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Beijing Digital Telecom Co., Ltd.

北京迪信通商貿股份有限公司

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

(Stock Code: 6188)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2016:

Revenue of the Group was RMB15,177,170,530, representing a decrease of 4.13% from last year.

Net profit attributable to the owners of the parents of the Company was RMB356,409,590, representing a decrease of 0.18% from last year.

Basic earnings of each Share was RMB0.53 per share, representing a decrease by RMB0.01 per share from last year.

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

The board (the “**Board**”) of directors (the “**Directors**”) of Beijing Digital Telecom Co., Ltd. (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2016, together with comparable figures for the same period in 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended December 31, 2016

| | <i>Notes</i> | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
|--|--------------|-------------------------------|------------------------|
| REVENUE | 3 | 15,177,171 | 15,830,720 |
| Cost of sales | | (13,321,491) | (13,796,603) |
| Gross profit | | 1,855,680 | 2,034,117 |
| Other income and gains | 3 | 90,036 | 85,483 |
| Selling and distribution expenses | | (1,043,639) | (1,141,452) |
| Administrative expenses | | (319,673) | (341,487) |
| Other expenses | | (27,113) | (39,037) |
| Finance costs | 5 | (111,201) | (168,448) |
| Share of profits and losses of: | | | |
| Joint ventures | | (1,816) | 1,117 |
| Associates | | (657) | 67 |
| PROFIT BEFORE TAX | 4 | 441,617 | 430,360 |
| Income tax expense | 6 | (84,541) | (73,637) |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 357,076 | 356,723 |
| Attributable to: | | | |
| Owners of the parent | | 356,410 | 357,062 |
| Non-controlling interests | | 666 | (339) |
| | | 357,076 | 356,723 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| – Basic and diluted (RMB) | 8 | 0.53 | 0.54 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2016

| | <i>Notes</i> | 2016 RMB'000 | 2015 RMB'000 |
|--|--------------|-------------------------------|-----------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 157,538 | 154,222 |
| Goodwill | | 57,476 | 57,476 |
| Other intangible assets | | 853 | 785 |
| Investments in joint ventures | | 31,806 | 2,111 |
| Investments in associates | | 8,077 | 8,067 |
| Available-for-sale investments | | 15,075 | 15,075 |
| Deferred tax assets | | 37,984 | 60,976 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 308,809 | 298,712 |
| CURRENT ASSETS | | | |
| Inventories | | 2,175,606 | 2,148,058 |
| Properties under development | | 316,156 | 282,718 |
| Trade receivables | 9 | 1,772,260 | 1,870,659 |
| Prepayments, deposits and other receivables | | 1,135,447 | 1,021,113 |
| Due from related parties | | 13,582 | 3,662 |
| Pledged deposits | | 815,367 | 1,080,808 |
| Cash and cash equivalents | | 783,084 | 441,844 |
| | | <hr/> | <hr/> |
| Total current assets | | 7,011,502 | 6,848,862 |
| CURRENT LIABILITIES | | | |
| Trade and bills payable | 10 | 443,240 | 551,460 |
| Other payables and accruals | | 403,134 | 398,155 |
| Interest-bearing bank borrowings | | 3,056,403 | 3,152,293 |
| Due to related parties | | 8,848 | 665 |
| Tax payable | | 239,007 | 198,499 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 4,150,632 | 4,301,072 |
| NET CURRENT ASSETS | | <hr/> 2,860,870 | <hr/> 2,547,790 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <hr/> 3,169,679 | <hr/> 2,846,502 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowing | | – | 48,000 |
| | | <hr/> | <hr/> |
| NET ASSETS | | <hr/> 3,169,679 | <hr/> 2,798,502 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | | 666,667 | 666,667 |
| Other reserves | | 2,443,029 | 2,086,619 |
| | | <hr/> | <hr/> |
| | | 3,109,696 | 2,753,286 |
| Non-controlling interests | | <hr/> 59,983 | <hr/> 45,216 |
| | | <hr/> | <hr/> |
| Total equity | | <hr/> 3,169,679 | <hr/> 2,798,502 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

- (a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
- (i) the materiality requirements in IAS 1;
 - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
 - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
 - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

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

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

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

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

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

¹ Effective for annual periods beginning on or after January 1, 2017

² Effective for annual periods beginning on or after January 1, 2018

³ Effective for annual periods beginning on or after January 1, 2019

⁴ No mandatory effective date yet determined but available for adoption

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

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

(a) Classification and measurement

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

(b) Impairment

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

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

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

2. 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.

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

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

Information about major customers

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

Geographical information

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

3. 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 December 31, | |
|--|-------------------------|------------------------|
| | 2016 <i>RMB'000</i> | 2015 <i>RMB'000</i> |
| Revenue | | |
| Sales of mobile telecommunications devices and accessories | 14,676,963 | 15,088,123 |
| Including: | | |
| Retail of mobile telecommunications devices and accessories | 8,426,306 | 8,423,136 |
| Sales of telecommunications devices and accessories to franchisees | 2,818,234 | 2,743,507 |
| Wholesale of mobile telecommunications devices and accessories | 3,432,423 | 3,921,480 |
| Service income from mobile carriers | 383,605 | 593,035 |
| Other service fee income | 116,603 | 149,562 |
| | 15,177,171 | 15,830,720 |
| Other income and gains | | |
| Interest income | 15,671 | 14,694 |
| Government grants (note (a)) | 67,270 | 65,165 |
| Gain on disposal of items of property, plant and equipment | 35 | 53 |
| Others | 7,060 | 5,571 |
| | 90,036 | 85,483 |

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

4. PROFIT BEFORE TAX

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

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

| | Year ended December 31, | |
|------------------------|-------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Interest on bank loans | <u>111,201</u> | <u>168,448</u> |

6. 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 January 1, 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 December 31, 2016. The major components of income tax expense are as follows:

| | Year ended December 31, | |
|-------------------------------|-------------------------|-----------------|
| | 2016 RMB'000 | 2015 RMB'000 |
| Current: | | |
| Tax charge for the year | 61,549 | 106,749 |
| Deferred | <u>22,992</u> | <u>(33,112)</u> |
| Total tax charge for the year | <u>84,541</u> | <u>73,637</u> |

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

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

7. DIVIDENDS

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

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

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

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

The calculation of basic earnings per share is based on:

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

9. TRADE RECEIVABLES

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

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

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

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

10. TRADE AND BILLS PAYABLE

| | As at December 31, | |
|----------------|-----------------------|-----------------------|
| | 2016 | 2015 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables | 422,872 | 479,610 |
| Bills payable | 20,368 | 71,850 |
| | <u>443,240</u> | <u>551,460</u> |

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

| | As at December 31, | |
|-----------------|---------------------------|---------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Within 90 days | 408,350 | 511,776 |
| 91 to 180 days | 18,214 | 19,523 |
| 181 to 365 days | 12,319 | 15,106 |
| Over 1 year | 4,357 | 5,055 |
| | 443,240 | 551,460 |

11. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of a subsidiary

On June 15, 2016, the Board passed a resolution in relation to the acquisition of a 60% interest in Digitone Mobiles Private Limited (“**Digitone Mobiles**”) for the development in the India market. The purchase consideration was USD2,500,000 in cash, paid up by the end of 2016. As at the date of the approval of the consolidated financial statements, the acquisition has not been completed. The acquisition will be accounted for using the acquisition method in the Company’s annual financial statements upon the completion of acquisition, anticipated to be in 2017.

(b) Acquisition of an associate

On June 15, 2016, the Board passed a resolution in relation to the proposed investment in Spice Online Retail Private Limited (“**Spice Online**”), an unlisted company incorporated in India that specialises in the sale of mobile telecommunications devices and accessories. The Company would acquire a 49% interest in Spice Online at a consideration of USD2,400,000. Upon the completion, the Company would expand into the India market to further develop their business. As at the date of approval of the consolidated financial statements, the acquisition has not been completed. The acquisition will be accounted for using the acquisition method in the Company’s annual financial statements upon the completion of acquisition, anticipated to be in 2017.

(c) Capital Injection from non-controlling shareholders

On September 18, 2016, the Board passed a resolution in relation to the capital injection from non-controlling shareholders of New Idea Investment Pte.Limited (“**New Idea**”), a wholly owned subsidiary of the Company. The new non-controlling shareholders, ZTE (H.K.) Limited and Shanghai Wisdomont Pushang Investment Center(Limited partnership), would acquire 20% and 8% interests in New Idea at a consideration of USD2,040,000 and USD816,000, respectively. The capital injection by the non-controlling shareholders was completed on January 4, 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

For the year ended December 31, 2016, the Group sold 10,687,380 mobile handsets, representing a decrease of 99,330 sets or 0.92% compared with 10,786,710 sets for the same period last year. Operating revenue for the year of 2016 amounted to RMB15,177,170,530, representing a decrease of RMB653,549,420 or 4.13% from RMB15,830,719,950 for the same period last year. Net profit for the year of 2016 amounted to RMB357,075,942, representing an increase of RMB352,562 or 0.10% from RMB356,723,380 for the same period last year.

II. FINANCIAL POSITION AND OPERATING RESULTS

(I) Overview

For the year ended December 31, 2016, the Group recognized net profit of RMB357,075,942, representing an increase of RMB352,562 or 0.10% from RMB356,723,380 for the same period in 2015. Net profit attributable to the owners of the parent amounted to RMB356,409,587, representing a decrease of RMB652,573 or 0.18% from RMB357,062,160 for the same period in 2015.

(II) Consolidated comprehensive income statement

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

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

1. Operating revenue

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

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

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

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

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

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

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

2. *Cost of sales*

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

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

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

3. Gross profit and gross profit margin

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

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

4. Sales volume and average selling price of handsets

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

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

5. *Other income and gains*

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

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

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

6. Selling and distribution expenses

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

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

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

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

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

7. Administrative expenses

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

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

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

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

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

8. *Other expenses*

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

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

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

9. *Finance costs*

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

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

10. Income tax expense

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

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

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

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

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

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

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

1. *Net cash used in operating activities*

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

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

2. *Net cash used in investing activities*

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

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

3. *Net cash generated from financing activities*

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

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

(IV) Balance Sheet Items

1. *Trade receivables*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. *Prepayments and other receivables*

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

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

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

3. *Impairment of trade and other receivables*

Our provision policy for impairment of trade and other receivables is based on ongoing evaluation of the collectability and aging analysis of the outstanding receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

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

4. *Inventory*

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

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

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

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

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

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

| Item | For the year ended December 31, | | | |
|------------------------------------|---------------------------------|---------------------------|--------------------------------|-------------------------|
| | 2015 Number of days | 2016 Number of days | Change in number of days | Percentage of change |
| Average inventory turnover days | <u>54</u> | <u>58</u> | <u>4</u> | <u>7.41%</u> |

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

5. *Properties under development*

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

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

6. *Trade and bills payables*

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

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

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

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

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

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

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

7. *Other payables and accruals*

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

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

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

Our payroll and welfare payables represent accrued payroll and welfare expenses to our employees. Our payroll and welfare payables as of December 31, 2016 amounted to RMB34,637,390, representing a decrease of

RMB27,124,830 or 43.92% from RMB61,762,220 as of December 31, 2015. Such decrease was primarily due to the transfer of some staff members from salesmen to promotion specialists who were paid on service fees basis instead of on salary basis in according to the labour cost saving policy of the Group.

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

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

8. *Net current assets position*

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

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

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

9. *Capital expenditure*

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

10. *Related party transactions*

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

| | | Sales to related parties <i>RMB'000</i> | Purchase from related parties <i>RMB'000</i> | Amounts owed by related parties <i>RMB'000</i> | Amounts owed to related parties <i>RMB'000</i> |
|---|------|--|--|--|--|
| Associates: | | | | | |
| Shenzhen Dixinjuhe | | | | | |
| Communication Co., Ltd. ¹ | 2016 | 2,198.39 | 278.69 | - | 1,830.58 |
| | 2015 | - | - | - | - |
| Shanxi Hartcourt | | | | | |
| Intermediation | 2016 | - | - | - | 666.60 |
| Information Technology | | | | | |
| Co., Ltd ¹ | 2015 | - | - | - | - |
| Joint venture: | | | | | |
| Hollard-D.Phone (Beijing) | | | | | |
| Technology Development | | | | | |
| Co., Ltd. ² | 2016 | - | 17,844.44 | 49.95 | 6,264.10 |
| | 2015 | - | 84.45 | - | 664.72 |
| Guangzhou Zhongqi Energy | | | | | |
| Technology Limited Company ² | 2016 | 11,454.16 | - | 7,919.31 | - |
| | 2015 | - | - | - | - |

| | | Sales to related parties <i>RMB'000</i> | Purchase from related parties <i>RMB'000</i> | Amounts owed by related parties <i>RMB'000</i> | Amounts owed to related parties <i>RMB'000</i> |
|---|------|--|--|--|--|
| Fellow subsidiaries: | | | | | |
| Beijing Dphone Communication Services Co., Ltd. ³ | 2016 | 139.58 | 2.14 | 4,806.47 | 87.60 |
| | 2015 | 5,530.17 | 569.24 | 4,105.52 | 40.10 |
| Beijing Dixin Alliance Technology Co., Ltd ³ (北京迪信雲聚科技有限公司) | 2016 | 69.77 | - | 77.55 | - |
| | 2015 | - | - | - | - |
| Company significantly influenced by the controlling shareholder | | | | | |
| Beijing Tianxingyuanjing Technology Development Co., Ltd. ⁴ | 2016 | 5,220.21 | 1,594.34 | 728.55 | - |
| | 2015 | - | - | - | - |

- 1 The investment in the associate, Shenzhen Dixinjuhe Communications Co., Ltd. is directly held by the Company.
- 2 The investments in the joint ventures, Hollard-D.Phone (Beijing) Technology Development Co., Ltd. and Guangzhou Zhongqi Energy Technology Limited Company are directly held by the Company.
- 3 The investments in the fellow subsidiary entities, Beijing Dphone Communication Services Co., Ltd. and Beijing Dixin Alliance Technology Co., Ltd (北京迪信雲聚科技有限公司) are directly held by the controlling shareholder of the Company.
- 4 The investment in the entity, Beijing Tianxingyuanjing Technology Development Co., Ltd. is held by Mr. Liu Donghai and Mr. Jinxin, who are the controlling shareholder and CEO of the Company, respectively. They hold 25% equity interests aggregately and have significant influence over the entity.

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

11. *Indebtedness – bank borrowings*

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

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

During the year ended December 31, 2016, we entered into various loan agreements with banks to finance our business operations and expansion. These bank loans were repayable within one year or on demand. These bank loans were variable-rate bank loans which carry interest at the People's Bank of China benchmark rate plus a premium. We mainly used these bank loans to purchase mobile telecommunication devices and accessories.

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

We are subject to certain customary restrictive covenants pursuant to our loan agreements with the banks. Subject to certain exceptions and waivers, these covenants may restrict our ability to (i) incur additional indebtedness; (ii) make major change to our corporate structure, such as to undertake or encourage joint venture, mergers and acquisitions, reduction of registered share capital and reorganisations or to make other changes such as liquidation or dissolution, (iii) sell, transfer or dispose of material assets; and (iv) make investments and engage in certain transactions with affiliates or subsidiaries.

Our Directors confirmed that during the year ended December 31, 2016 and up to the date of this announcement, we did not have any material default in payment of trade and non-trade payables and bank borrowings, nor did we breach any financial covenants. Save as disclosed herein, the agreements under our banking borrowings do not contain any covenant that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Except as disclosed in “Financial Information – Indebtedness” above, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of December 31, 2016, being the latest practicable date for our indebtedness statement.

(V) Key financial ratios

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

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

Current ratio is our current assets divided by our current liabilities at the end of each financial period. Our current ratio remained relatively steady during the year ended December 31, 2016.

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

representing a decrease of RMB485,129,920 or 17.59% from RMB2,758,448,500 as of December 31, 2015. Decrease in our net debt was primarily due to the 4.50% decrease in interest-bearing bank loans from RMB3,200,292,500 as of December 31, 2015 to RMB3,056,402,540 as of December 31, 2016.

Net debt-to-equity ratio equals net debt divided by total equity as the end of the financial period and multiplied by 100%. Our net debt-to-equity ratio as of December 31, 2016 was 71.72%, which was 26.85% lower than 98.57% as of December 31, 2015, representing a decrease ratio of 27.24%. This was primarily due to the Company's lower growth in net debt than in total equity for 2016. Total equity as of December 31, 2016 amounted to RMB3,169,678,710, representing an increase of RMB371,176,830 or 13.26% from RMB2,798,501,880 as of December 31, 2015, and growth in total equity was primarily attributable to the growth in net profit and the increase in shareholding equity capital for 2016. The Group's total retained profit for the year ended December 31, 2016 amounted to RMB1,706,656,870, representing an increase of RMB320,701,990 or 23.14% from total retained profit of RMB1,385,954,880 for the same period in 2015. Surplus reserve as of December 31, 2016 amounted to RMB211,418,960, representing an increase of RMB35,707,590 or 20.32% from RMB175,711,370 as of December 31, 2015. Net debt as of December 31, 2016 amounted to RMB2,273,318,580, representing a decrease of RMB485,129,920, or 17.59% from RMB2,758,488,500 as of December 31, 2015. Decrease in our net debt was primarily due to the 4.50% decrease in interest-bearing bank loans from RMB3,200,292,500 as of December 31, 2015 to RMB3,056,402,540 as of December 31, 2016.

(VI) Material acquisitions and disposals

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

(VII) Contingent liabilities

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

(VIII) Use of proceeds

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

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

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

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

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

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

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

(IX) Foreign exchange rate risks

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

(X) Pledge of assets

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

(XI) Material investments

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

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

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

(XII) Equity arrangements

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

(XIII) Capital

No material change occurred in the capital structure of the Company since its listing date.

(XIV) Future material investment

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

III. BUSINESS OUTLOOK FOR 2017

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

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

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

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

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

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

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

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

- (4) To continue enhancing our brand value

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

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

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

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

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

USE OF PROCEEDS FROM LISTING

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

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of shareholders of the Company will be closed from May 7, 2017 to June 6, 2017 (both days inclusive), for the purpose of determining shareholders' entitlement to attend the forthcoming annual general meeting to be held on June 6, 2017. Shareholders are required to lodge all transfer documents, accompanied by relevant share certificates and transfer forms, with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, No.183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on May 5, 2017.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance. During the year ended December 31, 2016, save as disclosed in this announcement, the Company has complied with all the code provisions of the CG Code and adopted most of the best practices.

According to code provision A.2.1 under the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Given Mr. Liu Donghai's background, qualification and experience in the Company, he is deemed as the best qualified person to take up both roles at present stage. The Board considers that it is beneficial to the Company at the present stage to have Mr. Liu Donghai's taking up both roles as it helps to maintain the continuity of the Company's policies and the stability and efficiency of the Company's operations and is appropriate and to the best interests of the Company. The Board will meet quarterly to review the operation of the Company under Mr. Liu Donghai's leadership. Thus, the Board does not consider that such arrangement will impair the balance of power and authority between the Board and the management of the Company. The Company will continue to review and enhance its corporate governance to ensure the compliance with the CG Code.

The validity period of the insurance policy covering the liability of the Directors and senior management that the Company had purchased pursuant to code provision A.1.8 of the CG Code expired. As the Company failed to notice the expiry of the insurance policy in time, it was not able to renew such insurance within a reasonable time. Currently, the Company is actively re-purchasing such insurance for the Directors and the senior management, which is expected to be completed by mid-April 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct for Directors’ and supervisors’ securities transactions. Having made specific enquiry with the Directors and supervisors, all of the Directors and supervisors confirmed that they have complied with the required standards as set out in the Model Code during the year ended December 31, 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2016, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The Audit Committee, together with the management and the external auditor, have reviewed the accounting principles and practices adopted by the Group and reviewed the annual results of the Group for the year ended December 31, 2016.

This annual results announcement is based on the audited consolidated financial statements of the Group for the year ended December 31, 2016 which have been agreed with the auditor of the Company.

PUBLICATION OF ANNUAL RESULTS AND 2016 ANNUAL REPORT

This annual results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) (www.hkexnews.hk) and the Company (www.dixintong.com). The Company’s 2016 annual report containing all the information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the respective websites of the Stock Exchange and the Company in due course.

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

Beijing, March 30, 2017

As at the date of this announcement, the executive directors of the Company are Mr. LIU Donghai, Mr. LIU Yajun, Mr. LIU Songshan, Ms. LIU Wencui and Ms. LIU Hua; the non-executive director is Mr. QI Xiangdong; and the independent non-executive directors are Mr. LV Tingjie, Mr. BIAN Yongzhuang and Mr. Vincent Man Choi, LI.