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.	Suppliers management system, relevant meetings, strategic cooperation negotiation	product responsibility, 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	Surveys on consumer satisfaction, feedback from the consumers, daily operation/communications, complaint and answer system	product responsibility, 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	Community activities, charity activities, supporting projects for community issues, daily operation, questionnaires	emissions, use of resources, environment and natural resources, labor standards, anti-corruption
Staff	Employees employed under different types of employment contracts, including permanent workers, contracted workers, temporary workers and interns	Survey on staff's suggestions, staff internal meetings, corporate internal notices, feedback system for the staff, trade union	employment, development and training, product responsibility, anti-corruption
Government and regulators	Government bodies or regulators who regulate the operation of the Company	Information disclosure, receipt or submission of documents, on-site visits, relevant meetings	anti-corruption, product responsibility, employment, labor standards

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

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 responsibility and anti-corruption, secondary priority important issues, namely development and training, supply chain management and labour standards. The relatively least important issues were the impact of the Group's operation on the environment and natural resources, management of the emissions and the use of resources.



2. PRODUCT AND SERVICE RESPONSIBILITY

The quality of the products we sell and the services we provide to our customers are the foundation of our business. At all time, the Group has strictly complied with the provisions for the protection of the consumers' interests and privacy, product quality assurance, advertising, and logo management under relevant national and local laws and regulations such as the *Law of the People's Republic of China on Protection of Consumer Rights and Interests,* the *Product Quality Law of the People's Republic of China,* the *Advertising Law of the People's Republic of China and* the *Trademark Law of the People's Republic of China*, and thus has formulated policies and regulations and developed monitoring systems related to products and services so as to comprehensively monitor the quality of our products and services.

2.1 Product quality assurance

The Group always places importance on offering quality and safe products to the customers and strictly monitors such areas from the quality of the products provided by mobile handset suppliers to after-sales services to enhance consumers' satisfaction. Because of the nature of the Group's business, we shall ensure the quality of the products that consumers purchased from the Group's sale channels by carefully examining our suppliers' qualification, entering into terms on product quality assurance with mobile handset suppliers, and establishing a comprehensive return and exchange process. We shall take timely action to remove the products from the shelves or recall the products to avoid potential harm to the consumers if products are found to have safety issues. The Group has established a high standard guarantee system for returns and exchanges of goods and pledge of service, under which:

- All customers are free to return or exchange the merchandise they purchased for any reason, or at all, within 7 days upon the purchase. Any customer who purchases a mobile handset from the Group's sales channel is entitled to return or exchange the handset without examination within 7 days upon the purchase if the damage is not caused by man-made factor and the requirements are met.

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

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

2.2 To serve with heart

It is always the Group's top priority to sell quality products and provide unique services to the consumers. We uphold our philosophy of creating values to the customers with hearts and launched the "Full-hearted Loyalty" program, shaping our core value of services "A kind heart brings goodness". A customer may enjoy various free services in a Beijing Digital's outlet, such as free drinks and sweets, free handset screen protectors, free Wi-Fi internet access, free power-charging for electronic products and assistance on managing the storage space of a handset.

In order to constantly strengthen our employees and management's recognition on our dedication and mission of the "Full-hearted Loyalty" services and improve the quality of their customer services and their ability to manage our stores, the Company places great importance on the provision of training related to the "Full-hearted Loyalty" services. We provide a three-phase target-specific training on the "Full-hearted Loyalty" services to relevant staff members, i.e. introduction to full-hearted loyalty, growth with full-hearted loyalty and sharing of full-hearted loyalty. We also encourage and reward those staff members who will receive customers to study, be trained and practise how to serve with hearts on the shop floors. In addition, we also provide "Full-hearted Loyalty" services training to the trainee shop managers.

Our shop assistant gave advices and information to a senior customer with patience and passion

Our shop assistant helped a customer by carrying her kid to safely cross the road as her hands were full of stuff after making purchase at our store

Our shop assistant looked after a customer with leg injury from falling by taking him a chair to sit on and making advice and recommendation to him for purchase of mobile handset at the door of our store as he was unable to step up to our store

Currently, a total of 27 subsidiaries in the Group have launched the "Full-Hearted Loyalty" services and have been included in our evaluation of the effectiveness of the "Full-Hearted Loyalty" services. The results of such evaluation will be considered in our year-end performance assessment. For example, the Group will send mysterious customers to visit approximately 240 stores on average each month and such mysterious customers will secretly record videos about the service provided in such stores during the unannounced visits so that we are able to identify the weakness of our services in real-life situations that are recorded in the video and figure out ways of improvement. The mysterious customers will visit all of our stores every three quarters. The Group also conducts customer satisfaction phone surveys and receives approximately 1,000-15,000 valid survey reply slips each month. After receiving customers' feedbacks, the Group will score the services of our stores based on relevant feedback, identify the major problems in our services and continuously improve our overall services.

2.3 Addressing customers' complaints

The Group listens to the voice of each customer and has set up online and offline channels and platforms for complaints, which includes our customer service hotline, other online customer service platforms such as Weibo, WeChat and Baidu Tieba, and customer's personal visit. The Group will record, forward, handle, make advice and suggestion on the complaints received from the aforesaid channels and platforms, classify and file those complaints and contact the customers for satisfactory surveys for our complaint handling.

During the year, the Group issued the Regulations on Complaint Management 2017 which further systematically consolidated the standards and process for handling customers' complaints, clearly provided a time limit for complaint handling and directly included handling of customer's complaints into the KPI performance assessment for the general manger of a subsidiary. A customer service representative should contact the complaining customer to obtain more details on the complaint within 2 hours upon receipt of the complaint, do his/her best to reach an agreement with the complaining customer on the same day, and report the results to the call center at the headquarters of the Group within 72 hours. A subsidiary shall submit a Report on Complaint Handling to the call center at the headquarters of the Group at the beginning of each month. The headquarters of the Group will contact the customer again within 24 hours upon receipt of the report submitted by the subsidiary to check whether the complaint was handled by the subsidiary in accordance with the established procedures and ask the customer whether he/she agrees on or satisfies with the results.

In addition, in order to strengthen the quality control of our complaint handling and improve consumer satisfaction, we formulated the New 400-week Improvement Rules on Feedback for Complaint based on the Regulations on Complaint Management 2017, which clarify the requirement on reporting and feedback on the complaints received each week. By sharing the complaint cases received each week, our subsidiaries are able to exchange their experience in complaint handling which helps them not only to be able to promptly handle and solve customers' complaints seriously, but also improve their performances and remedial measures to avoid re-occurrence of similar issues.

2.4 Protection of intellectual property rights

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

Indicator	**2017**
Copyrights (number)	24

2.5 Advertising and management of logos

With regard to advertising and management of logos, the Group strictly complies with relevant national and local laws and regulations such as the Advertising Law of the People's Republic of China. During this year, the Group conducted a comprehensive review on our previous advertising campaigns and identified the risks of potential breach of the laws based on the specific provisions under relevant laws and regulations, and held a number of comprehensive training programmes on Advertising Law for the departments at the Group's headquarters. The legal affairs department of the Group's headquarters held specific training seminars on the rights of trademarks for brand management department under the headquarters and held small training seminars on the protection of trademarks for those subsidiaries located in the areas where a large number of forgery cases on our corporate logos were found with a view to providing guidelines to them for effectively dealing with infringement on our rights of trademark. In case that our rights of trademark are infringed, evidence for the infringement such as photos and shopping invoices must first be taken and kept and a report must be filed to competent industry and commerce authorities, and if necessary, directly pursue a civil lawsuit in People's Court.

2.6 Protection of the consumers' interests

The Group centralizes the management of information on our consumers through our membership information system to protect consumers' information and prevents the leakage of such information by setting access authority for our employees at different levels. No units or employees has the authority to gain the knowledge of or access to the information on relevant customers without valid permission.

During the year, the Group organized and held a specific training programme on the *Law on Protection of Consumer Rights and Interests*, which systematically covers the consumers' rights and interests such as rights to information and the penalties imposed on the party infringing consumers' rights and interests.

For the year ended December 31, 2017, the Group did not have any material incident on consumers' information leakage.

3. CARE FOR THE EMPLOYEES

The Group has always put its focus on attraction and retention of talents. The Group strictly abides by relevant national and local laws and regulations such as the *Labor Law of the People's Republic of China and* the *Labor Contract Law of the People's Republic of China* and constantly pays heed to and keeps track of their latest changes.

Currently, we have established a comprehensive system for human resource management covering employment, remuneration and benefits, promotion, health and safety management. We have always placed importance on safeguarding our staff's legal interests and do our best to create and maintain a decent working environment with fair opportunities, diversified development and emphasis on professional ethics for them. For the year ended December 31, 2017, the Group did not experience any violation of related labor laws or regulations or infringement of any staff member's legal interests which brought significant impact on the Group, nor were we subject to any complaints or any penalty.

3.1 Employment

The Group conducts its recruitment activities strictly in accordance with national and local laws and regulations and constantly updates and improves its recruitment management system. We carry out our recruitment through various channels, such as our website, campus recruitment fairs and internal recruitments, which have provided us with stable and diversified human resources for the Company's long-term and sustainability development.

During the year, the Group centralized the organization of the campus recruitment fairs and used the same theme, flow of event and advertising copy for the fairs for its headquarters and subsidiaries in order to further standardize such recruitment activities. Meanwhile, we have increased the number of new recruits from college graduates and held more promotional activities to promote the Group's corporate culture and philosophy with a view to attracting more talents with tertiary qualifications to join our team.

We strictly prohibit any discrimination against any applicants occurred during the recruitment process, and adhere to the principle of fair opportunity and selecting the best and the brightest. We use the combination of structured interviews, attributes tests, and group discussions without facilitators to ensure that candidates are treated equally.

The Group also established an internal competition mechanism to provide its employees with opportunities to compete for a higher position. We actively encourage our employees to participate in the internal recruitments and always adhere to the principle of fairness and selecting the most suitable candidates in the recruitment process. The mechanism effectively broadens the opportunities and room for growth for our employees and improves their work enthusiasm.

The Group has imposed strict prohibition from employing child labours. During the recruitment process, staff members of human resources department are required to check against the basic information of a candidate to ensure no under-aged candidate is recruited. In order to control the employment in the subsidiaries and the stores, no information on the identity of a worker under the age of 18 can be input into our human resources management system.

For the year ended December 31, 2017, the Group had a total of 7,465 employees and we did not recruit any child labours nor were we subject to any complaints or any penalty for employment of child labors.

Indicators		2017	2016
Total number of employees		7,465	7,569
Number of employees by genders	Male employees	3,587	3,683
	Female employees	3,878	3,876
Number of employees by ages	Aged below 30	4,398	4,468
	Aged 30-40 (exclusive)	2,054	2,074
	Aged 40-50 (exclusive)	836	841
	Aged over 50 (inclusive)	177	186
Total number of employees by nature of employment	Employed by contract	7,465	7,569
	Employed by labor dispatch	0	0
Total number of employees by education	College diploma or below (inclusive)	4,429	4,538
	University graduates	2,649	2,626
	Master degrees or higher	387	305
Total number of employees by ranks	Senior management [1]	167	167
	Middle management[2]	1,032	1,093
	Elementary employees	6,266	6,309

1. *Senior management includes general manager, deputy general managers, assistant general managers and directors.*

2. *Middle management includes center's (deputy) general managers and departmental (deputy) general managers.*

3.2 Employees' rights and interests

The Group places importance on the protection of its employees' legal rights and interests. We have in place a standard template for our employment contract through the formulation of the Contract Management System and enter into formal employment contracts with all of our employees in accordance with the laws. The terms of the contracts clearly provide the employer and employee's obligations including but not limited to working hours, leaves and holidays and basic salaries under the national laws and regulations relating to the protection of labours. We also distribute to the Group's employees staff manuals in which clauses relating to the protection of employees' rights and interests are also set out.

We have established a fair and impartial appraisal and promotion system in accordance with the laws and also have in place a bottom-up reporting and complaining system to protect employees' rights and interests. The Group has fully implemented a time clock punching policy to assist relevant persons in charge at all levels in managing their subordinates' working hours so as to ensure that all overtime works are required to be performed strictly in accordance with national laws and regulations to avoid excessive overtime works.

For the year ended December 31, 2017, the Group did not commit any infringement on the rights and interests of the employees and was not subject to any complaints or penalties relating to the employment.

3.3 Employees' fringe benefits

The Group takes care of each of its employees and has set up a comprehensive fringe benefits system for them. In addition to the basic five insurances and one fund for its employees, the Company also helps its employees to purchase supplementary medical insurances at preferential premiums and provides them with free meals and fruits. In addition, the Company also performs detailed background checks on outsourced catering service providers for its employees' meals so as to ensure that their qualifications meet our requirements for food safety assurance. With regard to our low-paid employees, the Company provides them with rent-free staff accommodation within walking distance from the Company.

With regard to leaves and holidays, the Company also provides its employees with special fringe benefits for holidays. For examples, glutinous dumplings are given to the employees on the Lantern Festival and honey on the National Day. In addition, the Company also gives gifts or grants subsidies to its employees on special occasions. For examples, birthday gift will be given to an employee on his/her birthday and subsidies will be granted for wedding and funeral. Employees may also purchase mobile handsets in internal presales at privileged prices. The Company also awards domestic and oversea trips or cash bonus to the employees with outstanding performance.

In order to enrich our employees' spare time and promote work-life balance, we held a number of staff activities during the year, which included:

- "Support Xiao Di (我為小迪代言)": our employees cosplayed as "Xiao Di", the mascot of the Group, and shared the cosplay photos with their friends to get likes on social medias.

- Events for the Double Seven Festival: we held a writing competition themed "Love Story at Beijing Digital (迪信通的愛情故事)" to collect love stories from our employees, or between our employees and the employees from the manufactories or suppliers, or our customers. We also developed an interactive online game for the Double Seven Festival at headquarters' wechat group.

- Events for teachers' day: we gave greeting cards and bouquets of flower to all in-house trainers of the Group and awarded the outstanding trainers with certificate.

- Events for the Mid-Autumn Festival: we collected family portraits from the employees of the Company and held a voting for "the most beautiful family portrait (最美全家福)". We also held a fun game "rock-a-stack competition (套圈大賽)" at our office for all of the employees at the headquarters.

- Event for Christmas: apples and Christmas cards were given to all of the employees at the headquarters.

- Events for the New Year: the employees of the Company provided their photos of their most attractive looks. Top ten best photos were selected by voting and the employees in those photos were entitled to participate in a lucky draw.

3.4 Health and Safety

The Group places importance on the health and safety of all of its employees and promotes healthy work and life styles. The Group strictly abides by the laws and regulations relating to occupational safety and health such as the *Labor Law of the People's Republic of China,* the *Fire Prevention Law of the People's Republic of China and* the *Regulation on Work Related Injury Insurances*, and has established a comprehensive management system for its employees' health and safety in order to protect their mental and physical healthiness by creating a safe and protective work environment to minimize the impact brought from the occurrence of work-related accidents.

Health Management

The Group purchases medical insurance for its employees in accordance with the provisions of applicable laws and regulations and has established a comprehensive system related to work injury prevention. We proactively eliminate potential safety hazards existed in the working environment that are prone to cause job-related injuries in order to prevent the job-related accidents from occurring. In the event of the occurrence of a job-related accident, we shall take a quick and effective action to ensure that immediate treatment is provided to the injured employee. We provide annual medical examinations for all of our employees so that they may timely discover their health problems, if any. The Company also invites relevant experts to hold lectures and training seminars on occupational health from time to time.

Safety and protection

With regard to occupational safety and protection, the Company has in place working safety regulations to provide safety and protection to the staff. During the year, the Company conducted a number of internal safety investigations with the property management offices. In addition, the Company from time to time issues fire safety notices and safety warnings based on the weather conditions. We also organized routine trainings on safety knowledge and survival skills and fire exercises for our employees. Such trainings were designed specifically based on their positions and the characteristic of their duties with a view to continuously improving their safety awareness and their ability to handle emergent or contingent situations.

In addition, the Group also formulated the Rules for Store Decoration for Beijing Digital Telecom Co., Ltd. which sets out strict requirements on safety and environmental protection for the fitting and decoration materials so as to ensure the compliance with the applicable national specifications for prevention from harming the employees' health. Standardized procedures on inspection and acceptance of decoration and renovation works for the stores were also formulated to ensure the compliance with the safety standards upon the inspection and acceptance of decoration and renovation works of any store.

For the year ended December 31, 2017, the Group did not have any job-related fatal accidents or injuries.

3.5 Development and Training

The Group always regards upgrading employees' knowledge and skills as an everlasting driving force and resources for the long-term growth of the Company. The Group established a management mechanism for systematic staff training. It constantly updates and improves such training system and provides employees at all levels with tailor-made training material so as to achieve a win-win situation for the overall development of the Company and personal growth of its employees. Currently, the Group's main training programs include:

Training for new employees

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

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

Training for management trainees

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

- At the headquarters level: management trainees at the headquarters and outstanding management trainees recommended by the subsidiaries will participate in a 30-day secluded training camp held in Chengdu. At the training camp, lectures on specific topics, various outward bound trainings and action-based learnings and emphasis is placed on the improvement of their social and practical skills, all aiming at helping them transit from campus life to career life.

- At the subsidiary level: we place importance on the trainings for the management trainees and provide them with abundant resources and valuable opportunities for their growth and development. For example, our Shanghai Company organized for them a week-long full-time training session taught by senior management members of that subsidiary to get them more familiar with the frontline operation.

Training for the management

The Group organizes an annual “Red Apple Training Camp” for outstanding members of the management at the headquarters and the subsidiaries. Veteran managers of the Group are invited to give lectures in this secluded training session. The training camp provides an excellent opportunity for communication and interaction among the management members at different levels of the Group. Participants of the training camp will enjoy steady progress in their careers.

Training for trainee shop managers

In order to foster outstanding frontline talents for the subsidiaries, the Group organizes a 20-day secluded training camp for the trainee shop managers. At the training camp, participants learn how to increase their knowledges, and improve their work skills and management skills through behavior training, quality development, enhancement of professionalism, which can help them smoothly transit from frontline positions to management positions.

Training for our in-house trainers

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

On-the-job training for our employees

We centralize our advantageous resources to establish an online and offline training platform with various on-the-job training courses for all of our employees. The topics of the training courses cover experience sharing with outstanding shop managers, specialized knowledge, frontline selling skills and general skills.

Routine training for the managers

The Group's headquarters and our subsidiaries will organize weekly specific training sessions for the members of management rank and above. The training will cover characteristic of our key products, latest industry trend and professional knowledge on management with a view to helping them keep up with the latest development of our headquarters and the subsidiaries and enhance our internal communication.

Pursuing further education

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

Other forms of training

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

- Beijing Digital Business Studies WeChat Official Account (迪信通商學匯企業微信公眾號): general knowledge and experience are shared through the WeChat official account to help our staff members get the most from their learning journeys at their spare time.

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

4. ANTI-CORRUPTION MANAGEMENT

Anti-corruption is a long-term task that can ensure an enterprise's stability, existence and healthy growth. The stakeholders such as upstream and downstream consumers and our partners not only place importance on such enterprise's own operating efficiency but also gradually put more focus on the soundness of its internal management and control system and smooth operation of such system.

The Group always regards honesty and integrity as one of its core values and do its best to avoid committing any act that will violate any professional codes or business ethics. We strictly comply with applicable national and local laws and regulations such as the *Law of the People's Republic of China on Commercial Bribery,* the *Law of the People's Republic of China on the Countering of Improper Competition,* and the *Interim Provisions on Banning Commercial Bribery*. In addition, based on the Company's actual situation, we have proactively formulated administrative rules for preventive and punitive purposes, such as the Anti-bribery Regulations, Procedures and Measures for Dealing with Fraud and Beijing Digital Rules for Procurement Control.

The Group has adopted a strict internal control policy to prevent such misconducts as corruption. The Group's internal audit department performs internal audit to monitor daily operations of our subsidiaries. In addition, the finance department of the Group's headquarters 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.

With regard to our suppliers, prior to establishing a business relation with a new supplier, the business department must perform a due diligence on its background to ensure that its quoted price is in line with the prevalent market price. All relevant supporting documents for the procurement must be confirmed and checked. Unless properly authorized, no procurement staffer is permitted to place any order through his/her personal account, nor is he/she permitted to ask any advance payments from a supplier. In addition, all contracts entered into by the Group and its principal suppliers contain explicit term on compliance with applicable laws and regulations on anti-bribery and anti-money laundering.

The Group's internal audit team thoroughly reviews the anti-corruption system on a regular basis. The internal audit team consists of eight members who are holders of bachelor's degree in finance, accounting or management. The internal audit team performs internal audits for all subsidiaries each year to check whether they operate in compliance with our internal control policies. If it is determined that there exists any irregularity, 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 is responsible for evaluating whether the anti-corruption policy is effective and whether there exists any weakness on the internal control system, and make timely enhancements. The Group also provide trainings to the staff and the senior management on commercial codes and ethics and legal policies on anti-corruption, anti-fraud and anti-money laundering semi-annually.

In order to facilitate the lawful operation of the Company, enhance our staff's business ethics relating to honesty, integrity and self-discipline and protect the Company's interests and our staff's legal rights and interests, the Company revised and updated the Rules for Honest Practices for Beijing Digital Telecom Co., Ltd. in April 2017 which has been implemented throughout the Group. The Rules cover codes on honest practices, prohibition on appropriation constituting breach of duty and commercial bribery, and unauthorized disclosure of trade secrets and imposition of penalties on and provision of incentives to those employees who have committed prohibited acts or voluntarily reported prohibited acts. At the first quarter meeting for all of the general managers across the country, the legal affairs department of the Group's headquarters explained the rules in details and the Group's 24 regional general managers took a collective oath to comply the Rules of Honest Practices and signed the agreements on honest practices with the Group's headquarters.

Reporting and Handling of Reporting

The Group values its employees' thought and opinion and collect information on risks through various established channels in order to get awareness on potential risks in a timely manner and discover and handle illegal activities relating to corruption and fraudulent business activities. At present, the Group has put in place a strictly confidential reporting hotline.

In the second half of 2017, the legal affairs department of the Group's headquarters worked with the data development department to add an "anonymous reporting platform" function to the Company's WeChat account. The staff at Beijing Digital, its business partners and customers are now able to send information on illegal or unlawful acts, if any, that they have knowledge or discovered and reasonable suggestions, if any, to such platform by anonymity or real name. The legal affairs department will carry out analysis on and classification for such information and refer the cases to the responsible departments of the headquarters which will in turn refer the cases to the subsidiaries involved. The responsible department of such subsidiary will report their preliminary findings within a week and the results within two weeks to the headquarters' legal affairs department.

5. SUPPLY-CHAIN MANAGEMENT

The Group has in place a proven supply-chain management system and put efforts on procuring its suppliers to improve their performances on environment and community friendliness. In order to strengthen its supply-chain management, we have a strict procurement approval processes, new supplier selection standards and related rules. All suppliers are required to be in compliance with relevant national and local laws and regulations and possess relevant documents evidencing their qualifications.

In the event that a new supplier is introduced to us, we shall evaluate its performance on environment and community friendliness as one of our new supplier selection standards. A new supplier which meets our requirements will enter into a cooperation agreement with us covering the procurement process, product quality and dispute resolution. Once an agreement is signed, such new supplier has to submit relevant qualification documents via our office automation system (the OA system). Such documents will be examined by our Procurement Department, Finance Department and Systems Department (in that order). If approved, a supplier code will be generated in the Oracle system for subsequent supply-chain management and procurement of merchandise.

The Group's major handset suppliers are mostly top-ranking brand handset manufacturers. We closely keep track of the latest industry trend and constantly update our existing supplier database based on the supplies' production plans. During this year, we included a number of new brand handset manufacturers such as Sugar and Meitu in our supplier list.

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

6. COMMUNITY INVESTMENT

The Group well understands that our responsibilities lie not only on making more economic contributions to the society, but also on actively fulfilling our corporate social responsibility as a corporate citizen, sharing interests and benefits with the communities we serve and support the sustainable development of the communities. During these years, we have always been committed to integrate our comprehensive community welfare projects with our business operations. Through communication with the communities, we will understand their needs and formulate effective corporate social responsibility policies. We work closely with our staff, professional organizations, relevant community organizations and the government to respond to the needs of the communities and provide human and material support for various community welfare projects.

For the year ended December 31, 2017, we participated in or organized the following activities:

- **Launch of "Caring for the Spring Festival homecomers activity(春節返鄉關愛活動)"**

  During the Spring Festival holidays in 2017, we launched the "Caring for the Spring Festival homecomers activity" at various stores in the provinces and cities across the country. Taking advantage of the extensive presence of our physical outlets, we provided a number of free services for the homecomers such as opening our stores for the homecomers as temporary rest places and cold or wind shelters, supply points for hot water and food, provision of free WiFi internet access and medical kits to soothe away those homecomers' fatigue and chill in their hearts and bodies on their way home and ensure that they had safe homecoming journeys.

- **Supporting "Guardians for Children Project (寶貝守護計劃)"**

  In May 2017, in order to support the "Guardians for Children Project" jointly held by China Charities Aid Foundation for Children, Public Security Department of Sichuan, Baby Come Home (寶貝回家) and Sichuan Youth Federation under the Sichuan government, we organized a promotional campaign for rescuing the lost children and anti-child kidnapping in our over 3,000 stores across the country. Our stores functioned as information distribution centers for the lost children and leaflets on the particulars of the lost children were attached to our shopping bags.

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

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

- **Caring for sanitary workers and taxi drivers**

  During the year, our store under the Beijing company organized a caring activity for the sanitary workers and the taxi drivers. Those who were in sanitary uniforms and those who could prove themselves as taxi drivers were entitled to have free screen protectors, free power charging services and renting or borrowing mobile power banks. Sanitary workers and taxi drivers may take a rest at our designated lounges whenever they need a rest and our staff members would serve them with fresh drinks and light snacks.

7. GREEN AND ENVIRONMENTAL PROTECTION

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

7.1 Management of emissions

The Group put efforts on minimizing the generation of pollutants from the operation of the Company and the impact on surrounding environment as much as possible. The Group 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*. For the year ended December 31, 2017, there was no fine imposed on or litigation against the Company arising from environmental pollution.

In our daily operation, our greenhouse gas emissions mainly come from energy consumption at our offices and stores. The Group thus promotes the concept of daily energy saving and low-carbon emission to its staff in order to improve the efficiency of the use of resources.

Because of the nature of our business, the direct source for emission of waste gas of the Group is mainly emission of exhaust gas from the Company's motor vehicles. We continuously strengthened the management of the Company's motor vehicles and improved the efficiency of the use of those vehicles to reduce the generation of exhaust gas, which included strict management on refuelling the Company's motor vehicles and encouragement the use of public transport services. Commenced from 2017, we have been holding an in-house promotional campaign for the use of electric vehicles. As at the end of 2017, two automobiles of the Group for business proposes were replaced with energy-saving electric automobiles, effectively reducing emission of exhaust gas from the Company's motor vehicles.

The source of the Group's solid waste was mainly the wastes generated from our daily operation. In order to reduce such wastes, we encourage our staff to reduce the use of paper, introduce the concept of paperless office, and continuously promote the use of automated office software in the Group as a whole. The Company is also committed to improving the efficiency of the use of office consumables and promoting the recycling of office consumables. Currently, a number of our subsidiaries have policies to have their used toner cartridge and ink cartridges collected by the manufacturers for recycling. The office waste and daily waste generated from the Group's daily operation are collected by third-party recyclers for recycling.

With regard to the use of loudspeakers or any other audio equipment in any promotional events, we require our stores to file application and details of the event with local urban management law enforcement bureaus before the events are held and strictly control the decibel level to effectively reduce the volume of the noise so as to minimize the impact of the noise on the entities and the general public in the surrounding areas.

Performance of the management of emissions

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

Indicators	**2017**
Sulfur dioxide (tons)[1]	0.01
Nitrogen oxide (tons)[1]	1.64
Total greenhouse gas emissions (scope 1 and scope 2) (tons)[2]	2,417.37
Direct emissions (scope 1) (tons)	1,591.49
Petrol (tons)	1,462.62
Diesel (tons)	128.87
Indirect emissions (scope 2) (tons)	825.88
Externally-purchased electricity (tons)	825.88
Greenhouse gas emissions intensity (ton/square meter)	0.12
Greenhouse gas emissions intensity (ton/person)	0.90
Non-hazardous waste (tons)[3]	86.66
Daily waste (tons)	85.96
Construction waste (tons)	0.70
Average per capita non-hazardous waste (ton/person)	0.03
Hazardous waste (tons)[4]	0.28
Used toner cartridges (tons)	0.21
Used fluorescent tubes (tons)	0.07
Average per capita hazardous waste (ton/person)	0.0001

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

2. *Greenhouse gas inventory included carbon dioxide, methane and nitrous oxide, which were mainly generated from externally-purchased electricity and fuel combustion. Greenhouse gas accounting is presented based on Carbon dioxide equivalent and was calculated in accordance with the Baseline Emission Factors of Regional Power Grid in China 2015 (2015中國區域電網基準線排放因數) issued by the National Development and Reform Commission of China and the IPCC National Greenhouse Gas Inventory Guide 2006 (2006年IPCC國家溫室氣體清單指南) issued by the Intergovernmental Panel on Climate Change (IPCC).*

3. *Non-hazardous wastes were collected by waste collection services providers. Those wastes mainly included office wastes from our offices and construction wastes from decoration works.*

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

7.2 Use of resources

We constantly keep watch for, identify and minimize the impact of our daily business activities on the environment and put efforts on improving the efficiency of the use of resources. We promote more efficient use of the Company's assets by establishing relevant systems. Meanwhile, we place emphasis on fostering the awareness on energy-saving. In 2017, we continued to display signs for energy saving in prominent places in our offices. We also reminded and asked our staff to actively follow and act on the Company's energy-saving measures in routine meetings, such as switching off idle lightings and reducing the standby time of electrical appliances, which effectively improved our staff's awareness of energy saving. We also promoted the use of energy-saving lightings. Currently, energy-saving lightings have generally been used in the offices in the Group's headquarters and the subsidiaries. We also encouraged our staff to control water usage and reduce the consumption of bottled water.

In our business operation, we put further efforts in promoting the concept of green operation to our frontline shop managers and encourage them to take environmental friendly measures at the stores. For example, they are encouraged to re-use promotional materials, reduce the distribution of paper leaflets and carry out promotional activities at WeChat push and other online platforms. Meanwhile, we support the mobile power bank sharing campaign in order to improve the efficient use of mobile power banks and save the social resources.

Performance of the management of consumption of energy and resources

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

Indicators	**2017**
Total energy consumption (MWh)[1]	7,526.46
Direct energy consumption (MWh)	6,310.88
Petrol (MWh)	5,820.77
Diesel (MWh)	490.11
Indirect energy consumption (MWh)	1,215.58
Electricity (MWh)	1,215.58
Degree of energy consumption (MWh/square meter)	0.39
Degree of energy consumption (MWh/person)	2.79
Water consumption (tons)[2]	12,376.53
Average per capita water consumption (ton/person)	6.79
Use of paper for printing (tons)	15.74
Wrapping materials (tons)[3]	189.13
Use of wrapping materials for 10,000 mobile handsets sold (ton/10,000 mobile handsets)	0.18

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

2. *The water consumptions in our headquarters in Beijing, subsidiaries in Shanghai, Sichuan, Yunnan, Gansu, Chongqing, Fujian, Shanxi, Hebei, Jiangsu and Shengduo Technology Trading Co., Ltd. and Ningbo Soudi Warehouse were currently excluded in the calculation as their water tariffs were included in their property management fees and thus the calculation did not covered their water consumptions.*

3. *Because of the nature of our business, the wrapping materials of the Group were mainly paper bags and non-woven bags given away to the consumers for containing the mobile handsets sold to them. The figure for the wrapping materials included such wrapping materials as those paper bags and non-woven bags centrally procured by the subsidiaries. Use of wrapping materials for ten thousand units of mobile handsets sold represented the average consumption for wrapping materials for selling 10,000 units of mobile handsets.*

7.3 MATERIAL IMPACT ON ENVIRONMENT AND NATURAL RESOURCES

Owing to the nature of our core business, the impact brought by the Group on the environment and natural resources is limited. The consumption of resources mainly represents consumptions of electricity, water and paper in our offices and stores. In addition to saving energy, reducing the emissions and strengthening the management on the use of resources, the Group also actively promotes green development in the course of its business operation. During the year, we continued to provide new service of trading in used mobile handsets for new ones in order to collect back the used mobile handsets. This service not only helps promote environmental protection but also is well-received by the majority of consumers.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Beijing Digital Telecom Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 124 to 208, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 2017, the balance of trade receivables amounted to RMB2,087,992,000 and the provision for impairment amounted to RMB103,864,000. The determination as to whether a trade receivable is collectable involves management's judgement, which includes checking the ageing of the balance, recent historical payment patterns and assessing any other available information concerning the creditworthiness of the counterparties. The Group uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's overall balance. Details of the recoverability of trade receivables are included in note 26.	We evaluated the assumptions and methodology. We obtained and re-tested the ageing analysis prepared by management. We also evaluated 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 evidence including correspondence between the parties involved, attempts made by management to recover the amounts outstanding and checked to the credit status of significant counterparties, where available. We tested overdue trade receivable balances where no provision was recognised to check whether there were any indicators of impairment. This included inspecting 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 2017 which was material. In addition, management's assessment process is complex and highly judgemental and is based on assumptions, including revenue growth, profit margins and discount rates, which are affected by expected future market or economic conditions. Details of impairment assessment of goodwill are included in note 16.	We evaluated management's future cash flow forecasts, 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 scepticism throughout the audit. We also:

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

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

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

- 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

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 Restated RMB'000
REVENUE	7	**15,974,316**	15,177,126
Cost of sales		**(13,974,148)**	(13,321,448)
Gross profit		**2,000,168**	1,855,678
Other income and gains	7	**56,556**	90,036
Selling and distribution expenses		**(1,068,995)**	(1,043,686)
Administrative expenses		**(353,423)**	(319,689)
Other expenses		**(52,326)**	(27,113)
Finance costs	9	**(182,741)**	(111,201)
Share of profits/(losses) of:			
Joint ventures		**4,934**	(1,816)
Associates		**(3,286)**	(657)
PROFIT BEFORE TAX	8	**400,887**	441,552
Income tax expense	12	**(77,940)**	(84,541)
PROFIT FOR THE YEAR		**322,947**	357,011
Attributable to:			
Owners of the parent		**322,490**	356,358
Non-controlling interests		**457**	653
		322,947	357,011
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted (RMB)	14	**0.48**	0.53

	Notes	2017 RMB'000	2016 Restated RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Share of other comprehensive loss of a joint venture		**(1,075)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(1,075)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**321,872**	357,011
Attributable to:			
Owners of the parent		**321,415**	356,358
Non-controlling interests		**457**	653
		321,872	357,011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 Restated RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*15*	**132,150**	157,538
Goodwill	*16*	**57,476**	57,476
Other intangible assets	*17*	**328**	853
Investments in joint ventures	*18*	**76,840**	31,806
Investments in associates	*19*	**10,091**	8,077
Available-for-sale investments	*20*	**10,845**	15,075
Deferred tax assets	*21*	**35,624**	37,984
Loan receivables	*22*	**54,217**	–
Total non-current assets		**377,571**	308,809
CURRENT ASSETS			
Inventories	*23*	**2,297,599**	2,175,649
Properties under development	*24*	**82,121**	316,156
Completed properties held for sale	*25*	**119,594**	–
Trade and bills receivables	*26*	**1,986,806**	1,772,276
Prepayments, deposits and other receivables	*27*	**1,357,765**	1,135,598
Loan receivables	*22*	**300,000**	–
Due from related parties	*29*	**53,887**	13,504
Available-for-sale investments	*20*	**210,000**	–
Pledged deposits	*28*	**953,421**	815,367
Cash and cash equivalents	*28*	**614,879**	784,756
Total current assets		**7,976,072**	7,013,306
CURRENT LIABILITIES			
Trade and bills payables	*30*	**431,935**	443,240
Other payables and accruals	*31*	**379,215**	405,003
Interest-bearing bank borrowings	*32*	**3,147,184**	3,056,403
Due to related parties	*29*	**2,301**	8,848
Tax payable		**285,124**	239,007
Total current liabilities		**4,245,759**	4,152,501
NET CURRENT ASSETS		**3,730,313**	2,860,805
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,107,884**	3,169,614

	Notes	2017 RMB'000	2016 Restated RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*32*	**596,542**	–
NET ASSETS		**3,511,342**	3,169,614
EQUITY			
Equity attributable to owners of the parent			
Share capital	*33*	**666,667**	666,667
Reserves	*34*	**2,764,392**	2,442,977
		3,431,059	3,109,644
Non-controlling interests		**80,283**	59,970
Total equity		**3,511,342**	3,169,614

Liu Donghai
Director

Liu Songshan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent							
	Share capital RMB'000 *(Note 33)*	Capital reserve RMB'000 *(Note 34)*	Statutory reserve funds RMB'000 *(Note 34)*	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 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 an interest in a subsidiary	–	–	–	–	–	–	1	1
Transfer from retained profits	–	–	35,708	(35,708)	–	–	–	–
At 31 December 2016 and 1 January 2017 (as previously reported)	**666,667**	**524,953**	**211,419**	**1,706,657**	**–**	**3,109,696**	**59,983**	**3,169,679**
Retrospective adjustments of a business combination under common control (note 2.3)	**–**	**–**	**(7)**	**(45)**	**–**	**(52)**	**(13)**	**(65)**
At 31 December 2016 and 1 January 2017 (as restated)	**666,667**	**524,953**	**211,412**	**1,706,612**	**–**	**3,109,644**	**59,970**	**3,169,614**
Profit for the year	**–**	**–**	**–**	**322,490**	**–**	**322,490**	**457**	**322,947**
Other comprehensive income for the year:								
Share of other comprehensive loss of a joint venture	**–**	**–**	**–**	**–**	**(1,075)**	**(1,075)**	**–**	**(1,075)**
Total comprehensive income for the year	**–**	**–**	**–**	**322,490**	**(1,075)**	**321,415**	**457**	**321,872**
Capital contribution by non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**19,856**	**19,856**
Transfer from retained profits	**–**	**–**	**32,249**	**(32,249)**	**–**	**–**	**–**	**–**
At 31 December 2017	**666,667**	**524,953**	**243,661**	**1,996,853**	**(1,075)**	**3,431,059**	**80,283**	**3,511,342**

* *As stated in note 2.3, in February 2017, the Group completed the acquisition of Beijing Dixin Alliance Technology Co., Ltd., which has been accounted for as a business combination under common control.*

* *These reserve accounts comprise the consolidated reserves of RMB2,764,392,000 (2016: RMB2,442,977,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 Restated RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**400,887**	441,552
Adjustments for:			
Finance costs	9	**182,741**	111,201
Interest Income from loan receivables and others		**(3,098)**	–
Share of profits and losses of joint ventures		**(4,934)**	1,816
Share of profits and losses of associates		**3,286**	657
Provision for impairment of an available-for-sale investment	8	**2,230**	–
Provision/(reversal of provision) for impairment of trade receivables	8	**12,692**	(2,616)
Provision for impairment of amounts due from related parties	8	**1,510**	631
Provision for impairment of other receivables	8	**2,386**	1,595
Provision for impairment of inventories	8	**21,063**	24,334
Depreciation	8	**65,599**	61,930
Amortisation of intangible assets	8	**525**	612
Gain on disposal of a subsidiary		**–**	(1)
Loss on disposal of items of property, plant and equipment	8	**1,676**	644
Foreign exchange loss/(gain), net		**1,149**	(574)
		687,712	641,781
(Increase)/decrease in trade and bills receivables		**(227,222)**	100,999
Increase in prepayments, deposits and other receivables		**(232,143)**	(50,890)
Increase in inventories		**(143,013)**	(51,925)
Decrease/(increase) in properties under development		**234,035**	(33,438)
Increase in completed properties held for sale		**(119,594)**	–
Decrease in trade and bills payables		**(11,305)**	(108,220)
Decrease in other payables and accruals		**(40,982)**	(13,232)
Increase in amounts due from related parties		**(41,893)**	(10,473)
(Decrease)/increase in amounts due to related parties		**(6,547)**	8,183
Cash from operations		**99,048**	482,785
Income tax paid		**(29,463)**	(21,041)
Net cash flows from operating activities		**69,585**	461,744

	2017 RMB'000	2016 Restated RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of a subsidiary	**–**	(98)
Purchases of items of property, plant and equipment	**(42,353)**	(70,334)
Purchases of items of other intangible assets	**–**	(680)
Proceeds from disposal of items of property, plant and equipment	**466**	4,445
Interest received	**2,190**	–
Purchase of bank financial products	**(210,000)**	–
Acquisition of interests in joint ventures	**(24,175)**	(31,511)
Acquisition of interests in a associate	**(2,000)**	–
Prepayment arising from acquisitions	**(23,000)**	(50,992)
Advances of loans	**(339,719)**	(14,498)
Net cash flows used in investing activities	**(638,591)**	(163,668)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of bonds	**595,500**	–
New bank loans	**7,341,360**	5,379,578
Capital contribution from non-controlling shareholders	**–**	33,912
(Increase)/decrease in pledged deposits	**(138,054)**	265,441
Repayment of bank loans	**(7,250,579)**	(5,523,468)
Interest paid	**(147,949)**	(111,201)
Net cash flows from financing activities	**400,278**	44,262
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(168,728)**	342,338
Cash and cash equivalents at beginning of year	**784,756**	441,844
Effect of foreign exchange rate changes, net	**(1,149)**	574
CASH AND CASH EQUIVALENTS AT END OF YEAR	**614,879**	784,756
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**614,879**	784,756
CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION	**614,879**	784,756

1. CORPORATE AND GROUP INFORMATION

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

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

In the opinion of the directors, the controlling shareholders of the Company are Mr. Liu Donghai, Mr. Liu Songshan, Ms. Liu Hua, Ms. Liu Wencui and Ms. Liu Yongmei, who are 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 D-phone Trading Co., Ltd.* (北京迪信商貿有限責任公司)	100,000,000	100	–	(1)
Beijing D-phone Electronic Communication Technology Co., Ltd. * (北京迪信通電子通信技術有限公司)	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 D-phone Communication Technology Co., Ltd. * (迪信通通訊科技江蘇有限公司)	20,000,000	–	100	(1)
Shanghai Chuanda Communication Technology Co., Ltd. * (上海川達通信技術有限公司)	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
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 D-phone 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 D-phone Electronic Science and Technology Information Co., Ltd. * (長沙迪信通電子科技信息有限公司)	30,000,000	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 D-phone 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 D-phone Trading Co., Ltd. * (浙江迪信通商貿有限公司)	10,000,000	100	–	(1)
Sichuan Yijialong Communication Technology Chain Co., Ltd. * (四川億佳隆通訊連鎖有限公司)	5,000,000	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
Beijing D-phone 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 D-phone 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 D-phone 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)
Inner Mongolia D-phone 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 D-phone 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 D-phone 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)
Tianjin D-phone 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)

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
Gaobeidian D-phone 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 D-phone Trading Co., Ltd. * (廣東迪信通商貿有限公司)	10,000,000	100	–	(1)
Ningbo Hi-tech District Chaofa Technology Co., Ltd. * (寧波高新區超發科技有限公司)	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 D-phone 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 D-phone 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)
Yunnan D-phone 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)

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
Beijing Tailongji Trading Co., Ltd. * (北京市泰龍吉貿易有限公司)	50,000,000	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	–	53	(4)
Ningbo Hi-tech District Shunjixin Technology Co., Ltd. * (寧波高新區順吉信科技有限公司)	10,000,000	100	–	(1)
Beijing Dixin Alliance Technology Co., Ltd. * (北京迪信雲聚科技有限公司)	10,000,000	80	–	(1)

Notes:

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

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

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

(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 was no subsidiary that had a non-controlling interest that was 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 2017. 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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 36 to the financial statements.

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

(b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group did not have any subsidiary, joint venture or associate classified as held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

2.3 RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS AS A RESULT OF BUSINESS COMBINATIONS FOR THE ENTITY UNDER COMMON CONTROL

In February 2017, the Company completed the acquisition of an 80% equity interest in Beijing Dixin Alliance Technology Co., Ltd. ("Alliance"), which was incorporated on 1 September 2016, at nil purchase consideration. After the completion of the acquisition, Alliance was accounted for as a subsidiary of the Group. Since the Company and Alliance were under common control of the ultimate controlling shareholders of the Company before and after the completion of the aforesaid acquisition, the business combination of Alliance has been accounted for under the pooling of interests method.

Business combinations arising from transfers of interests in entities that are under the control of the ultimate shareholders that control the Group are accounted for as if the acquisitions had occurred at the beginning of the earliest date presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the acquired entities' financial statements.

2.3 RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS AS A RESULT OF BUSINESS COMBINATIONS FOR THE ENTITY UNDER COMMON CONTROL *(Continued)*

Upon transfer of an interest in an entity to another entity that is under the control of the ultimate shareholders that control the Group, any difference between the Group's interest in the carrying value of the assets and liabilities and the cost of transfer of the interest in the entity is recognised directly in equity.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full on consolidation.

The opening balances as at 1 January 2017 and comparative information as at 31 December 2016 have been restated in the consolidated financial statements.

Restated consolidated statement of financial position as at 31 December 2016:

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
Total non-current assets	308,809	–	308,809
Total current assets	7,011,502	1,804	7,013,306
Total current liabilities	4,150,632	1,869	4,152,501
Equity attributable to owners of the parent	3,109,696	(52)	3,109,644
Non-controlling interests	59,983	(13)	59,970
Total equity	3,169,679	(65)	3,169,614

2.3 RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS AS A RESULT OF BUSINESS COMBINATIONS FOR THE ENTITY UNDER COMMON CONTROL *(Continued)*

Details of the restated consolidated statement of financial position as at 31 December 2016 include the following:

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
Current assets			
Inventories	2,175,606	43	2,175,649
Trade and bills receivables	1,772,260	16	1,772,276
Prepayments, deposits and other receivables	1,135,447	151	1,135,598
Due from related parties	13,582	(78)	13,504
Cash and cash equivalents	783,084	1,672	784,756
Current liabilities			
Other payables and accruals	403,134	1,869	405,003

Restated consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016:

	As previously reported RMB'000	Effect of prior year adjustments RMB'000	As restated RMB'000
Revenue	15,177,171	(45)	15,177,126
Cost of sales	(13,321,491)	43	(13,321,448)
Selling and distribution expenses	(1,043,639)	(47)	(1,043,686)
Administrative expenses	(319,673)	(16)	(319,689)
Profit for the year	357,076	(65)	357,011

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*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IAS 19	*Employee Benefits*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Annual Improvements 2014-2016 Cycle	Amendments to IFRSs including:
Amendments to IFRS 1	*Deletion of short-term exemptions for first-time adopters*[1]
Amendments to IAS 28	*Measuring an associate or joint venture at fair value*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRSs including:
Amendments to IFRS 3	*Previously held interest in a joint operation*[2]
Amendments to IFRS 11	*Previously held interest in a joint operation*[2]
Amendments to IAS 12	*Income tax consequences of payments on financial instruments classified as equity*[2]
Amendments to IAS 23	*Borrowing costs eligible for capitalisation*[2]

[1] *Effective for annual periods beginning on or after 1 January 2018.*
[2] *Effective for annual periods beginning on or after 1 January 2019.*
[3] *Effective for annual periods beginning on or after 1 January 2021.*
[4] *No mandatory effective date yet determined but available for adoption.*

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

Further information about those IFRSs that are expected to be applicable to the Group is described below. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and 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 will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect the loss allowance to be significantly different upon application of the expected credit loss model.

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

(b) Impairment *(Continued)*

IFRS 15, issued in May 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15. Based on the assessment, the Group anticipates that the adoption of IFRS 15 is unlikely to have any significant impact on revenue recognition except for the presentation and disclosure as follows:

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

The Group's principal activities consist of the sale of mobile telecommunications devices and accessories, the provision of related services and the development and sale of properties. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

(a) Allocate the transaction price to performance obligations

The Group provides franchise business which involves the sale of mobile telecommunications devices and accessories to third-party franchisees pursuant to their franchise agreements with the Group. Upon the adoption of IFRS 15, revenue from the sale of telecommunications devices and accessories to franchisees would be separated into a franchise fee and the sale of telecommunications devices and accessories due to different performance obligations. The Group has further assessed the revenue amounts to be recognised when the Group satisfies different performance obligations. The Group has determined that when IFRS 15 is adopted, revenue from the franchise fee and the revenue from the sale of telecommunications devices and accessories to franchisees for 2017 will amount to RMB1,281,000 and RMB3,114,917,000, respectively, because of the allocation of the transaction price to each of the performance obligations and the adoption of IFRS 15 is unlikely to have any significant impact on the total revenue recognised for the year then ended.

(b) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

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

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group and is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 38 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB684,921,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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.

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

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

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

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

Business combinations and goodwill *(Continued)*

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets 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.

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

(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.

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

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%

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.

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

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.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

Investments and other financial assets *(Continued)*

Subsequent measurement

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

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.

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

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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

Impairment of financial assets *(Continued)*

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.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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, bond interest payables, interest-bearing bank and other borrowings and amounts due to related parties.

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

Financial liabilities *(Continued)*

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.

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.

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

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.

Completed properties held for sale

Completed properties held for sale are stated in the statement of financial position at the lower of cost and net realisable value. Cost is determined by an apportionment of the total costs of land and buildings attributable to the unsold properties. Net realisable value takes into account the price ultimately expected to be realised, less estimated costs to be incurred in selling the properties.

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.

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

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

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

Income tax *(Continued)*

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

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

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 and properties, 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 or properties 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 a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

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. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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 2017 was RMB57,476,000 (2016: 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 26 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 2017	Mobile telecommunications devices RMB'000	Properties RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	15,754,368	219,948	15,974,316
Revenue			15,974,316
Segment results	570,534	437	570,971
Reconciliation:			
Interest income	12,570	87	12,657
Finance costs	(182,675)	(66)	(182,741)
Profit before tax	400,429	458	400,887
Segment assets	8,047,952	305,691	8,353,643
Segment liabilities	4,653,682	188,619	4,842,301
Other segment information:			
Impairment losses recognised/(reversed) in profit or loss	39,959	(78)	39,881
Depreciation and amortisation	65,990	134	66,124

6. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016 (Restated)	Mobile telecommunications devices RMB'000	Properties RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	15,177,126	–	15,177,126
Revenue			15,177,126
Segment results	539,846	(2,764)	537,082
Reconciliation:			
Interest income	15,660	11	15,671
Finance costs	(111,167)	(34)	(111,201)
Profit/(loss) before tax	444,339	(2,787)	441,552
Segment assets	6,956,809	365,306	7,322,115
Segment liabilities	3,899,870	252,631	4,152,501
Other segment information:			
Impairment losses recognised in profit or loss	23,754	190	23,944
Depreciation and amortisation	62,483	59	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	
	2017	2016
		Restated
	RMB'000	RMB'000
Revenue		
Sales of mobile telecommunications devices and accessories	**15,257,138**	14,676,918
Including:		
Retail of mobile telecommunications devices and accessories	**8,466,621**	8,426,306
Sales of telecommunications devices and accessories to franchisees	**3,116,198**	2,818,234
Wholesale of mobile telecommunications devices and accessories	**3,674,319**	3,432,378
Service income from mobile carriers	**369,175**	383,605
Other service fee income	**128,055**	116,603
Development and sales of properties	**219,948**	–
	15,974,316	15,177,126
Other income and gains		
Interest income	**12,657**	15,671
Government grants *(note (a))*	**39,910**	67,270
Gain on disposal of items of property, plant and equipment	**200**	35
Others	**3,789**	7,060
	56,556	90,036

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	
	2017	2016
		Restated
	RMB'000	RMB'000
Cost of inventories sold and services provided	**13,974,148**	13,321,448
Depreciation *(note 15)*	**65,599**	61,930
Amortisation of intangible assets *(note 17)*	**525**	612
Lease payments under operating leases	**364,895**	357,472
Auditors' remuneration	**4,543**	3,999
Employee benefit expense (including directors' remuneration as set out in note 10):		
Wages and salaries	**464,619**	454,522
Pension scheme contributions	**65,770**	61,847
	530,389	516,369
Provision for Impairment of available-for-sale investments *(note 20)*	**2,230**	–
Provision/(reversal of provision) for impairment of trade receivables *(note 26)*	**12,692**	(2,616)
Provision for impairment of amounts due from related parties	**1,510**	631
Provision for impairment of other receivables *(note 27)*	**2,386**	1,595
Write-down of inventories to net realisable value *(note 23)*	**21,063**	24,334
Loss on disposal of items of property, plant and equipment	**1,676**	644

9. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest on bank loans and a corporate bond	**182,741**	111,201

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	
	2017	2016
	RMB'000	RMB'000
Remuneration:		
Salaries, allowances and benefits in kind	**1,566**	1,627
Pension scheme contributions	**192**	195
	1,758	1,822

(a) Independent non-executive directors

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

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Mr. Lv Tingjie	**61**	61
Mr. Vincent Man Choi, Li	**229**	210
Mr. Bian Yongzhuang	**61**	56
	351	327

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

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
2017				
Executive directors:				
Mr. Liu Songshan	**–**	**234**	**42**	**276**
Mr. Liu Donghai	**–**	**251**	**42**	**293**
Ms. Liu Wencui	**–**	**289**	**42**	**331**
Ms. Liu Hua (i)	**–**	**101**	**24**	**125**
Mr. Liu Yajun	**–**	**251**	**42**	**293**
	–	**1,126**	**192**	**1,318**
Non-executive directors:				
Ms. Zhang Yunfei (i)	**–**	**28**	**–**	**28**
Mr. Qi Xiangdong	**–**	**61**	**–**	**61**
	–	**89**	**–**	**89**
	–	**1,215**	**192**	**1,407**
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

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

Note:

(i) Ms. Liu Hua resigned on 28 July 2017 and was replaced by Ms. Zhang Yunfei as a non-executive director.

11. FIVE HIGHEST PAID EMPLOYEES

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

	Number of employees Year ended 31 December	
	2017	2016
Directors and the chief executive	**–**	–
Non-director and non-chief executive employees	**5**	5
	5	5

Details of directors' remuneration are set out in note 10 above.

Details of the remuneration of the above highest paid employees who are neither a director nor chief executive of the Group are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,287**	2,059
Pension scheme contributions	**337**	307
	2,624	2,366

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	
	2017	2016
Nil to HK$1,000,000	**5**	5

12. INCOME TAX EXPENSE

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which became effective on 1 January 2008, except for 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 2017. The major components of income tax expense are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Current: Tax charge for the year	**75,580**	61,549
Deferred *(note 21)*	**2,360**	22,992
Total tax charge for the year	**77,940**	84,541

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	
	2017	2016
		Restated
	RMB'000	RMB'000
Profit before tax	**400,887**	441,552
Tax at the statutory tax rate	**100,222**	110,388
Lower tax rates for certain entities	**(23,174)**	(30,956)
Adjustments in respect of current tax of previous periods	**2,733**	2,759
Profits/(Losses) attributable to associates and joint ventures	**(412)**	618
Expenses not deductible for tax	**1,706**	1,230
Tax losses utilised from previous periods	**(6,346)**	(5,844)
Tax losses not recognised	**3,211**	6,346
Tax charge at the Group's effective rate	**77,940**	84,541

The share of tax attributable to associates and joint ventures amounting to RMB1,800,000 (2016: RMB377,000) and nil (2016: Nil), respectively, is included in "Share of profits/(losses) of associates and joint ventures" in the consolidated statement of profit or loss and other comprehensive income.

13. DIVIDENDS

The directors did not propose a dividend for the year ended 31 December 2017.

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 (2016: 666,667,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

The calculation of basic earnings per share is based on:

	Year ended 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**322,490**	356,358
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 improvement RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2017					
At 31 December 2016:					
at 1 January 2017:					
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
At 1 January 2017, net of accumulated depreciation	64,497	48,316	23,449	21,276	157,538
Additions	617	31,952	6,574	3,210	42,353
Disposals	(272)	–	(10,326)	(3,831)	(14,429)
Depreciation provided during the year	(5,725)	(45,527)	(9,616)	(4,731)	(65,599)
Depreciation transferred	106	–	9,386	2,795	12,287
At 31 December 2017, net of accumulated depreciation	59,223	34,741	19,467	18,719	132,150
At 31 December 2017:					
Cost	85,757	416,117	75,353	41,576	618,803
Accumulated depreciation	(26,534)	(381,376)	(55,886)	(22,857)	(486,653)
Net carrying amount	59,223	34,741	19,467	18,719	132,150

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

	Buildings RMB'000	Leasehold improvement RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2016					
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

As at 31 December 2017, the Group has not obtained title certificates for certain of the buildings with an aggregate net carrying amount of approximately RMB13,274,000 (2016: RMB14,096,000). The directors were of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2017.

16. GOODWILL

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January:		
Cost and net carrying amount	**57,476**	57,476
Cost at 1 January, net of accumulated impairment	**57,476**	57,476
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	
	2017	2016
	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 Beixin 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 2017, the pre-tax discount rate applied to the cash flow projections was 16% to 18% (2016: 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 2017 (2016: 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 2017 and 31 December 2016. 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 the 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 the expected trend in the future.
Expenses:	the value assigned to the key assumptions reflects past experience and management's commitment to maintain the Group's operating expenses to an acceptable level.
Discount rates:	the discount rates used are before tax and reflect management's estimate of the risks specific to 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 2017	
Cost at 1 January 2017, net of accumulated amortisation	**853**
Amortisation provided during the year	**(525)**
At 31 December 2017	**328**
At 31 December 2017:	
Cost	**4,519**
Accumulated amortisation	**(4,191)**
Net carrying amount	**328**
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**

18. INVESTMENTS IN JOINT VENTURES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Share of net assets	**73,121**	28,087
Goodwill	**3,719**	3,719
	76,840	31,806

Particulars of the Group's joint ventures are as follows:

Name	Particulars of issued shares held	Place of registration and business	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Hollard-D. Phone (Beijing) Technology Development Co., Ltd.*	Registered capital of RMB1 each	PRC/ Mainland China	50	50	50	Technology research and consulting service
Guangzhou Zhongqi Energy Technology Co., Ltd.*	Registered capital of RMB1 each	PRC/ Mainland China	46	46	46	Sale of mobile telecommunications devices and accessories
Shenzhen Chuanshi Electronic Technology Ltd.*	Registered capital of RMB1 each	PRC/ Mainland China	50	50	50	Equity investment and investment consultation
Yunnan Dphone Investment Co., Ltd.*	Registered capital of RMB1 each	PRC/ Mainland China	51	51	26	Development and training of software

* *English translations of names for identification purposes only*

The above investments are directly held by the Company except for Yunnan Dphone Investment Co., Ltd., which is held by the 51%-owned subsidiary of the Company.

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

	2017	2016
	RMB'000	RMB'000
Share of the joint ventures' profit/(loss) for the year	**4,934**	(1,816)

19. INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Share of net assets	**5,890**	3,876
Goodwill on acquisition	**4,201**	4,201
	10,091	8,077

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Shenzhen Dixin Nuclear Communications Co., Ltd.*	Ordinary shares	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
Beijing Xinyi Technology Co., Ltd.*	Ordinary shares	Mainland China	49	Providing software development and training service
Shanghai Diju Information Technology Co., Ltd.*	Ordinary shares	Mainland China	45	Technology research and consulting service

* *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., and Shanghai Diju Information Technology Co., Ltd., the shareholdings in which are 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	
	2017	2016
	RMB'000	RMB'000
Share of the associates' loss for the year	**(3,286)**	(657)

20. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Unlisted equity investments, at cost	**10,845**	15,075
Unlisted debt investments, at fair value	**210,000**	–
	220,845	15,075
Analysed as:		
Current	**210,000**	–
Non-current	**10,845**	15,075
	220,845	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.

20. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Movements in the provision for impairment of available-for-sale investments are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**–**	–
Provision for impairment of available-for-sale investments *(note 8)*	**2,230**	–
At 31 December	**2,230**	–

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 2016	31,925	29,051	60,976
Deferred tax credited to profit or loss during the year	(649)	(22,343)	(22,992)
Gross deferred tax assets at 31 December 2016 and 1 January 2017	31,276	6,708	37,984
Deferred tax credited to profit or loss during the year	2,794	(5,154)	(2,360)
At 31 December 2017	34,070	1,554	35,624

Deferred tax assets in respect of tax losses and temporary differences amounting to RMB12,843,000 (2016: RMB25,386,000) have not been recognised, as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

22. LOAN RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Loan receivables	**354,217**	–
Including:		
Current portion	**300,000**	–
Non-current portion	**54,217**	–

As at 31 December 2017, the non-current portion of loan receivables comprises:

(a) Loans of USD4,900,000 provided to companies which will be the subsidiary and associate respectively after the completion of equity acquisition in year 2018, which are unsecured, interest-free and have no current fixed terms of repayment; and

(b) A loan of RMB22,199,000 provided to a third party, which is unsecured, bears interest at a fixed interest rate of 9.00% per annum and is repayable in 2019.

As at 31 December 2017, the current portion of loan receivables comprises:

An entrusted bank loan of RMB300,000,000 provided to a third party, which is unsecured, bears interest at a fixed interest rate of 7.50% per annum and is repayable in 2018.

23. INVENTORIES

	As at 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Merchandise for resale	**2,318,662**	2,199,376
Consumable supplies	**–**	607
	2,318,662	2,199,983
Less: provision against inventories	**(21,063)**	(24,334)
	2,297,599	2,175,649

24. PROPERTIES UNDER DEVELOPMENT

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**316,156**	282,718
Additions	**97,717**	33,438
Transferred to completed properties held for sale	**(331,752)**	–
At 31 December	**82,121**	316,156

25. COMPLETED PROPERTIES HELD FOR SALE

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**–**	–
Transferred from properties under development	**331,752**	–
Transferred to cost of properties sold	**(212,158)**	–
At 31 December	**119,594**	–

26. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Trade receivables	**2,087,992**	1,865,594
Bills receivable	**2,678**	–
Less: impairment of trade and bills receivables	**(103,864)**	(93,318)
	1,986,806	1,772,276

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 2017 with an aggregate carrying amount of RMB48,461,000 (2016: RMB26,732,000). The Derecognised Bills had maturities ranging from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables.

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.

26. TRADE AND BILLS RECEIVABLES *(Continued)*

An aging 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	
	2017	2016
		Restated
	RMB'000	RMB'000
Within 90 days	**1,846,331**	1,672,871
91 to 180 days	**43,495**	38,874
181 to 365 days	**72,558**	30,608
Over 1 year	**24,422**	29,923
	1,986,806	1,772,276

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**93,318**	98,648
Provision/(Reversal of provision) for impairment of trade receivables *(note 8)*	**12,692**	(2,616)
Amount written off as uncollectible	**(2,146)**	(2,714)
At 31 December	**103,864**	93,318

26. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	As at 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Neither past due nor impaired	**1,606,759**	1,449,851
Past due but not impaired:		
Less than 90 days	**294,632**	231,261
91 to 180 days	**40,572**	36,379
181 to 365 days	**34,588**	35,892
Over 1 year	**10,255**	18,893
	1,986,806	1,772,276

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.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Prepayments	**1,129,282**	958,281
Deposits and other receivables	**237,692**	184,140
	1,366,974	1,142,421
Less: impairment of other receivables	**(9,209)**	(6,823)
	1,357,765	1,135,598

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**6,823**	5,228
Provision for impairment of other receivables *(note 8)*	**2,386**	1,595
At 31 December	**9,209**	6,823

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Cash and bank balances	**614,879**	784,756
Time deposits	**953,421**	815,367
	1,568,300	1,600,123
Less: pledged time deposits –		
pledged for bank borrowings	**931,730**	806,404
pledged for bank acceptance notes	**21,691**	8,963
Cash and cash equivalents, denominated in RMB	**614,879**	784,756

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.

29. 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.

30. TRADE AND BILLS PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade payables	**381,413**	422,872
Bills payable	**50,522**	20,368
	431,935	443,240

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 90 days	**376,068**	408,350
91 to 180 days	**38,312**	18,214
181 to 365 days	**13,089**	12,319
Over 1 year	**4,466**	4,357
	431,935	443,240

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

31. OTHER PAYABLES AND ACCRUALS

	As at 31 December	
	2017	2016
		Restated
	RMB'000	RMB'000
Advances from customers	**193,324**	237,880
Payroll and welfare payable	**32,606**	34,637
Accrued expenses	**10,126**	6,642
Other payables	**109,409**	125,844
Bond interest payables	**33,750**	–
	379,215	405,003

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017		2016	
	Maturity	**RMB'000**	Maturity	RMB'000
Current				
Bank loans:				
Unsecured, repayable within one year	**2018**	**1,083,000**	2017	1,598,474
Secured, repayable within one year	**2018**	**2,064,184**	2017	1,409,929
Current portion of long term bank loans – unsecured	**2018**	**–**	2017	48,000
		3,147,184		3,056,403
Non-current				
Corporate bond:				
Non-current portion	**2020**	**596,542**		–
		3,743,726		3,056,403

Notes:

(a) The Group's bank loans are secured by pledged deposits, which had an aggregate carrying value at the end of the reporting period of RMB931,730,000 (2016: RMB806,404,000).

(b) On 5 April 2017, the Company issued a corporate bond with a maturity of three years in an aggregate amount of RMB600,000,000, which bear interest at 7.50% per annum. The interest is payable annually in arrears and the maturity date is 5 April 2020.

(c) The bank loans bear interest at rates ranging from 3.50% to 7.90% (31 December 2016: 2.50% to 6.40%) per annum.

33. SHARE CAPITAL

Shares

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Issued and fully paid:		
667,000,000 (2016: 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 2016 and 2017	667,000,000	666,667

34. 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.

34. 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.

35. ACQUISITION OF A SUBSIDIARY

Details of the acquisition of a subsidiary accounted for as business combination under common control are set out in note 2.3.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Other payables and accruals RMB'000	Bank loans RMB'000	Corporate bond RMB'000
At 1 January 2017	**405,003**	**3,056,403**	**–**
Changes from financing cash flows	**(19,856)**	**90,781**	**595,000**
Increase arising from acquisition of an interest in an associate	**3,300**	**–**	**–**
Decrease arising from operating activities	**(42,982)**	**–**	**–**
Interest expense	**33,750**	**–**	**1,042**
At 31 December 2017	**379,215**	**3,147,184**	**596,542**

37. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in notes 32 to the financial statements.

38. 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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within a year	**242,271**	319,348
In the second to fifth years, inclusive	**324,801**	484,803
After five years	**117,849**	119,718
	684,921	923,869

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	RMB'000	RMB'000
Contracted, but not provided for:		
Properties under development	**–**	42,794

40. 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 2017 and 2016, as well as the balances with related parties as at 31 December 2017 and 31 December 2016:

		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 Dixin Nuclear Communications Co., Ltd.	**2017**	**–**	**13,275**	**–**	**1,493**
	2016	2,198	279	–	1,830
Shanxi Hartcourt Intermediation Information Technology Co., Ltd.	**2017**	**–**	**–**	**–**	**667**
	2016	–	–	–	667
Beijing Xinyi Technology Co., Ltd.	**2017**	**–**	**–**	**10,279**	**–**
	2016	–	–	–	–
Shanghai Diju Information Technology Co., Ltd. [1]	**2017**	**26,676**	**–**	**–**	**–**
	2016	–	–	–	–
Joint ventures:					
Hollard-D.Phone (Beijing) Technology Development Co., Ltd.	**2017**	**–**	**2,727**	**2,533**	**–**
	2016	–	17,844	50	6,264
Guangzhou Zhongqi Energy Technology Co., Ltd.	**2017**	**70,370**	**12,898**	**36,911**	**–**
	2016	11,454	–	7,919	–
Fellow subsidiaries:					
Beijing Dphone Communication Services Co., Ltd.[2]	**2017**	**220**	**–**	**3,987**	**141**
	2016	140	2	4,806	87
Guang'an Dixin Cloud Communication Technology Co., Ltd.[2]	**2017**	**396**	**–**	**150**	**–**
	2016	–	–	–	–
A company significantly influenced by the controlling shareholders					
Beijing Tianxingyuanjing Technology Development Co., Ltd.[3]	**2017**	**–**	**–**	**27**	**–**
	2016	5,220	1,594	729	–
Subsidiaries of non-controlling shareholders					
Beijing Digital China Co., Ltd.[4]	**2017**	**–**	**1,089**	**–**	**–**
	2016	–	–	–	–
Digital China (Shenzhen) Limited.[4]	**2017**	**–**	**69**	**–**	**–**
	2016	–	–	–	–

40. 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 2017 and 2016, as well as the balances with related parties as at 31 December 2017 and 31 December 2016: *(Continued)*

[1] *The investment in the associated venture entity, Shanghai Diju Information Technology Co., Ltd. is directly held by Shanghai Chuanda Communication Technology Co., Ltd., which is a subsidiary of the Group.*

[2] *The investments in the fellow subsidiaries, Beijing Dphone Communication Services Co., Ltd. and Guang'an Dixin Cloud Communication Technology Co., Ltd. are directly held by the controlling shareholders of the Company.*

[3] *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 a 25% equity interest aggregately and have significant influence over the entity.*

[4] *Beijing Digital China Limited, Digital China (Shenzhen) Limited and Digital China (HK) Limited are all controlled by the ultimate holding company Digital China Group Co.,Ltd. Digital China (HK) Limited is the non-controlling shareholder of the Company and holds 23.75% equity interest of the Company.*

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	
	2017	2016
	Unaudited	Unaudited
	RMB'000	RMB'000
Salaries, allowances, bonuses and other expenses	**4,359**	4,523

41. 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 2017		
	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**
Available-for-sale investments	**–**	**220,845**	**220,845**
Trade and bills receivables	**1,986,806**	**–**	**1,986,806**
Financial assets included in prepayments, deposits and other receivables	**228,483**	**–**	**228,483**
Due from related parties	**53,887**	**–**	**53,887**
Loan receivables	**354,217**	**–**	**354,217**
Pledged deposits	**953,421**	**–**	**953,421**
Cash and cash equivalents	**614,879**	**–**	**614,879**
	4,191,693	**220,845**	**4,412,538**

	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 (Restated)	1,772,276	–	1,772,276
Financial assets included in prepayments, deposits and other receivables (Restated)	177,317	–	177,317
Due from related parties (Restated)	13,504	–	13,504
Pledged deposits	815,367	–	815,367
Cash and cash equivalents (Restated)	784,756	–	784,756
	3,563,220	15,075	3,578,295

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade and bills payable	**431,935**	443,240
Financial liabilities included in other payables and accruals (Restated)	**143,159**	125,844
Due to related parties	**2,301**	8,848
Interest-bearing bank and other borrowings	**3,743,726**	3,056,403
	4,321,121	3,634,335

42. 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 2017, 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 RMB10,845,000 (2016: RMB15,075,000). All of them are unlisted equity investments in China held by the Group.

42. FAIR VALUE AND FAIR VALUE HIERARCHY *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Unlisted debt investments	–	210,000	–	210,000

43. 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.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to both fair value and cash flow interest rate risks. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

At present, the Group does not intend to seek to hedge its exposure to interest rate fluctuations.

The following table demonstrates the sensitivity to a reasonably possible change in interest 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
2017	**100**	**(647)**
	(100)	**647**
2016	100	(963)
	(100)	963

43. 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.

2017

	Increase/ (decrease) in foreign currency rate %	**Increase/ (decrease) in profit after tax and equity RMB'000**
If RMB weakens against USD	**5**	**2,493**
If RMB strengthens against USD	**(5)**	**(2,493)**
If RMB weakens against HKD	**5**	**194**
If RMB strengthens against HKD	**(5)**	**(194)**

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)

43. 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, loan receivables 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 26 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 receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

43. 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 2017	**On demand RMB'000**	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**More than 12 months RMB'000**	**Total RMB'000**
Interest-bearing bank and other borrowings	**–**	**2,093,801**	**1,111,922**	**690,000**	**3,895,723**
Trade and bills payables	**–**	**376,068**	**55,867**	**–**	**431,935**
Financial liabilities included in other payables and accruals	**–**	**100,495**	**42,483**	**181**	**143,159**
Due to related parties	**–**	**2,301**	**–**	**–**	**2,301**
	–	**2,572,665**	**1,210,272**	**690,181**	**4,473,118**

31 December 2016 (Restated)	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	More than 12 months RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	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	–	110,199	15,645	–	125,844
Due to related parties	–	8,848	–	–	8,848
	–	2,710,903	961,807	–	3,672,710

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 2017 and 31 December 2016.

43. 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 and other borrowings, 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	
	2017	2016
		Restated
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**3,743,726**	3,056,403
Less: cash and cash equivalents	**(614,879)**	(784,756)
Net debt	**3,128,847**	2,271,647
Total equity	**3,511,342**	3,169,614
Net debt and total equity	**6,640,189**	5,441,261
Gearing ratio	**47%**	42%

44. 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 USD 2,500,000 in cash, paid up by the end of 2016. The acquisition will be accounted for using the acquisition method in the Company's annual financial statements upon completion of the acquisition. The acquisition was completed in March 2018.

(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 USD 2,400,000. Upon completion of the acquisition, the Company will expand into the India market to further develop its 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 completion of the acquisition, anticipated to be in 2018.

45. 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:

	2017 **RMB'000**	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**38,688**	41,797
Intangible assets	**322**	737
Investments in subsidiaries	**646,716**	608,756
Investments in joint ventures	**74,641**	31,806
Investments in associates	**3,221**	1,206
Available-for-sale investments	**10,845**	15,075
Deferred tax assets	**5,813**	4,368
Total non-current assets	**780,246**	703,745
CURRENT ASSETS		
Inventories	**241,176**	301,632
Trade and bills receivables	**715,237**	451,125
Prepayments, deposits and other receivables	**118,054**	179,164
Loan receivables	**300,000**	–
Due from subsidiaries	**1,534,311**	1,865,856
Due from related parties	**24,752**	–
Available-for-sale investments	**200,000**	–
Pledged deposits	**710,173**	674,927
Cash and cash equivalents	**336,182**	130,263
Total current assets	**4,179,885**	3,602,967

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	2017 **RMB'000**	2016 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	**1,321,257**	1,096,148
Other payables and accruals	**56,828**	46,655
Interest-bearing bank and other borrowings	**1,631,658**	1,524,582
Due to subsidiaries	**68,712**	354,212
Tax payable	**11,111**	11,514
Total current liabilities	**3,089,566**	3,033,111
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,870,565**	1,273,601
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**596,542**	–
NET ASSETS	**1,274,023**	1,273,601
EQUITY		
Share capital	**666,667**	666,667
Reserves *(note)*	**607,356**	606,934
Total equity	**1,274,023**	1,273,601

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	**Statutory reserve funds** RMB'000	**Exchange fluctuation reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
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 and 1 January 2017	520,974	38,573	–	47,387	606,934
Profit for the year	–	–	–	1,497	1,497
Other comprehensive income for the year:					
Share of other comprehensive loss of a joint venture	–	–	(1,075)	–	(1,075)
Total comprehensive income for the year	–	–	(1,075)	1,497	422
Transfer from retained profits	–	150	–	(150)	–
At 31 December 2017	**520,974**	**38,723**	**(1,075)**	**48,734**	**607,356**

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.