Vital Mobile Holdings Limited
維太移動控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock code 股份代號：6133

2016
ANNUAL REPORT
年度報告

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Rong Xiuli *(Chairperson)*
Rong Shengli *(Chief executive officer)*
Tang Shun Lam (redesignated from Non-executive Director on 19 March 2016)

Independent Non-executive Directors

Hon Kwok Ping, Lawrence
Lam Yiu Kin
Tsang Yat Kiang

COMPANY SECRETARY

Chui Man Lung, Everett

AUDIT COMMITTEE

Lam Yiu Kin *(Chairman)*
Tsang Yat Kiang
Hon Kwok Ping, Lawrence

REMUNERATION COMMITTEE

Tsang Yat Kiang *(Chairman)*
Hon Kwok Ping, Lawrence
Lam Yiu Kin
Rong Xiuli

NOMINATION COMMITTEE

Tsang Yat Kiang *(Chairman)*
Hon Kwok Ping, Lawrence
Lam Yiu Kin
Rong Xiuli

RISK MANAGEMENT COMMITTEE

Hon Kwok Ping, Lawrence *(Chairman)*
Rong Xiuli
Rong Shengli

AUTHORISED REPRESENTATIVES

Rong Xiuli
Hon Kwok Ping, Lawrence

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F., One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKERS

Shanghai Commercial Bank
China Everbright Bank

LEGAL ADVISERS

As to Hong Kong Law
Li, Wong, Lam & W. I. Cheung
Sidley Austin

As to PRC Law
Commerce & Finance Law Offices

As to Cayman Islands Law
Conyers Dill & Pearman

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

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OTPO-Merchatronics Industrial Park
Zhongguancun Science Park
Tongzhou District, Beijing
China

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite B, 16/F.,
W Square, 314–324 Hennessy Road
Wanchai, Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

6133

COMPANY'S WEBSITE

www.vital-mobile.com

Financial Summary – in accordance with International Financial Reporting Standards

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
CONSOLIDATED RESULTS					
Revenue	**406,134**	1,408,339	1,916,183	1,368,897	663,579
Profit before tax	**19,063**	216,520	193,660	97,529	42,098
Income tax expense	**(3,567)**	(35,621)	(37,435)	(14,656)	(6,339)
Profit and total comprehensive income for the year attributable to equity holders of the Company	**15,496**	180,899	156,225	82,873	35,759

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**1,373,386**	1,986,947	540,429	114,911	114,041
Total liabilities	**(522,316)**	(1,129,963)	(242,965)	(158,497)	(65,462)
	851,070	856,984	297,464	(43,586)	48,579
Equity attributable to Equity holders of the Company	**851,070**	856,984	297,464	(43,586)	48,579

Chairman's Statement

Dear Shareholders,

We have experienced a turbulent year in the mobile phone industry, the world smartphone shipment has experienced quite a slow start for the beginning of 2016 and it was not until in the fourth quarter of 2016 that we have seen some small improvements of demand in the market, we have only seen an increase in market demand of around 3% year on year. Our business has been negatively impacted from the severe price competition causing reduction in profit margins. Our key ODM customers suffered major loss of business hence we have also lost market share.

Our mission and responsibility to our Group is to ensure that we can survive the business down turn and prepare ourselves to be able to grow on our strong technical and business base. Our Group has taken a cautious approach in the beginning of this year, rather than trying to compete on price and losing profit on deals; we believe that the tightened pricing control and credit control has helped us to minimize much of the credit problems that the market has suffered. We have been aggressive in cost cutting and re-directing our business efforts to build up a platform that we believe can lead the Group to a much healthier future. Our heritage is in the mobile device market and we are exploring opportunities in this business space.

In the third quarter of 2016, the smartphone market has stopped the fall in mobile phone business from the traumatic conditions. To the ODM market, there was a tremendous shift in competition, as we witnessed the rise of many of the Chinese brands in the world market who are taking shares from the world (traditional) leading brands, but the hardest hit was actually the local major brands –the local kings – they have lost significant market shares; especially in such market as South America, India, Southeast Asia and Russia. As the emerging market is our root, we were hit hardest. We had worked hard to assess our customer base, emphasized quality of customers rather than just making sales. We had redeployed our sales and marketing resources to a smaller ODM customer base.

In the second half of 2016, we had followed up on efforts in working with business partners to explore new business models and new business channels and we started to redeploy our resources. We entered into negotiations with a number of potential partners that we hope can use our experience and expertise in Mobile devices to engage in business with better outlook. Our management have traveled to different markets that are re-emerging from the economic fallouts and have started to work on building up the two-prongs business that we discussed earlier in 2016. In an effort to continue servicing our partners, we have chosen to continue down the ODM path but with significant remodeling of our technical and supply chain structure. We have redeployed some of our technical and logistic efforts. We are seeing improved cost and quicker response to the market conditions and customer requirements. We believe that we will reap the benefits of our hard work in the coming year.

Chairman's Statement

During the second half, followed on our earlier effort, our team has also been hard at work to build on the "Market Brand +" business model. We have been working with two significant groups to build up the business. It was unfortunate that some of the issues arisen during our negotiation have slowed our progress in working together as a combined team. Whilst all our business partners are working in good faith and we are working on an open approach, we have discovered issues that we would rather fix them before we work together as a single team. The delay has costed us more than a few months. Though we believe that this will lead to a smoother transition and ultimately leads to a more efficient team.

In our "Market Brand+" efforts, we will adhere to the strategy of focusing on emerging markets, increasing market share in South Asia, East European and American markets, targeting to achieve a leading position in each market through the twin prongs approach: firstly maintaining our service and support core customer base in the ODM segment and adjusting our sales channels, optimizing our product portfolio and improving our product competitiveness; secondly, we are creating a new business platform that we would name it – the "Market Brand+" business transformation. We will transition from OEM/ODM-based to a Service+ based business such that we will become the premium B2B provider in the Mobile Device market.

This will be done in expanding our product offerings through a number of cooperative ventures, we have been acquiring IP to enhance the product features, service and support; we will increase our distribution channels with partners using online and offline channels. The next stage will be an enlarged service scope so that the Company will be providing a full service supply chain and value chain platform that caters for every need that a product or brand owner would require to complete a full product/sales cycle including after sales services. We will provide supply chain management, technical supports in sourcing, product and software design and testing, production, logistic, financing and tax management, distribution channels and after sales services.

2016 has been a difficult year, this trend will continue in the coming year. We aim to enhance our core competencies, namely product technology, distribution channels (online and offline), supply chain and logistics, business support services. We will be actively developing user-friendly smart devices and supply chain services. Our objective is to establish a comprehensive, expandable and integrated service platform in order to engage every available business opportunity to become a leading player in the mobile device maker and total service enterprise.

Chairman's Statement

Looking forward, we are committed to enhancing our business ecosystem and to provide integrated capabilities in supply chain, logistics, service, finance and distribution, to improve our product ecosystem from the users' point of view and further broaden our user base. We aim to raise the number of cumulative activated mobile business partners, as well as to increase the value and loyalty of users by vertical industry chain integration and horizontal business expansion in the future.

On behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders, customers, suppliers and business partners for their unwavering support. Also, I would like to thank the management and staff for their relentless effort.

Rong Xiuli
Chairperson
Vital Mobile Holdings Limited

Hong Kong, 29 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

The mobile phone market has experienced one of the biggest re-adjustment in recent years. Not only have we seen a big shift of top players in mobile phone shipment rankings, we have also witnessed one of the largest number of leading brands collapse, change of ownerships and companies restructured beyond recognition, both internationally and regionally. We were particularly affected in the regional market niches, where local big brands suffered from large unmoving inventories, slow sales and cash-flow issues.

From the start of the year 2016, we faced a challenging global economy with extreme economic upheavals, fluctuating exchange rates, consumer sentiment being weak all over the world, which exerted pressure on the prices and profit margins of smart phones. We have witnessed that some of the top and strong Independent Design House ("IDH") modified their business model to Original Design Manufacture ("ODM") serving the growing Chinese brands. The overall ODM market grew in 2016 by a small single digit percentage. However, these came from the rapid growth of Chinese brands which eat into our customer base (Local Kings) in the emerging market; we lost the market shares as our customers lost their market position as well.

As an export orientated ODM smartphone supplier company, the Group had found it especially difficult to deal with such adverse operating condition. We have seen many of our customers retrenched to sell fewer models in order to improve their cash position; we have also been cautious in controlling credit default risks, such that we had to give up some opportunities just to make sure that we will be able to control the risks through operating different channels and collaborating with different partners.

For the year ended 31 December 2016, the Group reported total sales volume of handsets and other products reaching 640,000 units, representing a year-on-year decrease of 80%, of which, the modified smart devices sales decreased by 37% year-on-year to 344,000 units. Owing to our strategy, focusing on 4G smartphone and software development and the loss of some of the major business partners, the overall average selling price ("ASP") of the Group's products increased from USD64.4 in 2015 to USD92.4 in 2016.

During the year, the Group's overall revenue decreased by 71.2% year-on-year to RMB406.1 million. Faced with these market trends, the Group reformed its marketing strategy to start adding new products and services offerings such as providing a smart devices modification to supplement the loss in ODM direct businesses. The Group applied stringent controls on costs and expenses and adhered to its effective "Step Up" product strategy, continuing to enhance operational performance.

During the year, gross profit decreased by 91.1% year-on-year to RMB19.8 million, with gross profit margin decreased to 4.9%, compared to 15.8% in 2015.

Management Discussion and Analysis

We have streamlined our Research and development ("R&D") and sales operations so as to contain our costs. The Group's operating expenses including R&D costs, selling and distribution costs and administrative expenses were RMB44.9 million, representing an operating expenses ratio of 11.1%. A lean, efficient organizational structure allowed the Group to respond to market changes in a timely manner, and to maintain its profitability at a healthy and stable level.

Net profit decreased by 91.4% year-on-year to RMB15.5 million, while net profit margin was 3.8%. Basic earnings per share ("EPS") decreased to RMB2 cents (2015: RMB24 cents).

The Board has recommended a final dividend of HK2.000 cents (2015:HK5.055 cents) per share for the year ended 31 December 2016.

General Discussion

With the generally poor economic situation and the major shifting trends in the mobile phone market on both the demand and the supply side, we have been proactively working on all directions. Our mission is to preserve and grow our company value and we have started to find additional resources and reorganize ourselves to suit the changing market conditions. We have been working with our partners, customers and supply base to develop our organization to capture the best available opportunities. We maintained our support to our ODM partners. However, in the course of the first half of the year, we came to realize that most of our traditional top tier customers were running into difficulties. In the second half, we started to build new business with some of the smaller customers. We reorganized the teams to match the support and business levels. During the second half of 2016 we focused on risk and credit control and we implemented stringent credit control to minimise the credit risks.

In 2016, we started to re-align many of the products, production and purchasing functions and we changed our business model to match some of the customers' needs. It also allowed us to reduce the overhead costs and enabled us to recruit some key personnels after the re-organization. We are in the development stage trying to re-align our group vision and strategy.

During Q3 2016, we had also brought forward our alternative plan in which we were trying to build on our technical knowledge, marketing, sales channel, supply chain, logistics and financial capabilities. We have been developing many of the newer business activities and business models to spur further business growth, these included new online sales channel, technical modifications and software enhancement to the mobile handsets. We were preparing ourselves to work with third party mobile phone suppliers and brands, which we called our "Market Brand Plus" or "Market Brand +". Not only were we working with our existing customers through the ODM products, many of our customers can and will also sell other branded mobile devices and accessories; we wanted to become their business enabler. Adding to this, our online channel will supplement well with our offline channels. It has taken us months to develop this new infrastructure. Since 2017, we have engaged in various cooperative ventures and new deals will be announced in due course.

Management Discussion and Analysis

We have started to supply our customers with software and firmware products including ROM modification, Interface, UI improvement, Corporate Identity, Embedded Software and CPM Program. In order to strengthen this area, we are working on recruiting or acquiring a new team that will be working on the software and firmware platform, and we have acquired several IP's to support this effort as the R&D team that we already have is too small to cover these areas.

With this in mind, the management of the Group has started its "Market Brand +" vision as a driver of change. With the combination of New ODM smart phones and the "Market Brand +" business transformation strategy, the Group applied "Brands + Services" to its products and developed the new service platform model.

We are working to establish an integrated, one-stop product and service platform, positioning the Group to be a global leading player both as a manufacturer of smart devices and one of the key total service providers for the B2B markets.

- We are building on our successful model in the ODM business to provide a platform for a bigger customer base than the ODM model, namely local brands in the export countries.

- The platform provides multiple export paths for different tiers of mobile phone manufacturers and IDH to export to all the resellers, retail, wholesale, online and offline.

- The platform provides services and products on the mobile phone eco-system. We are making our profits by providing value to our customers

  – In products, R&D, ROM modification, Interface, UI improvement, Corporate Identity Marketing, Embedded Software and CPM Program

  – In services, including supply base management and financing, logistics, tax advisories, local storage and product and service fulfillment

  – Building up new sales channel online and offline

The "Market Brand +" will be a more versatile and flexible business model than our original ODM model.

Management Discussion and Analysis

Regional Business and our Customer Base

Customer Mix

Most of 2016, we have experienced problems with foreign exchange and currency control issues affecting our customers in Russia, India and South America. In fact, as our leading customers suffered, our customer mix had taken a dramatic change.

The competition has intensified as the top IDHs had moved to supply ODM handsets to the leading Chinese brands especially in the export market. It caused a major market share loss to our existing customer base which in turn hurt our business. In the second half of 2016, we had to work with our smaller customers to recover our market share loss.

Among the top five customers of 2016 is the new India 4G Operator who had risen from outside of India's top 20 smartphone vendor to number 4; we have worked with them very earlier on and developed them from almost zero to one of our top five customers. We could have obtained more business from them but the Indian market in general was still suffering and the competition from other new brands are eating into the market shares and units of mobile device that they could have taken from us.

Our other top five customers come via many of our new online and offline channels.

Business Mix

We have been focusing on shipping our ODM to our newly established customers since Q3 2016. Starting from Q3 2016, we have been shipping products through our "Market Brand +" program. We achieved RMB246.1 million of shipment for 2016.

The revenue is roughly divided into traditional ODM business of RMB160.0 million and New Programs of RMB246.1 million.

We have been working with many partners and entered into a few negotiations. We are hoping to close some of these negotiations and speed up our new programs.

New Product and Services Initiatives

We have started the year with several new business initiatives and started negotiations with many potential partners.

ODM business optimization: Outsourcing hardware solution and strengthening software customization capabilities.

Management Discussion and Analysis

Outsourcing Hardware Solution Business

In 2016, shortage of, and varying price hikes on, raw materials of handsets (such as display panels and memory) further prolonged the inventory turnover period. To better control the risks arising from hardware delivery, speed up the pace of delivery and reduce costs, we started to re-align the hardware operation of most of our projects. We have found that we are able to make better use of the strengths of third party supply base companies which have acute market response and strong delivery capacity. We were able to combine our technical knowledge base and the depth of the third party supply base to develop a new supply chain and logistics business model.

Strengthening Software Customization Capability

Every regional major brand, "Local King", had its own unique user interface ("UI") design. Regional operators set a higher standard for user management. Meanwhile, the Company had unique understanding and strengths in second development of application software and setting up user eco-system. Thus, we will strengthen our capability in software development, so as to provide product end-users with smoother and more convenient internet service. Further, this would bring second profit to our direct "Local King" customers on top of profit from selling hardware. We have acquired several IP's to strengthen the capabilities in this area. We believe our team working directly with the third party providers will be able to allow us to provide many combinations of product offering to our end customers.

Overseas Distribution of Domestic Quality Brands

With over ten years of overseas business operations, the Group has established an extensive and close network of customers throughout the world. The Group has maintained its own core customers in different market places. Many of the "Local King" customers used to be or currently are the key local business partners of first tier brands.

It is our belief that many PRC brands will be delighted to engage us to provide our global network and resources in order to promote their products in major markets across the world within a short space of time. Compared to starting from the beginning, this mode of partnership, definitely generate surprisingly great efficiency.

Supply Chain, Local Warehousing and Logistics Services

Combining the capabilities and channels of the above-mentioned new initiative and our core capabilities, we are able to work with some of our partners to provide a full service business cycle from technology, design, development, prototype, production, sales and marketing, supply chain, finance and tax advisory, logistics and after sales services. This one stop service business model will allow us to gain more margins at different stages.

Management Discussion and Analysis

Outlook

The most recent market reports have indicated that the market is bottoming out. Whereas the first half of 2016 showed little or no growth in many of our operating areas, Q4 2016 showed a healthier growth rate, even though with an early Chinese New Year holidays, the real consumption-driven growth should be better than that of late 2015 quarter or the first half of 2016.

Similar to our Group, many of the mobile device providers have announced plans to change their business models. For instance, one famous smartphone brands announced their new marketing and distribution plan that they would create 16,000 offline stores to supplement their current network including online and offline sales channels. This goes to show that the market is looking to sales revival as the inventory issues are subsiding, and particularly, there seems to be some tightness in the supply base such as metal case, memory, display, etc. We have confidence that some of our ODM customers will be able to return to their healthy run-rate, especially in South America, Eastern Europe, Africa and Southeast Asia. We will however be mindful of the 2015/2016 problems and will be very selective in choosing our key customers. Our focus is for a long term partnership that will bring steady profit to both sides. We are also looking to work with strong players who not only focus on product profitability but also on services and quality. We are going to offer a limited number of high end phones with specifications rivalling that of the tier one suppliers; we will be offering software support to match the local requirements, especially those software that we can create income stream for our customers and probably also for the Group.

With the dynamics of the mobile phone markets, we are focusing our business in the emerging markets in South America, Southeast Asia, Eastern Europe and some parts of Africa.

We are fully committed to working back into our market shares in the ODM business. We have been planning to attend the GSMA in Spain, CES in the US and a number of the prominent trade shows in 2017. We have re-engaged to work with some of our old partners and offering not just product supports and services but may be borrowing from the "Market Brand +" program, to offer similar business service supports. Nevertheless, we anticipate the volume of ODM business will not be back to the 2015 level but we anticipate these will provide access for us to expand in other business segments. It is this challenging operating environment that has prompted the management of the Group to look for better opportunities in the mobile phone market. We believe that whilst there are a lot of bad news in early 2016, the market size of the mobile phone is still very large. We still believe that with an annual market size of over 2 billion phones, it is still the largest single electronic device market in the world even though the market only grew at 3% year-on-year in 2016.

Our second focus in the "Market Brands +" program is one that will provide extra dimension in the mobile devices eco-system. It will allow us to penetrate into different market channels, unify a number of business steps and offer a new eco-system for the mobile industry. We like to see that this will allow us to be able to provide participants in the mobile value chain to focus on the activities they do best, whereas we will provide the interlacing support to fulfill their product and services support requirements. Whilst we have been working on this program, we would like to speed this up by working with some strategic partnerships to allow us to accelerate the process.

Management Discussion and Analysis

Despite our continuing effort to improve, we anticipate we are still facing a very difficult operating environment for the first half of 2017 and accordingly, we are working to improve our profit in the second half of 2017. The Group's management believes that the financial position of the Group remains healthy and is confident in the long-term outlook for the Group.

To strengthen the "Market Brand + "business, the Group has been working with a number of possible partners to form alliance or deeper working relationship.

In the coming year, the Group expects improvement in smart device sales with the new range of smart devices coming on stream. The Group will continue to maintain efficient credit controls and currency hedging policies. The Group will also further enhance its four core competencies in product technology, industry (including system management), branding and internet application services. This forms the new "Products + Services" business model, based on principles of encompassing innovative breakthroughs, open cooperation, re-organization and consolidation. Its aim is to unleash the potential for future business growth.

In conclusion, for 2017 we will build our business on last year's solid business foundation and healthy financial position. We will aim to enhance our four core competencies, namely product technology, distribution (online and offline) channels, branding and supply chain services. We will be actively developing user-friendly smart devices including Internet of things and various components and products that are used in the mobile, automotive, industrial applications. We will be building on our capabilities in application services, and establishing a comprehensive, expandable service and integrated service platform in order to engage every business opportunity to become a leading player in the mobile device maker and total service enterprise.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB1,002.2 million or 71.2% to approximately RMB406.1 million for the year ended 31 December 2016 from approximately RMB1,408.3 million for the year ended 31 December 2015. The following table sets forth the breakdown of the Group's revenue by product type:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Smart phones	**392,017**	**96.5**	1,368,881	97.2
Smartphone component packs	**11,494**	**2.8**	1,562	0.1
Mobile device components	**2,623**	**0.7**	37,896	2.7
	406,134	**100.0**	1,408,339	100.0

Note: Mobile device components are purchased by the Group's customers for providing after-sale maintenance services to their end users.

Management Discussion and Analysis

The Group's revenue generated from sales of smart phones decreased from approximately RMB1,368.9 million for the year ended 31 December 2015 to approximately RMB392.0 million for the year ended 31 December 2016, representing a decrease of 71.4%. During the year ended 31 December 2016, the Group's revenue was mainly derived from 4G smartphones. The revenue of 4G smartphones decreased from approximately RMB949.9 million for the year ended 31 December 2015 to approximately RMB374.2 million for the year ended 31 December 2016. The revenue of 3G smartphones decreased from approximately RMB419.0 million for the year ended 31 December 2015 to approximately RMB17.8 million for the year ended 31 December 2016. The decrease in revenue was mainly due to (i) slowdown in the growth of global mobile phone market since the last quarter of 2015, resulting in high inventory and competitive pricing in the mobile phone market; and (ii) an increase in the number of competitors in the export market of mobile devices on ODM basis which is the business model adopted by the Group.

The following table sets forth the breakdown of the Group's revenue by geographical regions for the years indicated:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Hong Kong	**244,807**	**60.3**	531,535	37.7
Southeast Asia	**33**	**0.1**	4,461	0.3
South Asia	**125,506**	**30.9**	90,737	6.4
Taiwan	**2,369**	**0.5**	248,392	17.6
Other parts of Asia	**1,981**	**0.5**	100,375	7.2
Europe	**10,087**	**2.5**	129,844	9.2
South America	**11,517**	**2.8**	2,316	0.2
North America	**1,358**	**0.3**	126,227	9.0
Africa	**8,476**	**2.1**	174,452	12.4
	406,134	**100.0**	1,408,339	100.0

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell smart phones to various countries including but not limited to Thailand, Malaysia, Russia and Ukraine.

2. Southeast Asia includes Philippines, Thailand, Vietnam and Indonesia.

3. South Asia includes India and Bangladesh.

4. Other parts of Asia includes Yemen, Pakistan and The United Arab Emirates.

5. Europe includes France, Romania, Russia, Cyprus, Portugal and Italy.

6. South America includes Brazil, Argentina and Venezuela.

7. North America includes United States of America.

8. Africa includes South Africa, Algeria and Morocco.

Management Discussion and Analysis

The Group's revenue generated from sales in Hong Kong decreased from approximately RMB531.5 million for the year ended 31 December 2015 to approximately RMB244.8 million for the year ended 31 December 2016, representing a decrease of 53.9%.

During the year ended 31 December 2016, the Group's revenue generated from sales in South Asia was approximately RMB125.5 million, representing an increase of 38.3%. Meanwhile, the Group's revenue generated from sales in this area accounted for 30.9% of the total revenue, as a result of stable demand in South Asia and decline in total sales volume.

During the year ended 31 December 2016, the Group's revenue generated from sales in South America increased from approximately RMB2.3 million for the year ended 31 December 2015 to approximately RMB11.5 million for the year ended 31 December 2016, representing an increase of 400.0%. The increase was mainly due to the sales of smartphone component packs to a certain customer in South America.

Gross Profit and Gross Profit Margin

	2016		2015	
	RMB'000	**%**	RMB'000	%
Smartphones	**21,232**	**5.4**	221,371	16.2
Smartphone component packs	**(1,274)**	**(11.1)**	440	28.2
Mobile device components	**(115)**	**(4.4)**	758	2.0
	19,843	**4.9**	222,569	15.8

Gross profit amounted to approximately RMB19.8 million for the year ended 31 December 2016, decreased by approximately RMB202.8 million or 91.1% from approximately RMB222.6 million for the year ended 31 December 2015. The gross profit ratio decreased by 10.9% from 15.8% for the year ended 31 December 2015 to 4.9% for the year ended 31 December 2016. The decline in gross profit ratio of smartphones was mainly attributable to (i) the increase in sales proportion of 4G products with lower gross profit margin; (ii) the negative gross profit margin of smartphone component packs and mobile device components was mainly due to the write down of inventories on a basis of management estimation.

Management Discussion and Analysis

Research and Development Costs

Research and development costs mainly include R&D staff costs (including salaries and allowances, staff welfare and other staff related expenses) and product test costs. Research and development costs amounted to approximately RMB9.5 million for the year ended 31 December 2016, decreased by approximately RMB9.1 million or 48.9% from RMB18.6 million for the year ended 31 December 2015. The decrease was mainly because (i) the product test costs for developing functionality and feasibility of the new design has declined due to less ODM smart phones sold for the year; and (ii) the number of staff decreased due to the downsizing of business for the year.

Selling and Distribution Expenses

Selling and distribution expenses mainly include sales staff costs and freight charges, office expenses, marketing expenses and others. Selling expenses amounted to approximately RMB10.7 million for the year ended 31 December 2016, decreased by approximately RMB7.7 million or 41.8% from approximately RMB18.4 million for the year ended 31 December 2015. The decrease was primarily due to (i) the decrease in freight charges and market expense as a result of the decreased sales; (ii) the increase in staff cost due to the impact of the vested restricted share unit(s) ("RSU" or "RSUs").

Administrative Expenses

Administrative expenses mainly include staff costs for administrative employees, audit fees and general office expenses. Administrative expenses amounted to approximately RMB24.6 million for the year ended 31 December 2016, increased by approximately RMB12.9 million or 110.3% from approximately RMB11.7 million for the year ended 31 December 2015. The increase was primarily due to the impact of the vested RSUs.

Other Income

Other income mainly consisted of the interest income of the structured deposits, pledged bank deposits and bank deposits which amounted to approximately RMB19.2 million for the year ended 31 December 2016.

Taxation

Income tax decreased by approximately RMB32.0 million or 89.9% to approximately RMB3.6 million for the year ended 31 December 2016 from approximately RMB35.6 million for the corresponding period in 2015. The decrease was mainly attributable to the decrease of profit before tax. Benywave Wireless was entitled to apply a preferential tax rate of 15%, while the Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5%.

Management Discussion and Analysis

Liquidity and Source of Funding

As at 31 December 2016, the Group's total cash and bank balances decreased by approximately RMB24.9 million from approximately RMB41.2 million as at 31 December 2015 to approximately RMB16.3 million. The variance of cash and bank balances for the period was due to net cash from investing activities, net cash used in operating activities and financing activities.

As at 31 December 2016, the current ratio (calculated based on the total current assets as of the respective dates divided by the total current liabilities as of the respective dates) of the Group was 2.5 as compared with 1.8 as at 31 December 2015.

Foreign Exchange Exposure

The Group undertakes certain operating transactions in foreign currencies and the bank balances of the proceeds from the global offering denominated in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

Material Acquisitions and Disposals

The Group has no material acquisitions and disposals for the year ended 31 December 2016.

Trade and other Receivables

Trade and other receivables are mainly included the trade receivables, advance to a major supplier and prepayments to suppliers. As at December 2016, the carrying amount of trade and other receivables are approximately RMB376.2 million which is net of allowance of trade receivables, representing a decrease of approximately RMB258.6 million.

In assessing the recoverability of trade receivables and determining the allowance for doubtful debts, the management considers the credit history including default or delay in payments, subsequent settlements and aging analysis of the trade receivables, on the basis of management estimation, the allowance of trade receivables is approximately RMB12.5 million as at December 2016. The amount of trade receivables over 60 days are approximately RMB99.0 million, which are past due but not provided for impairment loss.

Intangible Assets

As at 31 December 2016, the Group had a balance of approximately RMB44.9 million for intangible assets. In October 2016, the Group and Beijing Gu Li Technology Co., Ltd (the "Gu Li") entered into a software transfer agreement pursuant to which the Group acquired certain softwares for ROM business from Gu Li at a total consideration of approximately RMB45.7 million.

Management Discussion and Analysis

According to the business license of Gu Li, Ms. Rong's daughter Ms. Gao Han ("Ms. Gao") holds 70% equity interest in Gu Li. However, the directors are of the opinion that Gu Li is not a related party of the Group because Ms. Gao holds the said 70% equity interest in Gu Li as trustee of an independent third party since December 2015 in accordance with a declaration of trust entered into between Ms. Gao and that independent third party.

The software technology is amortised over 10 years.

Inventories

As at 31 December 2016, the Group's total inventories decreased by approximately RMB96.8 million from RMB124.2 million (net of allowance RMB3.7 million) as at 31 December 2015 to RMB27.4 million (net of allowance RMB14.3 million). In determining the write down of inventories, the management considered the recent or subsequent selling prices and aging information of inventories.

Contingent Liabilities and Commitments

As at 31 December 2016, the Group had commitments, which amounted to approximately RMB1.9 million, for future minimum lease payments under non-cancellable operating leases. The operating lease payments commitments represent rental payable by the Group for offices and equipment rental. The lease was negotiated for lease terms of one to two year. Monthly rental was fixed for certain lease.

Continuing Connected Transactions

Pursuant to an equipment lease agreement made between Benywave Technology and Benywave Wireless, Benywave Technology has let certain equipment and facilities to Benywave Wireless for handset testing purpose. Amounting to RMB69,931 equipment rental expenses were incurred by Benywave Wireless for the year ended 31 December 2016.

Pursuant to a lease agreement made between Beijing Tianyu Communication Equipment Co., Ltd. ("Tianyu") and Benywave Wireless, Tianyu has let the premises situated at Zone A, 4th Floor, No. 55, Jiachuang Second Road, Zhongguancun Science Park, OPTO-Merchatronics Industrial Park, Tongzhou District, Beijing, China to Benywave Wireless for carrying on its business. Amounting to RMB764,331 rental expenses were incurred by Benywave Wireless for the year ended 31 December 2016.

Related Party Transactions

Pursuant to a service agreement made between Henan Ketai Lexun Communication Equipment Industry Park Co. Ltd ("Ketai") and Benywave Wireless, Ketai provided declaring and export tax refund service to Benywave Wireless for the oversea sales. Amounting to RMB422,000 service expenses were incurred by Benywave Wireless for the year ended 31 December 2016.

Pursuant to a purchase contract made between Ketai and Benywave Wireless, Benywave Wireless purchased goods from Ketai which amounted to RMB1,463,000.

Management Discussion and Analysis

Dividend

On 23 March 2016, the Board recommended that subject to the Shareholders' approval in the annual general meeting of the Company, the Company shall declare and distribute a 2015 final dividend of HK5.055 cents per share amounted to HKD42,970,000 to those Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 31 May 2016.

Subsequent to the end of the reporting period, final dividend of HKD17,000,000 (approximated to RMB15,082,000) in respect of the year ended 31 December 2016 is proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Directors and Senior Management Profiles

1. **Ms. Rong Xiuli**

Executive Director and Chairperson

Ms. Rong Xiuli ("Ms. Rong"), aged 53, is a chairperson of the Company, executive Director and a member of the remuneration committee, nomination committee and risk management committee of the Company. Ms. Rong is the founder of the Group and is currently the chairperson of the Group. She gained experience and network in the mobile handset distribution business in the mid 1990s. She worked for 北京市百利豐通訊器材有限責任公司(Beijing City Bailifeng Communication Apparatus Co., Ltd.*) which engaged in the sale and agency service of mobile phones and became the chairperson of this company until 2005. Ms. Rong also co-founded 北京天宇朗通通信設備股份有限公司(Beijing Tianyu Communication Equipment Co. Ltd.*) ("Tianyu") with Mr. Ni Gang in 2002. She was responsible for sales and marketing, research and development, strategic planning and general management of Tianyu from 2002 to 2008. Ms. Rong was also a director of 北京百納威爾科技有限公司(Beijing Benywave Technology Co., Ltd.*) ("Benywave Technology") since its establishment in 2004 and the chairperson of Benywave Technology from 2008 to 2014. Ms. Rong has ample experience in sales and marketing, distribution, research and development, risk management, personnel and general management. Ms. Rong has approximately 20 years of experience in mobile handset industry. Ms. Rong has extensive knowledge on telecommunications operations and control and deep understanding of the dynamic of telecommunications market in China. Ms. Rong graduated from Hunan University (湖南大學) with a degree in mechanical engineering specialized in internal combustion engine in 1983. Ms. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) (previously known as China-Europe Management Institute (中歐國際管理中心)) in 1993. Ms. Rong is a sister of Mr. Rong Shengli, chief executive officer and executive Director of the Company.

* *for identification purposes only*

Directors and Senior Management Profiles

2. **Mr. Rong Shengli**

Executive Director and Chief Executive Officer

Mr. Rong Shengli ("Mr. Rong"), aged 46, is a chief executive officer of the Company, executive Director and a member of the risk management committee of the Company and is responsible for the management and strategic development of the Group. Mr. Rong joined Benywave Technology in 2008 and was the vice chairman of Benywave Technology from October 2008 to July 2014, where he was responsible for the sales and the strategic planning for its business of development, designing, production management and selling of mobile telecommunication devices on ODM basis and its related components and accessories, targeting global markets excluding the People's Republic of China ("PRC"). Prior to joining Benywave Technology, Mr. Rong served as marketing manager, regional director and general manager of operational business department of Tianyu and its subsidiaries from 2000 to 2008. Mr. Rong did not have any role in Tianyu since 2008. Mr. Rong has over 16 years of experience in telecommunications industry and management. Mr. Rong obtained a bachelor's degree from Harbin Engineering University (哈爾濱工程大學) (previously known as Harbin Shipbuilding Engineering Institute (哈爾濱船舶工程學院)) specialized in radio communications in 1992. Mr. Rong also obtained a master of business administration from China-Europe International Business School (中歐國際工商學院) in 1997. Mr. Rong is a brother of Ms. Rong, chairperson and executive Director of the Company.

Mr. Rong was one of the shareholders and a director of 北京榮鑫盛達文化發展有限公司 (Beijing Rongxin Shengda Cultural Development Co. Ltd.*), a domestic enterprise formed under the laws of PRC in 2011 which carried on, among other things, the business of organizing cultural events, undertaking exhibitions and sale of artworks. The business license of this company was revoked in 2013 as an administrative sanction because it did not attend the annual examination in 2012. According to Mr. Rong, this company has ceased to carry on business shortly after its formation due to ill health of his business partner who was responsible for daily operations of this company, and due to inadvertence on the part of the management of this company, the annual examination of this company was overlooked, leading to the revocation of the business license. Mr. Rong confirmed that this company was solvent at the time when it was revoked. After considering that the revocation was due to inadvertent oversight, and that it was an isolated incident which did not involve any fraud or dishonesty, the Directors are of the view that Mr. Rong has the character, experience, integrity and the level of competence required of a director under Rules 3.08 and 3.09 of the Listing Rules.

* *for identification purposes only*

Directors and Senior Management Profiles

3. **Mr. Tang Shun Lam**

   Executive Director

   Mr. Tang Shun Lam ("Mr. Tang"), aged 61, was the non-executive Director and was re-designated as the executive Director on 19 March 2016. He worked for Warburg Pincus LLC as a consultant from January 2007 to January 2016. Mr. Tang worked for RDA Microelectronics, Inc., a company listed on NASDAQ Stock Market, from 2010 to January 2015 first as a senior vice president of operations and subsequently as a director and executive chairman. From 1999 to 2007, Mr. Tang was the president, Asia Pacific for Viasystems Group, Inc., a company listed on NASDAQ Stock Market. Mr. Tang was also a non-executive director and the chairman of the Board of China Eco-Farming Limited (formerly known as Linefan Technology Holdings Limited) (the shares of which are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), stock code: 8166) from 2008 to 2009 and an independent non-executive director of Asia Coal Limited (formerly known as Wanji Pharmaceutical Holdings Limited) (the shares of which are listed on the Main Board ("Main Board") of the Stock Exchange, stock code: 835) from 2003 to 2005. He was the chief executive officer and a director of Coolsand Holdings Co., Ltd. from 2008 to 2012. Mr. Tang has been appointed as an independent non-executive director of Greenheart Group Limited (the shares of which are listed on the Main Board, stock code: 94) with effect from 2 July 2015. He received a bachelor of science degree in electrical and electronics engineering from Nottingham University in England in 1979 and a master of business administration from Bradford University in England in 1981.

4. **Mr. Hon Kwok Ping, Lawrence**

   Independent Non-executive Director

   Mr. Hon Kwok Ping, Lawrence ("Mr. Hon"), aged 68, is an independent non-executive Director, a member of the audit committee, remuneration committee and nomination committee and chairman of the risk management committee of the Company. Mr. Hon has over 30 years' experience in the accounting and finance as well as business operations. Since mid 1980's he has been serving local and international companies in senior positions such as CEO, CFO, president & vice president as well as chief accountant and company secretary and other positions. In January 2004 Mr. Hon joined Courage Marine Group Limited (the shares of which are listed on the Main Board, stock code: 1145) and he is currently the director of finance and the joint company secretaries. He is a CPA with fellow membership of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants, UK.

Directors and Senior Management Profiles

5. **Mr. Lam Yiu Kin**

Independent Non-executive Director

Mr. Lam Yiu Kin ("Mr. Lam"), aged 62, is an independent non-executive Director, chairman of the audit committee and a member of the remuneration committee and nomination committee of the Company. Mr. Lam was the audit partner of PricewaterhouseCoopers from 1993 to 2013. Mr. Lam has been the independent non-executive director of (i) Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the shares of which are listed on the Main Board, stock code: 1349) since 2013; (ii) Spring Real Estate Investment Trust (the units of which are listed on the Main Board, stock code: 1426); (iii) Global Digital Creations Holdings Limited (the shares of which are listed on the GEM, stock code: 8271); (iv) Shougang Concord Century Holdings Limited (the shares of which are listed on the Main Board, stock code: 103); (v) Mason Financial Holdings Limited (the shares of which are listed on the Main Board, stock code: 273); (vi) COSCO SHIPPING Ports Limited (formerly known as "COSCO Pacific Limited") (the shares of which are listed on the Main Board, stock code: 1199) since 2015; and (vii) Nine Dragons Paper (Holdings) Limited (the shares of which are listed on the Main Board, stock code: 2689) with effect from 3 March 2016 and (viii) WWPKG Holdings Company Limited (the shares of which are listed on the GEM, stock code: 8069) with effect from 16 December 2016. Mr. Lam was the independent non-executive director of Kate China Holdings Limited (the shares of which are listed on the GEM, stock code: 8125) from 2014 to 2015. Mr. Lam has over 40 years of experience in accounting, auditing and business consulting. Mr. Lam is a fellow member of HKICPA, the Association of Chartered Certified Accountants, the Chartered Accountants of Australia and New Zealand and the Institute of Chartered Accountants in England & Wales. Mr. Lam was an adjunct professor in the School of Accounting and Finance of The Hong Kong Polytechnic University from 2014 to 2016, and a member of the finance management committee of the Hong Kong Management Association until July 2016. Mr. Lam obtained a higher diploma in accountancy from The Hong Kong Polytechnic University in 1975 and was conferred an Honorary Fellow by The Hong Kong Polytechnic University in 2002.

Directors and Senior Management Profiles

6. **Mr. Tsang Yat Kiang**

Independent Non-executive Director

Mr. Tsang Yat Kiang ("Mr. Tsang"), aged 68, is an independent non-executive Director, a member of the audit committee and chairman of the remuneration committee and nomination committee of the Company. Mr. Tsang has been appointed as a director of several companies in PRC and Hong Kong since 1993. Mr. Tsang is a founding member of the group of Lerado Financial Group Company Limited (formerly known as Lerado Group (Holding) Company Limited)(the shares of which are listed on the Main Board, stock code: 1225), where he was the vice chairman from 1998 to 2003. Mr. Tsang has been the director of 中山市高兒萊茵日用制品有限公司 (Zhongshan Chloe Ryan Industrial Co., Ltd.*) since 2006, where he is responsible for strategic and financial planning and business development. Mr. Tsang has more than 20 years of experience in corporate governance and management.

7. **Mr. Lam Man Kit**

Chief Financial Officer

Mr. Lam Man Kit ("Mr. Lam"), aged 60, has over 38 years of experience in financial management, accounting and corporate finance. Since 1980's Mr. Lam has been serving local and international companies in senior positions such as chief financial officer, consultant, financial controller, regional controller, cost accounting manager and other positions. Prior to joining the Company, Mr. Lam was the chief financial officer of the group of Draper Athena from July 2015 to May 2016, where he was responsible for financial functions for the fund and management companies located in People's Republic of China, the United States of America, Korea and Hong Kong. Before that, he was the chief financial officer of Coolsand Technologies Limited from 2009 to 2015; he was a consultant of Yeton Venture Limited from 2008 to 2009; he was the executive director and chief financial officer of Wanji Group Limited from 2001 to 2007; he worked as financial controller in Whirlpool Home Appliance Co. Ltd. from 1995 to 2001; he worked as regional controller in Amphenol East Asia Limited from 1986 to 1995; and he also worked for Fairchild Semiconductor (HK) Ltd. from 1978 to 1986 first as accountant and subsequently as cost accounting manager. Mr. Lam obtained a diploma in accounting and business management from Hong Kong Baptist University in 1978.

* *for identification purposes only*

Report of the Directors

The director of the Company (the "Directors") present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in Cayman Islands. The principal place of business of the Company is in Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development, possible risks and uncertainties that the Group may be facing are provided in the Chairman's Statement on pages 5 to 7 and Management Discussion and Analysis on pages 8 to 20 of this Annual Report.

The financial risk management objectives and policies of the Group are shown in note 6 to the financial statements.

An analysis of the Group's performance during the year using key financial performance indicators is provided on page 4 of this Annual Report.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 59 of this annual report.

The Board is pleased to recommend the payment of a final dividend of HK2.000 cents (2015: HK5.055 cents) per share, totalling HKD17,000,000 (approximated to RMB15,082,000) which is expected to be paid on Monday, 19 June 2017 to its shareholders whose names appear on the register of members at the close of business on Monday, 5 June 2017 subject to the final approval in the annual general meeting to be held on Thursday, 25 May 2017.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report. This summary does not form part of the audited financial statements.

EQUIPMENT

Details of movements in the electronic and office equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements of the share capital of the Company during the year ended 31 December 2016 are set out in note 29 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company's share option scheme was adopted on 9 June 2015 as an incentive to the Group's employees and business associates (the "Scheme"). Subject to the provisions for early termination of the Scheme, the Scheme shall be valid for a period of ten years from that date. The following is a summary of the principal terms of the Scheme:

(a) Purpose of the Scheme

The purpose of the Scheme is to provide incentives or rewards to the participants for their contribution to the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the board of the Company may at its absolute discretion grant options to any eligible employee, non-executive Director, supplier of goods or services, customer, person or entity that provides research, development or other technological support, shareholder or holder of any securities issued by the Group or any invested entity.

(c) Total number of shares available for issue under the Scheme

The total number of shares available for issue under the Scheme is 85,000,000 Shares.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue from time to time.

(d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including those exercised, outstanding and cancelled options) in any 12-month period must not exceed 1% of the total number of shares of the Company in issue, unless approved by the shareholders of the Company in the manner as stipulated in the Scheme.

Report of the Directors

(e) Time of exercise of options

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each option grantee, which period may commence on the day on which the option offer is made but shall end in any event not later than 10 years from the offer date subject to the provisions for early termination thereof. Unless the Directors otherwise determined and stated in the option offer to a participant of the Scheme, no minimum period for which the option granted under the Scheme must be held before it can be exercised.

(f) Subscription price per share

The subscription price per share in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the making of the option offer but in any case the subscription price shall not be lower than the highest of:

i. the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the option offer date, which must be a trading day;

ii. the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the offer date; and

iii. the nominal value of a share of the Company.

(g) Payment on acceptance of option

A non-refundable sum of HK$1.00 by way of consideration for the grant of an option is required to be paid by each of the grantee upon acceptance of the option.

(h) Remaining life of the Scheme

Subject to the provisions for early termination of the Scheme, the Scheme will remain in force for a period of 10 years commencing on 9 June 2015.

As at the date of this report, no option had been granted by the Company.

RESTRICTED SHARE UNIT SCHEME

The Company adopted Restricted Share Unit Scheme (the "RSU Scheme") on 9 June 2015. Details of the RSU Scheme are set out in the section headed "Statutory and General Information – D. RSU Scheme" in Appendix IV to the prospectus of the Company dated 16 June 2015.

GRANT OF RESTRICTED SHARE UNITS

Pursuant to the announcement dated on 2 November 2016, the Company has granted 32,300,000 RSUs to the grantees (the "Grantees"), subject to the acceptance of the Grantees. Details of the RSUs granted to the Grantees are as follows:

Date of grant	Vesting date	Number of RSUs granted	Number of underlying Shares involved
2 November 2016	2 November 2016	10,766,655	10,766,655
2 November 2016	2 November 2017	10,766,655	10,766,655
2 November 2016	2 November 2018	10,766,690	10,766,690
Total		32,300,000	32,300,000

An award of RSUs under the RSU Scheme gives the respective Grantees a conditional right when the granted RSUs vests to obtain either ordinary shares of HK$0.10 each in the Company (the "Shares") or an equivalent value in cash with reference to the value of the Shares on or about the date of vesting, as determined by the Board in its sole discretion.

Report of the Directors

CONNECTED GRANTEES

An aggregate of 32,300,000 RSUs were granted to the Grantees, of which 8,050,000 RSUs in aggregate were granted to five Directors (the "Connected Grantees") who are the connected persons of the Company pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), and 24,250,000 RSUs were granted to the remaining Grantees who are not Directors, chief executive, or substantial shareholder of the Company or its subsidiaries, nor an associate (as defined in the Listing Rules) of any of them. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the remaining Grantees are third parties independent of the Company and its connected persons. Details of the RSUs granted to the Connected Grantees are as follows:

Name of Connected Grantees	Position	Number of RSUs granted
Mr. Rong Shengli	Chief executive officer and executive Director	3,720,000
Mr. Tang Shun Lam	Executive Director	3,400,000
Mr. Lam Yiu Kin	Independent non-executive Director	310,000
Mr. Hon Kwok Ping Lawrence	Independent non-executive Director	310,000
Mr. Tsang Yat Kiang	Independent non-executive Director	310,000

In accordance with the RSU Scheme, the grants of the RSUs to the above Directors have been approved by all the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of such RSUs).

Each of the Connected Grantees has declared his interest in the grants of the RSUs to himself and abstained from voting on the relevant board resolutions in relation thereto.

Under the RSU Scheme, the maximum number of Shares underlying RSUs permitted to be granted shall not exceed 32,300,000 Shares (excluding Shares underlying RSUs that have lapsed or been cancelled in accordance with the RSU Scheme) (the "RSU Limit"). Consequently, RSUs have been granted up to the full RSU Limit.

REASONS FOR AND BENEFITS OF THE GRANT OF RESTRICTED SHARE UNITS

The purposes of RSU Scheme are (i) to recognize the contributions of the RSU grantees to the Company and its subsidiaries (together, the "Group") or its business; (ii) to give incentives to the RSU grantees in order to retain them for the continual operation and development of the Group; and (iii) to attract suitable personnel for the development of the Group. An aggregate of 32,300,000 RSUs were granted to the Grantees since the Grantees have made valuable contributions to the Group which should be recognized and (where applicable) should be provided with incentives for their continuing contribution to the Group.

In respect of the grant of RSUs to the Grantees (including Connected Grantees), the independent non-executive Directors, having considered the aforesaid reasons, are of the view that the grant of RSUs to the Grantees (including Connected Grantees) are transactions entered into on normal commercial teams, which are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB851 million.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the Group's top five largest customers accounted for 94.7% (2015: 64.9%) of our revenues and the single largest customer accounted for 56.5% (2015: 22.2%) of our revenues. The Group's top five suppliers accounted for 72.3% (2015: 51.0%) of our cost of revenue and the single largest supplier accounted for 37.8% (2015: 23.0%) of our cost of revenue.

Save as disclosed above, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers.

RELATED PARTY TRANSACTIONS

The Group entered into certain transactions with parties regarded as "Related Parties" under applicable accounting principles. These mainly relate to contracts entered into by the Group in the ordinary course of business, which contracts were negotiated on normal commercial terms and on an arm's length basis.

Further details are set out in note 33 to the financial statements. Some of these transactions also constituted "Continuing Connected Transactions" under the Listing Rules, as identified below.

CONTINUING CONNECTED TRANSACTIONS

Save as disclosed herein, during the year ended 31 December 2016, the Group entered into a number of transactions with entities which will be regarded as connected parties of the Company under Chapter 14A of the Listing Rules.

The annual cap of the rental fees for the year ended 31 December 2016 include:

i. the lease agreement with 北京天宇朗通通信設備股份有限公司 (Beijing Tianyu Communication Equipment Co., Ltd.*) ("Tianyu") as lessor and 北京百納威爾無線通信設備有限公司 (Beijing Benywave Wireless Communication Co., Ltd.*) ("Benywave Wireless") as lessee dated 22 July 2014 is RMB764,331; and

ii. the equipment lease agreement with 北京百納威爾科技有限公司 (Beijing Benywave Technology Co., Ltd.*) ("Benywave Technology") as lessor and Benywave Wireless as lessee dated 20 August 2014 is RMB69,931.

The Board, including the independent non-executive Directors, has reviewed and confirmed that the fees were:

i. in the ordinary course of business of the Group;

ii. either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third party; and

iii in accordance with the terms of the lease agreements that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

* *for identification purposes only.*

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors

Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive office)*
Mr. Tang Shun Lam (re-designated on 19 March 2016)

Independent Non-executive Directors

Mr. Hon Kwok Ping, Lawrence
Mr. Lam Yiu Kin
Mr. Tsang Yat Kiang

Pursuant to Article 84(1) of the Company's Articles of Association, one-third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at an annual general meeting at least once every three years. Ms. Rong Xiuli and Mr. Tsang Yat Kiang shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 21 to 25 of this annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers all of the Independent Non-executive Directors are independent.

DIRECTORS' SERVICE CONTRACTS

No Director has entered into any service agreements with any members of the Group excluding contracts expiring or determinable by the employee within one year without payment of compensation other than statutory compensation.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director, other officer and auditor for the time being of the Company shall be entitled to be indemnified out of assets of the Company against all losses or liabilities incurred or sustained by him as a Director, other officer or auditors of the Company about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate Directors' and Officers' liability insurance coverage for the Directors and officers of the Group.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions

Ordinary shares of HK$0.1 each of the Company (the "Shares")

(i) Interest in the Company

Name of Director	Nature of interest	Number of and class of securities [(1)]	Approximate percentage of issued share capital of the Company [(3)]
Rong Xiuli ("Ms. Rong")[(2)]	Interest in a controlled corporation Personal interest	568,480,000 (L)	66.88%
Rong Shengli	Personal interest	3,720,000 (L)	0.44%
Tang Shun Lam	Personal interest	3,400,000 (L)	0.40%
Hon Kwok Ping Lawrence	Personal interest	310,000 (L)	0.04%
Lam Yiu Kin	Personal interest	310,000 (L)	0.04%
Tsang Yat Kiang	Personal interest	310,000 (L)	0.04%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni Gang ("Mr. Ni") hold 90% and 10% of the entire issued share capital of Winmate Limited ("Winmate") respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong is deemed to be interested in the Shares held by Winmate.

(3) As at 31 December 2016, the issued share capital was 850,000,000 Shares.

(ii) Interest in associated corporation of the Company

Name of Director	Name of associated corporation	Percentage of interest in associated corporation
Ms. Rong (Note)	Winmate Limited	90%

Note: As at 31 December 2016, Winmate held more than 50% of the Shares. Therefore, the Company was a subsidiary of Winmate, and Winmate was the holding company and an associated corporation of the Company.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, as far as known to the Directors, the following persons or entities (not being a Director or a chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Report of the Directors

Long positions

Ordinary shares of HK$0.1 each of the Company

Name of Shareholder	Nature of interest	Number of and class of securities (1)	Approximate percentage of issued share capital of the Company (5)
Winmate	Beneficial owner	480,624,000 (L)	56.54%
Ms. Rong (2)	Interest in a controlled corporation	568,480,000 (L)	66.88%
Mr. Ni (2)	Interest in a controlled corporation	568,480,000 (L)	66.88%
	Spouse of Ms. Rong		
Yardley Finance Limited (3)	Person having a security interest in shares	278,480,000 (L)	32.76%
Mr. Chan Kin Sun (4)	Interest in a controlled corporation	278,480,000 (L)	32.76%

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Ms. Rong and Mr. Ni hold 90% and 10% of the entire issued share capital of Winmate respectively. Ms. Rong is the spouse of Mr. Ni, and therefore, Ms. Rong and Mr. Ni are deemed to be interested in the Shares held by Winmate.

(3) Yardley Finance Limited("Yardley") is deemed to be interested in 278,480,000 Shares of which 225,624,000 shares were charged by Winmate on 13 December 2016.

(4) Yardley is owned by Mr. Chan Kin Sun. Therefore, Mr. Chan Kin Sun is deemed to be interested in the Shares held by Yardley.

(5) As at 31 December 2016, the issued share capital was 850,000,000 Shares.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any person (other than Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPETING INTERESTS

As at 31 December 2016, in so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business that competed or was likely to compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro – rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

EMOLUMENT POLICY

The emolument package of the Directors and senior management of the Group is reviewed and recommended by the Remuneration Committee on the basis of their merit, qualifications and competence.

The Company has adopted a share option scheme and restricted share unit scheme to the eligible persons as incentives or rewards for their contribution to the Group.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the group as at 31 December 2016 are set out in note 27 to the financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors of the Company and the five highest paid individuals of the Group during the year ended 31 December 2016 are set out in notes 12 and 13 to the consolidated financial statements.

Report of the Directors

RETIREMENT SCHEME

The Group participates in defined contribution retirement benefit schemes organized by the PRC municipal and provincial government authorities for the Group's eligible employee in the PRC, and operates a Mandatory Provident Fund scheme for the employee in Hong Kong. Particulars of these retirement plans are set out in note 32 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Details of the corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" on pages 40 to 52 of this annual report.

CHARITABLE DONATIONS

The Group does not make charitable donations in the year 2016. (2015: HK$1 million)

CHANGES IN INFORMATION OF DIRECTORS

The change of Director's information as required to be disclosed pursuant to Rule 13.51B of the Listing Rules are set out below:

1. Mr. Tang Shun Lam, previously a non-executive director of the Company, has been re-designated as an executive director of the Company with effect from 19 March 2016; and

2. Mr. Lam Yiu Kin has been appointed as an independent non-executive director of (i) Nine Dragons Paper (Holdings) Limited (stock code: 2689) with effect from 3 March 2016; and (ii) WWPKG Holdings Company Limited (stock code: 8069) with effect from 16 December 2016.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules. The current audit committee comprises of Mr. Lam Yiu Kin (chairman), Mr. Tsang Yat Kiang and Mr. Hon Kwok Ping, Lawrence, all of whom are independent non-executive Directors.

The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control system of the Group, and to review the Company's annual report and half-yearly reports and to provide advices and comments thereon to the Board.

The audit committee has reviewed the Group's annual results for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group.

AUDITORS

The financial statements for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu who will retire and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution will be submitted to the forthcoming annual general meeting of the Company for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the board

Rong Xiuli
Chairperson

Hong Kong, 29 March 2017

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board (the "Board") of directors (the "Directors") of the Company is committed to maintaining a solid, transparent and sensible framework of corporate governance for the Company and its subsidiaries and will continue to review its effectiveness.

The Company has adopted the Code Provisions ("Code Provisions") as stated in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as the Corporate Governance Code of the Company. The Board is committed to complying with the Code Provisions as stated in the CG Code to the extent that the Directors of the Company consider it is applicable and practical to the Company.

During the year under review, the Company has complied with the Code Provisions in the CG Code, except for the following deviation:

– Pursuant to Code Provisions A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given. Although the official regular board meeting notices are sent to directors shorter than the specific period (i.e. 14 days' notice), the Board has consistently agreed that those regular board meetings will be held regularly and short notice is acceptable. The Board believes that there has been sufficient time for Directors to study the materials.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2016.

Corporate Governance Report

BOARD OF DIRECTORS

As at 31 December 2016, the Board comprises three Executive Directors and three Independent Non-executive Directors. The Directors were:

Executive Directors
Ms. Rong Xiuli *(Chairperson)*
Mr. Rong Shengli *(Chief executive officer)*
Mr. Tang Shun Lam (re-designated on 19 March 2016)

Independent Non-executive Directors
Mr. Hon Kwok Ping, Lawrence
Mr. Lam Yiu Kin
Mr. Tsang Yat Kiang

The Board possesses a balanced mix of skills and expertise which supports the continuing development of the Company. The Executive Directors have accumulated sufficient and valuable experience to hold their positions in order to ensure that their fiduciary duties have been carried out in an efficient and effective manner. The Board is responsible for setting the Group's strategic direction and overseeing the business performance of the Group while business operations are delegated to qualified management under the supervision of the Executive Directors. The Board also monitors the financial performance and the internal controls of the Group's business operations. The senior management is responsible for the day-to-day operations of the Group.

Biographical details of the Directors are set out in the section of "Directors and Senior Management Profiles" on pages 21 to 25 of this annual report. To the best knowledge of the Company, there is no other financial, business, family or other material/relevant relationship among the Directors.

Chairman and Chief Executive Officer

According to the Code Provisions A.2.1 of the CG Code, the roles of the Chairperson, Ms. Rong Xiuli and the Chief Executive Officer (the "CEO"), Mr. Rong Shengli are segregated in order to reinforce their independence and accountability.

There are clear demarcations of responsibility and authority between the Chairperson and the CEO which ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. Ms. Rong Xiuli is mainly responsible for providing guidance and supervision regarding the business and operations of the Company while Mr. Rong Shengli is responsible for the overall management of the Company's business operations.

Corporate Governance Report

Board Diversity

The Board has adopted the Board Diversity Policy. The Company maintains that Board appointment should be based on merit that complements and expands the skills, experience and expertise of the Board as a whole, taking into account gender, age, professional experience and qualifications, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving a diverse Board.

Independent Non-executive Directors

Independent Non-executive Directors are responsible to scrutinise the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the Board authority is within the powers conferred to the Board under the Company's Articles of Association, applicable laws, rules and regulations.

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Confirmation of Independence

The Board considers that all of the Independent Non-executive Directors are independent. All of the Independent Non-executive Directors have signed their respective confirmation letters to the Company confirming their independence as set out in Rule 3.13 of the Listing Rules.

ROLES AND FUNCTIONS OF THE BOARD AND THE MANAGEMENT

The Board assumes responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs. The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group, dividend policy and risk management strategies. The management are delegated the authorities and responsibilities by the Board for the day-to-day management and operation of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Pursuant to Articles 84(1) and 84(2) of the Company's Articles of Association, one-third of the Directors for the time being shall retire by rotation at each annual general meeting of the Company at least once every three years. All retiring Director shall be eligible for re-election.

Code Provisions A.4.1 of CG Code states that Non-executive directors should be appointed for a specific term, subject to re-election.

Code Provisions A.4.2 of CG Code also states that every director, including those appointed for a specific term, shall be subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company. Each of the Directors of the Company has been appointed for a specific term of 3 years and should be subject to retirement by rotation once every three years. Their appointments would be reviewed when they were due for re-election.

BOARD MEETINGS

The Board holds at least four regular meetings a year which are normally scheduled at the beginning of the year. Directors may approve various matters by way of passing written resolutions. The Board may also meet on other occasions when a board-level decision on a particular matter is required. In addition, at least 14 days' notice of a regular Board meeting shall be given and the Company aims at sending the agenda and the accompanying board papers to Directors at a reasonable time before the intended date of Board meeting.

During the year ended 31 December 2016, the attendance records of the Directors to the board meetings are set out below:

Name of Directors	**No. of meeting attended/ No. of meetings held**
Executive Directors	
Ms. Rong Xiuli	4/5
Mr. Rong Shengli	5/5
Mr. Tang Shun Lam	5/5
Independent Non-Executive Directors	
Mr. Hon Kwok Ping, Lawrence	5/5
Mr. Lam Yiu Kin	5/5
Mr. Tsang Yat Kiang	5/5

Corporate Governance Report

COMPANY SECRETARY

The Company's secretarial functions are outsourced to external service provider. Pursuant to paragraph N(a) of the CG Code, the primary contact person at the Company is Mr. Lam Man Kit, the Chief Financial Officer of the Company. All Directors may access to the advice and services of the Company Secretary. The Company Secretary regularly updates the Board on governance and regulatory matters.

The Board is fully involved in selection, appointment and dismissal of the Company Secretary. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the Board meetings.

As at 31 December 2016, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

ACCESS TO INFORMATION

All Directors are kept informed on a timely basis of major changes that may have affected the Group's business, including relevant rules and regulations and are able to make further enquiries when necessary. Sufficient explanation and information have been provided to the Board to enable the Board to make an informed assessment of financial and other information put before it for approval. They also have unrestricted access to the advices and services of the Company Secretary, who is responsible for providing the Directors with board papers and related materials. The Board has also agreed that the Directors may seek independent professional advice in performing their Directors' duties at the Company's expenses.

DIRECTORS INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

All of the Directors have been given an induction after their appointment so as to ensure that they have appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

The Company provides regular updates on the business performance of the Group to the Directors. The Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Continuing briefings and professional development to Directors will be arranged whenever necessary.

The Company has maintained a training record in order to assist the Directors to record the training that they have undertaken.

During the year ended 31 December 2016, each individual Director has attended training courses or workshops or reading materials relevant to his/her professional and/or duties as Director. A summary is as follows:

Name of Director	Reading materials regarding regulatory updates and corporate governance matters	Attending seminars and/or conferences and/or briefings
Executive Directors		
Ms. Rong Xiuli	✔	✔
Mr. Rong Shengli	✔	✔
Mr. Tang Shun Lam	✔	✔
Independent Non-executive Directors		
Mr. Hon Kwok Ping, Lawrence	✔	✔
Mr. Lam Yiu Kin	✔	✔
Mr. Tsang Yat Kiang	✔	✔

All Directors also understand the importance of continuous professional development and they are committed to participating any suitable training and/or reading relevant materials to develop and refresh their knowledge and skills.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTION

The Audit Committee is responsible for performing the corporate governance duties as set out below:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to directors and employees of the Company; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the executive of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

BOARD COMMITTEES

The Board has established four committees with specific responsibilities as described below. The terms of reference of the remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee"), audit committee (the "Audit Committee") and risk management committee (the "Risk Management Committee") of the Company are posted on the websites of the Company and the Stock Exchange.

REMUNERATION COMMITTEE

As at 31 December 2016, the Remuneration Committee comprises Independent Non-executive Directors, Mr. Tsang Yat Kiang as the chairman, Mr. Hon Kwok Ping, Lawrence and Mr. Lam Yiu Kin and an Executive Director, Ms. Rong Xiuli as members. The majority of the members of the Remuneration Committee are Independent Non-executive Directors.

It is responsible for reviewing and recommending all elements of the remuneration covering the Directors and senior management of the Company. No individual Director is involved in decisions relating to his/her own remuneration. The Remuneration Committee has adopted the model under Code Provisions B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Directors and senior management. Meeting of the Remuneration Committee is held at least once a year.

As at 31 December 2016, there was one meeting held by the Remuneration Committee to review and discuss the proposal in relation to the grant of shares to certain grantees of the Group under the restricted share unit scheme; and three written resolutions were passed by the Remuneration Committee in relation to (i) approve the grant of awards of restricted share unit, (ii) determine the remuneration package of Mr. Lam Man Kit, Chief Financial Officer, and (iii) re-designation of Mr. Tang Shun Lam.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2016 are disclosed in note 12 and note 33 to the consolidated financial statements.

Attendance of the Remuneration Committee during the relevant period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Mr. Tsang Yat Kiang *(Chairman)*	1/1
Mr. Hon Kwok Ping, Lawrence	1/1
Mr. Lam Yiu Kin	1/1
Ms. Rong Xiuli	1/1

NOMINATION COMMITTEE

As at 31 December 2016, the Nomination Committee comprises Independent Non-executive Directors, Mr. Tsang Yat Kiang as the chairman, Mr. Hon Kwok Ping, Lawrence and Mr. Lam Yiu Kin and an Executive Director, Ms. Rong Xiuli as members. The majority of the members of the Nomination Committee are Independent Non-executive Directors.

It is responsible for reviewing the Board composition and identifying and nominating candidates for appointment to the Board such that it has the required blend of skills, knowledge and experience. Pursuant to the terms of reference, the Nomination Committee shall hold meetings when necessary and may also deal with matters by way of circulation of written resolutions.

During the year ended 31 December 2016, no Nomination Committee meeting was held while the committee dealt with matters by way of circulation of written resolutions. The Nomination Committee had passed written resolutions to (i) review of the structure, size and diversity of the Board; (ii) assessment and confirmation of the independence of the INEDs; (iii) consider the re-appointment of retiring directors at the annual general meeting of the Company; (iv) review and approve the board diversity policy of the Company; and (v) propose the re-designation of Mr. Tang Shun Lam from Non-executive director to Executive director.

Corporate Governance Report

AUDIT COMMITTEE

As at 31 December 2016, the Audit Committee comprises three Independent Non-executive Directors, Mr. Lam Yiu Kin as the chairman, Mr. Tsang Yat Kiang and Mr. Hon Kwok Ping, Lawrence as members. The Audit Committee is responsible for reviewing the Group's financial statements, overseeing the Group's financial reporting and internal control procedures, and making recommendations to the Board. None of the members of the Audit Committee is a member of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code. Meetings of the Audit Committee are held at least twice a year.

The Audit Committee has access to and maintains an independent communication with the external auditors and the management to ensure effective information exchange on all relevant financial accounting matters. As at 31 December 2016, there were three meetings held by the Audit Committee to (i) review and discuss the key audit matters, unaudited third quarterly results of 2016 and 2017 business forecast and annual results audit planning; (ii) review and discuss with the auditor the unaudited financial statements for the six months ended 30 June 2016, and (iii) re-appointment of Deloitte as auditor.

The chairman of the Audit Committee, Mr. Lam Yiu Kin, possesses appropriate professional qualification in accounting and meets the requirements of Rule 3.21 of the Listing Rules.

Attendance of the Audit Committee during the relevant period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Mr. Lam Yiu Kin *(Chairman)*	3/3
Mr. Tsang Yat Kiang	3/3
Mr. Hon Kwok Ping, Lawrence	3/3

RISK MANAGEMENT COMMITTEE

As at 31 December 2016, the Risk Management Committee comprises Independent Non-executive Director, Mr. Hon Kwok Ping, Lawrence as the chairman, two Executive Directors, Ms. Rong Xiuli and Mr. Rong Shengli as members.

It is responsible for considering the Group's risk management strategies and giving guidelines and ensuring the soundness and effectiveness of the Group's internal control system to safeguard the investment of the shareholders and the assets of the Company. Meeting of the Risk Management Committee shall be held at least once a year.

As at 31 December 2016, there were four meetings held by the Risk Management Committee to (i) review and discuss the internal control, risk management framework, risk assessment for the year of 2016 and risk management planning for the year 2017; (ii) review and discuss the proposed risk management framework which will undertake at the end of 2016; (iii) review and discuss the subscription of structured deposit products and proposed acquisition, and (iv) review and discuss the internal control, risk management framework and risk assessment for the year 2015.

Attendance of the Risk Management Committee during the relevant period is set out below:

Members	**No. of meetings attended/ No. of meetings held**
Mr. Hon Kwok Ping, Lawrence *(Chairman)*	4/4
Ms. Rong Xiuli	3/4
Mr. Rong Shengli	3/4

Corporate Governance Report

AUDITORS' REMUNERATION

During the year, the Group was charged by the auditor, Deloitte Touche Tohmatsu, the following auditing services as follows:

Service rendered	Fees paid/payable
	RMB'000
Audit services	3,150

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for the six months ended 30 June 2016 and for the year ended 31 December 2016, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The Directors acknowledge their responsibility to prepare the financial statements as set out on page 61. The statement of the external auditors about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 53 to 58 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective system of risk management and internal control in order to safeguard the interests of the shareholders and the assets of the Company against unauthorized use or disposition, ensuring the maintenance of proper accounting books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

During the year ended 31 December 2016, the Board has discussed and reviewed the risk management and internal control systems and the relevant proposal made by senior management in order to ensure an adequate and effective system of risk management and internal control. The Board will continue to assess the effectiveness of risk management and internal control by considering reviews presented by the Audit Committee, Risk Management Committee, executive management and the Internal Compliance Coordinators of the Company.

The Board has appointed an external consultant to continuously review and assess the effectiveness of the internal control system covering all material controls, including financial, operational and compliance as well as risk management.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must specify the objects of the meeting, signed by the requisitionists and deposit it with the Company Secretary of the Company at the Company's principal place of business in Hong Kong at Suite B, 16/F., W Square, 314–324 Hennessy Road, Wanchai, Hong Kong.

If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

Right to propose a person for election as a Director at general meeting

Pursuant to Article 85 of the Company's Articles of Association, if a shareholder wish to propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, he/she should give a written notice of nomination to the Company. Details for the relevant requirements and procedures can be found on the Corporate Governance section of the Company's website.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send in their enquiries and concerns to the Board in writing via the following channel:

The Board of Directors/Company Secretary
Vital Mobile Holdings Limited
Suite B, 16/F., W Square,
314–324 Hennessy Road
Wanchai, Hong Kong

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company established a shareholders' communication policy and review it on a regular basis to ensure its effectiveness. The Board is committed in providing clear and full performance information of the Group to shareholders through the publication of interim and annual reports. In addition to the circulars, notices and financial reports sent to shareholders, additional information of the Group is also available to shareholders on the website of the Company.

Shareholders are encouraged to attend the annual general meeting for which at least 20 clear business days' notice is given. The chairman of the Board and Directors are available to answer questions on the Group's business at the meeting. All resolutions at the general meeting are decided by a poll which is conducted by the Company's branch share registrar and transfer office in Hong Kong.

The Group values feedback from shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to address shareholders' queries.

CONSTITUTIONAL DOCUMENTS

The Company does not have any changes in the constitutional documents during the year under review.

Independent Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2016

To the Shareholders of Vital Mobile Holdings Limited
(incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Vital Mobile Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 112, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2016

Key audit matters	How our audit addressed the key audit matters
Recoverability of trade receivables	
We identified recoverability of trade receivables as a key audit matter due to the significance of the trade receivables balance to the consolidated financial statements and the judgement involved in assessing recoverability of the trade receivables and determining the allowance for doubtful debts. As disclosed in notes 4 and 20 to the consolidated financial statements, in assessing the recoverability of the trade receivables and determining the allowance for doubtful debts, the management considers the subsequent settlements and aging analysis of the trade receivables. As at 31 December 2016, the carrying amount of trade receivables reported by the Group is RMB105,616,000 (net of allowance of RMB12,525,000).	Our procedures in relation to recoverability of trade receivables included: • Assessing the estimation used by the management to evaluate the allowance for significant trade receivables individually with reference to the subsequent settlements and aging analysis of the trade receivables. • Testing the accuracy of the aging analysis of the trade receivables, on a sample basis. • Testing subsequent settlements of the trade receivables, on a sample basis, to the relevant documents.

Key audit matters	How our audit addressed the key audit matters
Write down of inventories	
We identified write down of inventories as a key audit matter due to the significance of the inventory balance to the consolidated financial statements and the judgment involved in assessing the net realisable value of the relevant inventories. As disclosed in notes 4 and 19 to the consolidated financial statements, in determining the write down of inventories, the management considers the recent or subsequent selling prices and aging information of inventories. As at 31 December 2016, the carrying amount of inventories reported by the Group is RMB27,363,000 (net of allowance for inventories of RMB14,341,000).	Our procedures in relation to write down of inventories included: • Assessing the reasonableness of the methods and assumptions used by the management to identify the slow moving, obsolete inventories and inventories with negative margins; • Testing, on a sample basis, the net realisable value of inventories with reference to the recent or subsequent selling prices and aging information of inventories; • Testing, on a sample basis, the recent or subsequent selling prices by tracing to the relevant documents; • Testing, on a sample basis, the inventory aging analysis by tracing to the relevant documents.

Independent Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2016

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidate d financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users ta ken on the basis of these consolidated financial statements.

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

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

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

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

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

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

Independent Auditor's Report

FOR THE YEAR ENDED 31 DECEMBER 2016

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Yu Kin Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	**2016 RMB'000**	2015 RMB'000
Revenue	7	**406,134**	1,408,339
Cost of sales		**(386,291)**	(1,185,770)
Gross profit		**19,843**	222,569
Other gains and losses	8	**25,034**	46,412
Other income	9	**19,226**	12,245
Research and development costs		**(9,523)**	(18,601)
Selling and distribution expenses		**(10,736)**	(18,407)
Administrative expenses		**(24,603)**	(11,671)
Interest Expenses		**(178)**	(3,619)
Listing expenses		**–**	(12,408)
Profit before tax	10	**19,063**	216,520
Income tax expense	11	**(3,567)**	(35,621)
Profit and total comprehensive income for the year attributable to equity holders of the Company		**15,496**	180,899
Basic earnings per share (RMB per share)	14	**0.02**	0.24

Consolidated Statement of Financial Position

AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Equipment	16	**109**	150
Intangible assets	17	**44,895**	–
Deferred tax assets	18	**1,982**	4,309
		46,986	4,459
Current assets			
Inventories	19	**27,363**	124,151
Trade and other receivables	20	**376,213**	634,841
Structured deposits		**–**	420,000
Pledged bank deposits	21	**475,710**	762,248
Bank deposits	22	**430,857**	–
Cash and bank balances	23	**16,257**	41,248
		1,326,400	1,982,488
Current liabilities			
Trade and bills payables	24	**439,208**	1,034,988
Accrual and other payables	25	**20,601**	20,040
Deposits received from customers		**16,133**	19,407
Amount due to the controlling shareholder	26	**30,521**	–
Tax liabilities		**13,389**	28,985
Bank loan	27	**–**	16,200
Provision	28	**2,464**	10,343
		522,316	1,129,963
Net current assets		**804,084**	852,525
Total assets less current liabilities		**851,070**	856,984
Net assets		**851,070**	856,984

Consolidated Statement of Financial Position

AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	29	**67,041**	67,041
Share premium and reserves		**784,029**	789,943
Equity attributable to equity holders of the Company		**851,070**	856,984

The consolidated financial statements on pages 59 to 112 were approved and authorised for issue by the board of directors on 29 March, 2017 and are signed on its behalf by:

Rong Xiuli
Director

Rong Shengli
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attribute to equity holders of the Company						
	Share capital RMB'000 (Note 29)	Share premium RMB'000	Share-based payment reserve RMB'000	Special reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	–	–	–	275,060	–	22,404	297,464
Profit and total comprehensive income for the year	–	–	–	–	–	180,899	180,899
Net proceeds from the global offering (i)	16,090	362,531	–	–	–	–	378,621
Capitalisation issue (ii)	50,951	(50,951)	–	–	–	–	–
At 31 December 2015	67,041	311,580	–	275,060	–	203,303	856,984
Profit and total comprehensive income for the year	–	–	–	–	–	15,496	15,496
Recognition of equity-settled share-based payment (Note 30)	–	–	14,053	–	–	–	14,053
Shareholder's contribution attributable to share-based payment (Note 30)	–	–	(10,132)	–	10,132	–	–
Dividends recognised as distribution (Note 15)	–	–	–	–	–	(36,729)	(36,729)
Shareholder's contribution (iii)	–	–	–	–	1,266	–	1,266
Balance at 31 December 2016	67,041	311,580	3,921	275,060	11,398	182,070	851,070

Note:

i. On 26 June 2015, the Company completed the global offering and issued 204,000,000 shares in total with the nominal value of HKD0.1 per share. The aggregate net proceeds from the global offering were calculated at the offer price of HKD2.48 after deducting the underwriting fee and the listing expenses amounting to RMB20,403,000 in connection with the global offering.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

ii. Pursuant to the written resolution passed by the shareholders of the Company on 9 June 2015 conditional upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the directors of the Company were authorised to capitalise the amount of HKD64,599,900 (approximated to RMB50,951,000) from the amount standing to the credit of the share premium account of the Company to pay up in full at par of 645,999,000 shares for allotment and issue to the then existing shareholders of the Company.

iii. One of the Company's shareholders, Wisdom Managements Worldwide Limited ("Wisdom Managements") which is a wholly owned subsidiary of the Core Trust Company Limited, a trust company with Ms. Rong Xiuli ("Ms. Rong") as the settlor, has waived the entitled 2015 final dividends distributed during the year ended December 31, 2016. The amount waived of RMB1,266,000 is regarded as contribution from shareholders.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	RMB'000	RMB'000
Operating activities		
Profit before taxation	**19,063**	216,520
Adjustments for:		
Interest expenses	**178**	3,619
Depreciation of equipment	**41**	58
Amortisation of intangible assets	**760**	–
Interest income	**(17,770)**	(12,245)
Foreign exchange gain, net	**(35,652)**	(18,178)
Write down of inventories	**14,341**	3,710
Impairment loss recognised on trade receivables	**11,068**	1,457
Recognition of equity-settled share-based payment	**14,053**	–
Operating cash flows before movements in working capital	**6,082**	194,941
Decrease (increase) in inventories	**82,447**	(4,318)
Decrease (increase) in trade and other receivables	**420,678**	(244,803)
(Decrease) increase in trade and bills payables	**(595,780)**	870,699
Increase (decrease) in accrual and other payables	**561**	(2,586)
(Decrease) increase in deposits received from customers	**(3,274)**	4,596
Decrease in provision for warranty	**(7,879)**	(12,989)
Cash (used in) from operating activities	**(97,165)**	805,540
Income tax paid	**(16,836)**	(24,736)
Net cash (used in) from operating activities	**(114,001)**	780,804

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
Investing activities		
Interests income received	**14,611**	7,580
Increase in amount due from a related party	**–**	7,860
Acquisition of the intangible assets	**(45,655)**	–
Proceeds on disposal of structured deposits	**420,000**	250,000
Purchases of structured deposits	**–**	(670,000)
Placement of bank deposits	**(430,857)**	–
Withdrawal of pledged bank deposits	**995,250**	283,954
Placement of pledged bank deposits	**(708,712)**	(1,045,667)
Loan to a major supplier	**(107,000)**	–
Loan to a major customer	**(28,442)**	–
Net cash from (used in) investing activities	**109,195**	(1,166,273)
Financing activities		
Dividends paid	**(35,463)**	–
Repayment of bank borrowings	**(16,200)**	(238,075)
Increase (decrease) in amounts due to related parties	**30,521**	(4,116)
Proceeds from bank borrowings	**–**	254,275
Proceeds from issue of equity shares	**–**	399,024
Expenses incurred in connection with the global offering	**–**	(20,403)
Interest paid	**(178)**	(3,619)
Net cash (used in) from financing activities	**(21,320)**	387,086
Net (decrease) increase in cash and cash equivalents	**(26,126)**	1,617
Effect of foreign exchange rate changes	**1,135**	29,191
Cash and cash equivalents at 1 January	**41,248**	10,440
Cash and cash equivalents at 31 December, represented by cash and bank balances	**16,257**	41,248

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Vital Mobile Holdings Limited (the "Company") was established in the Cayman Islands as an exempted company with limited liability on 12 August 2014. The immediate and ultimate holding company of the Company is Winmate Limited ("Winmate") which is incorporated in the British Virgin Islands and is 90% and 10% owned by Ms. Rong and Mr. Ni Gang ("Mr. Ni"), the husband of Ms. Rong, respectively.

On 26 June 2015, the Company was listed on the main board of The Stock Exchange of Hong Kong Limited. The registered office of the Company is Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal places of business are located in Beijing and Hong Kong, the People's Republic of China ("PRC"). The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in mobile telecommunication services export operations in PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB"):

Amendments to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statement
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle

The application of these amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS") (CONTINUED)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2017 or January 2018, as appropriate

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")(CONTINUED)

New and amendments to IFRSs in issue but not yet effective (Continued)

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the measurement of the Group's financial assets. The Group's loans and receivables will be measured as credit loss model, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")(CONTINUED)

New and amendments to IFRSs in issue but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers and the related Amendments

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the HKICPA issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")(CONTINUED)

New and amendments to IFRSs in issue but not yet effective (Continued)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short – term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB1,879,000 as disclosed in Note 31. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

Except as described above, the directors of the Company anticipate that the application of other new and revised IFRSs issued but not yet effective.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board("IASB"). In addition, the consolidated financial statements included applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share – based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirely, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the consolidated financial statements, transactions in currencies other than the functional currency of the Group are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the Group operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

When no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs

Payments to state-managed retirement benefit schemes which are defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contribution.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to directors and employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling prices for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for warranties

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

Provisions for the expected cost of warranty obligations under the relevant sales of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Equipment

Equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of items of equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the term of agreement. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable prof its will be available against which those deductible temporary differences can be utilised.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, cash and bank balances, bank deposits, structured deposits and pledged bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each of the reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the loans and receivables have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Impairment of loans and receivables (Continued)

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the loans and receivables at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

The financial liabilities (including trade and bills payables, other payables, bank loan and amount due to the controlling shareholder) are subsequently measured at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following is the key assumptions concerning the future, and other keys sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for trade receivables

In determining whether there is objective evidence of allowance for trade receivables, the directors of the Company take into consideration of the subsequent settlements and aging analysis of the trade receivables.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Allowance for trade receivables (Continued)

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The directors of the Company reassess the adequacy of impairment on a regular basis. Where the actual cash flows are less than expected, material impairment loss may arise.

As at 31 December 2016, the carrying amount of trade receivables is RMB105,616,000 (2015: RMB350,240,000) which is net of allowance for doubtful debts of trade receivables approximately RMB12,525,000 (2015: RMB1,457,000) as disclosed in Note 20.

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. The identification of slow moving, obsolete inventories and inventories with negative margin requires the use of judgment and estimates on the conditions and usefulness of the inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. In determining the net realisable value, the management considers the recent or subsequent selling prices and aging information of inventories. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories in the year in which such estimate has been changed.

At 31 December 2016, the carrying amount of inventories is approximately RMB27,363,000 (2015: RMB124,151,000) which is net of write down of inventories approximately RMB14,341,000 (2015: RMB3,710,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issue as well as the issue of new debt.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2016	2015
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and bank balances, structured deposits, pledged bank deposits and bank deposits)	**1,172,015**	1,578,712
Financial liabilities		
Amortised cost	**475,977**	1,054,382

Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, structured deposits, pledged bank deposits, cash and bank balances, bank deposits, trade and bills payables, other payables, bank loan and amount due to the controlling shareholder. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (mainly currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group undertakes certain operating transactions in foreign currencies, which expose the Group to foreign currency risk. The Group does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (trade and other receivables, cash and bank balances and pledged bank deposits) and liabilities (trade and bills payables) at the end of each reporting periods are as follows:

6. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (Continued)

Foreign currency risk (Continued)

	Assets		Liabilities	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**183,945**	417,823	**2,840**	146,410
HKD	**389,316**	364,701	**–**	–

Sensitivity analysis

The following tables detail the Group's sensitivity to a 5% increase and decrease in RMB against United States Dollar ("USD") and Hong Kong Dollar ("HKD"). 5% represents management's assessment of the reasonably possible change in the foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at each period end for a 5% change in the foreign currency rate. A positive number below indicates an increase in post-tax profit where RMB weakens 5% against the USD and HKD. For a 5% strengthening of RMB against the USD and HKD, there would be an equal and opposite impact on the profit for the year, and the amounts below would be negative.

	2016	2015
	RMB'000	RMB'000
Profit for the year		
USD	**7,979**	11,535
HKD	**19,463**	15,500

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (Continued)

The Group has concentration of credit risk as the major trade and other receivables were due from the Group's six customers (2015: 8) and one supplier as at 31 December 2016 (2015: nil). The management considered that the credit risk of trade and other receivables which is net off the allowance of doubtful debts is insignificant after considering the credit quality and financial ability of these customers and the supplier.

The Group monitors the credit risk on an ongoing basis and credit evaluations are regularly performed. The Group also maintains export credit insurance policies to lower its credit risk. Hence, the management of the Company believes that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, management of the Company considered that the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation.

Liquidity risk

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate	**On demand or within one year**	**Total undiscounted cash flows**	**Carrying amount**
	%	**RMB'000**	**RMB'000**	**RMB'000**
As at 31 December 2016				
Financial liabilities				
Other payables	**–**	**6,248**	**6,248**	**6,248**
Trade and bills payables	**–**	**439,208**	**439,208**	**439,208**
Amount due to the controlling shareholder	**–**	**30,521**	**30,521**	**30,521**
Total		**475,977**	**475,977**	**475,977**

	Weighted average effective interest rate	On demand or within one year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000
As at 31 December 2015				
Financial liabilities				
Other payables	–	3,194	3,194	3,194
Trade and bills payables	–	1,034,988	1,034,988	1,034,988
Bank loans – fixed rate	4.60	16,355	16,355	16,200
Total		1,054,537	1,054,537	1,054,382

6. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments

There are no financial instruments measured at fair value or a recurring basis.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts.

Segment information

The Group operates and manages its business as a single operating segment that engaged in developing, designing, production management and selling mobile telecommunication devices and sales of mobile telecommunication related components and accessories, and selling mobile telecommunication devices with software/application insertion("ROM"), targeting global markets excluding the PRC. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the gross profit of the Group as a whole when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial statements is available for assessment of performance of different products, no segment information other than certain entity-wide disclosures are presented.

Revenue from major products

The following table sets forth a breakdown of the Group's revenue by major products during the relevant periods:

	2016 **RMB'000**	2015 RMB'000
Smart phones	**392,017**	1,368,881
Smartphone component packs	**11,494**	1,562
Mobile device components	**2,623**	37,896
	406,134	1,408,339

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

The following table sets forth a breakdown of the Group's revenue during the year based on locations of the external customers:

	2016	2015
	RMB'000	RMB'000
Hong Kong	**244,807**	531,535
Southeast Asia	**33**	4,461
South Asia	**125,506**	90,737
Taiwan	**2,369**	248,392
Other parts of Asia	**1,981**	100,375
Europe	**10,087**	129,844
South America	**11,517**	2,316
North America	**1,358**	126,227
Africa	**8,476**	174,452
	406,134	1,408,339

Notes:

1. Sales to Hong Kong mainly comprised of sales to certain mobile trading companies incorporated in Hong Kong who sell smart phones to various countries including but not limited to Thailand, Malaysia, Russia and Ukraine.

2. Southeast Asia includes Philippines, Thailand, Vietnam and Indonesia.

3. South Asia includes India and Bangladesh.

4. Other parts of Asia includes Yemen, Pakistan and The United Arab Emirates.

5. Europe includes France, Romania, Russia, Cyprus, Portugal and Italy.

6. South America includes Brazil, Argentina and Venezuela.

7. North America includes United States of America.

8. Africa includes South Africa, Algeria and Morocco.

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information (Continued)

The Group's operations are located in the PRC, including Hong Kong and all non-current assets of the Group are located in the PRC. Accordingly, no geographical information has been presented.

Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group during the relevant periods is as follows:

	2016 RMB'000	2015 RMB'000
Customer A	**229,409[1]**	313,336[1]
Customer B	**125,271[1]**	N/A[2]
Customer C	**N/A[2]**	248,392[1]

[1] Revenue from sales of smart phones.

[2] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

8. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Foreign exchange gain, net	**36,787**	47,369
Allowance in trade receivables	**(11,068)**	(1,457)
Others	**(685)**	500
	25,034	46,412

9. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Interest income on structured deposits	**7,395**	9,475
Interest income on pledged bank deposits	**6,006**	2,372
Interest income on bank deposits	**4,369**	–
Interest income on bank balances	**858**	398
Others	**598**	–
	19,226	12,245

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2016 RMB'000	2015 RMB'000
Auditor's remuneration	**3,150**	2,820
Depreciation of equipment	**41**	58
Amortisation of intangible assets (included in cost of sales)	**760**	–
Directors' emoluments (Note 12)	**9,053**	2,508
Other staff cost		
– salaries and other allowance	**10,479**	16,101
– retirement benefit schemes contribution	**1,715**	3,618
– recognition of equity-settled share-based payment (Note 30)	**8,644**	–
Total staff costs	**29,891**	22,227
Cost of inventories recognised as an expense	**386,291**	1,185,770
Write down of inventories (included in cost of sales)	**14,341**	3,710
Operating lease rentals	**1,940**	1,778

11. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
PRC Enterprise income tax ("EIT")		
– Current Tax in PRC	**–**	29,035
– Current Tax in HK	**3,851**	6,229
(Over) under provision in prior year-EIT	**(2,611)**	4,666
Deferred Tax (Note 18)	**2,327**	(4,309)
	3,567	35,621

The Company's subsidiary incorporated in Hong Kong is subject to the Hong Kong Profits Tax at 16.5%.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

11. INCOME TAX EXPENSE (CONTINUED)

Under the Law of the PRC and Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the income tax rate of Beijing Benywave Wireless Communication Co., Ltd ("Benywave Wireless") is 25%. Since Benywave Wireless was recognised as "New and High Technology Enterprises" in 2015 and therefore it is entitled to apply a preferential tax rate of 15% for the years ended 31 December 2016 and 2015.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
	RMB'000	RMB'000
Profit before tax	**19,063**	216,520
Tax calculated at applicable domestic tax rates (2016: 15%, 2015: 15%)	**2,859**	32,478
Tax effect of expenses not deductible for tax purposes	**8**	14
Tax effect of income not taxable for tax purpose	**(2,403)**	(2,104)
Effect of tax incentive granted	**(626)**	–
Effect of different tax rates of the entities operating in other jurisdictions	**350**	567
Tax effect of tax losses and deductible temporary differences not recognised	**5,990**	–
(Over) under provision in prior year	**(2,611)**	4,666
Income tax expense	**3,567**	35,621

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the six (2015: six) directors and the chief executive were as follows:

2016	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contribution RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Ms. Rong	–	720	54	107	–	881
Mr. Rong Shengli (i)	–	720	54	107	2,343	3,224
Mr. Tang Shun Lam (ii)	–	942	–	13	2,142	3,097
Independent non-executive directors:						
Mr. Hon Kwok Ping Lawrence	309	–	–	–	308	617
Mr. Lam Yiu Kin	309	–	–	–	308	617
Mr. Tsang Yat Kiang	309	–	–	–	308	617
Sub-total	927	2,382	108	227	5,409	9,053

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

2015	Directors' fee RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Retirement benefit schemes contribution RMB'000	Total RMB'000
Executive directors:					
Ms. Rong	–	720	–	99	819
Mr. Rong Shengli (i)	–	720	–	99	819
Non-executive director:					
Mr. Tang Shun Lam (ii)	–	–	–	–	–
Independent non-executive directors:					
Mr. Hon Kwok Ping Lawrence	290	–	–	–	290
Mr. Lam Yiu Kin	290	–	–	–	290
Mr. Tsang Yat Kiang	290	–	–	–	290
Sub-total	870	1,440	–	198	2,508

Notes:

(i) Mr. Rong Shengli is also the chief executive of the Group and his emoluments disclosed above include those for services rendered by him as the chief executive.

(ii) On 19 March 2015, Mr. Tang Shun Lam was appointed as a non-executive director of the Company. He was re-designated as an executive director of the Company on 19 March 2016.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

During the year, certain directors were granted restricted share units (the "RSU"s), in respect of their services to the Group under the restricted share units scheme (the "RSU Scheme") of the Company. Details of the RSU Scheme are set out in Note 30.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2015: two), details of whose remunerations are set out in Note 12 above. Details of the remuneration for the year of the remaining three (2015: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowance	**426**	1,371
Retirement benefits schemes contribution	**85**	296
Equity-settled share-based payments	**5,026**	–
	5,537	1,667

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2016	2015
Nil to HKD1,000,000 (equivalent to RMB895,000)	**–**	3
HKD1,000,001 to HKD1,500,000 (equivalent to RMB895,000 to RMB1,342,000)	**1**	2
HKD1,500,001 to HKD2,000,000 (equivalent to RMB1,342,000 to RMB1,789,000)	**1**	–
HKD3,000,001 to HKD3,500,000 (equivalent to RMB2,684,000 to RMB3,131,000)	**1**	–
Above HKD3,500,001 (equivalent to RMB3,131,000)	**2**	–
	5	5

During the years ended 31 December 2016 and 2015, no directors of the Company waived or agreed to waive any emoluments, and no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2016	2015
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share, representing profit for the year attributable to equity holders of the Company	**15,496**	180,899

	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**850,000**	751,633

The weighted average number of shares for the purpose of calculating basic earnings per share for the year ended 31 December 2015 has been adjusted for the effect of the capitalisation issue.

There are no dilutive potential shares for both years.

15. DIVIDENDS

	2016	2015
	RMB'000	RMB'000
2015 Final dividends recognised as distributions during the year	**36,729**	–

On 23 March 2016, the board of directors recommended that subject to the Shareholders' approval in the annual general meeting of the Company, the Company shall declare and distribute a 2015 final dividend of HK5.055 cents per share amounted to HKD42,970,000 to those Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 31 May 2016.

Subsequent to the end of the reporting period, final dividend of HKD17,000,000 (approximated to RMB15,082,000) in respect of the year ended 31 December 2016 is proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

16. EQUIPMENT

	Electronic and Office equipment RMB'000
Cost	
As at 1 January 2015, 31 December 2015 and 31 December 2016	918
Accumulated depreciation	
As at 1 January 2015	710
Charge for the year	58
As at 31 December 2015	768
Charge for the year	41
As at 31 December 2016	809
Carrying amounts	
At 31 December 2015	150
At 31 December 2016	109

Depreciation is provided to write off the cost of items of equipment, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method at the following rates:

Electronic and office equipment	10–20%

17. INTANGIBLE ASSETS

	Software technology RMB'000
Cost	
Addition and as at 31 December 2016	45,655
Amortisation	
Charge for the year and as at 31 December 2016	760
Carrying Amounts	
As at 31 December 2016	44,895

In October 2016, the Group and Beijing Gu Li Technology Co., Ltd (the "Gu Li") entered a software transfer agreement pursuant to which the Group will acquire certain softwares for ROM business from Gu Li at a total consideration of RMB45,655,000.

According to business license of Gu Li, Ms. Rong's daughter ("Ms. Gao") holds 70% equity interest in Gu Li. However, the directors are of the opinion that Gu Li is not a related party of the Group because Beijing Tianyu Communication Equipment Co. Ltd transferred her entire beneficial interests in Gu Li to Ms Li, a third party, in December 2015 and since then, Ms. Gao holds 70% equity interest in Gu Li as trustee in accordance with the declaration of trust entered into between Ms. Gao and Ms. Li.

The software technology is amortised over 10 years.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

18. DEFERRED TAX ASSETS

The movements of the Group's deferred tax assets during the year are as follows:

	Write down of inventory RMB'000	Allowance for doubtful debts RMB'000	Accrued expense and cost RMB'000	Total RMB'000
At 1 January 2015	–	–	–	–
Credit to profit or loss	557	219	3,533	4,309
At 31 December 2015	557	219	3,533	4,309
Credit to profit or loss	(557)	(219)	(1,551)	(2,327)
At 31 December 2016	–	–	1,982	1,982

Deferred tax assets have not been recognised in respect of the following items:

	2016 RMB'000	2015 RMB'000
Tax losses	**10,601**	–
Deductible temporary differences		
Impairment loss on trade receivables	**12,525**	–
Write down of inventories	**14,341**	–
Provision	**2,464**	–
	39,931	–

No deferred tax asset has been recognised in relation to the unutilised tax losses and deductible temporary differences due to the unpredictability of future profit streams of the relevant entities and it is not probable that taxable profit will be available against which the tax losses and the deductible temporary differences can be utilised.

19. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**14,579**	103,516
Finished goods	**12,784**	20,635
	27,363	124,151

The management has performed net reaslisatble value assessment as at 31 December 2016 with reference to the recent or subsequent selling prices and aging information of inventories. Write down of inventories of approximately RMB14,341,000 (2015: RMB3,710,000) is recognised in the profit or loss.

20. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**118,141**	351,697
Less: allowance for doubtful debts	**12,525**	1,457
	105,616	350,240
Other receivables		
– Value added tax receivables	**645**	82,626
– Advance to a major supplier (i)	**107,000**	–
– Advance to a major customer (i)	**28,442**	–
– Interests receivables	**7,824**	4,665
– Others	**309**	311
Prepayments to suppliers (ii)	**126,377**	196,999
	376,213	634,841

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes:

(i) The amount is non-trading in nature, unsecured and non-interest bearing. The amount will be repaid within one year.

(ii) As at December 31, 2016, included in the balance is prepayments to a major supplier of RMB124,791,000. Relevant orders were cancelled due to changes of marketing situation. According to the repayment schedule agreed between the Group and the supplier, RMB100,000,000 has been repaid by the supplier in February 2017. The directors are of the opinion that the remaining balance of RMB24,791,000 will be fully settled in the next twelve months.

The Group allows an average credit period of 60 days to its trade customers. The Group assesses the customer's credit quality by evaluating their historical credit records and defines credit limits for each customer. Recoverability and credit limit of the existing customers are reviewed by the management regularly.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2016	2015
	RMB'000	RMB'000
Within 60 days	**6,601**	229,020
61 to 180 days	**17,992**	109,820
181 days to 1 year	**4,875**	11,400
1 year to 2 years	**76,148**	–
	105,616	350,240

Included in trade receivables are the following carrying amounts denominated in a currency other than the functional currency of the Group.

	2016	2015
	RMB'000	RMB'000
USD	**105,495**	319,920

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in other receivables are the following carrying amounts denominated in a currency other than the functional currency of the Group.

	2016	2015
	RMB'000	RMB'000
USD	**28,442**	–

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB99,015,000 which are past due as at 31 December 2016 (2015: RMB121,220,000), for which the Group has not provided for impairment loss as there has not been a significant change in credit quality. After considering the subsequent settlement of the trade receivables and the financial strength of the debtors, the Group believes that the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 413 days as at 31 December 2016 (2015: 144 days).

The following is an aged analysis of the trade receivables based on invoice dates, which are past due but not impaired.

	2016	2015
	RMB'000	RMB'000
61 to 180 days	**17,992**	109,820
181 to 1 year	**4,875**	11,400
1 year to 2 years	**76,148**	–
	99,015	121,220

Movement in the allowance for doubtful debts

	2016	2015
	RMB'000	RMB'000
1 January	**1,457**	–
Impairment losses recognised on trade receivables 31 December	**11,068**	1,457
	12,525	1,457

The management assessed the recoverability of the trade receivables and determined the allowance for significant trade receivables individually considering the subsequent settlements and aging analysis of the trade receivables.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

21. PLEDGED BANK DEPOSITS

The pledged bank deposits represent deposits pledged for bills payable. As at 31 December 2016, the above pledged bank deposits carry interest from 0.30% to 1.65% per annum (2015: from 0.39% to 3.10%).

Included in pledged bank deposits are the following amounts denominated in currency other than functional currency of the relevant group entity:

	2016	2015
	RMB'000	RMB'000
Pledged bank deposits denominated in:		
– USD	**41,629**	64,937
– HKD	**385,534**	361,083

22. BANK DEPOSITS

The bank deposits were placed in the banks with high credit ratings in the PRC. The bank deposits carried a fixed annual interest rate of 2.25% which will be matured in June and August 2017.

23. CASH AND BANK BALANCES

Included in cash and bank balances are the following amounts denominated in currency other than the functional currency of the relevant group entities:

	2016	2015
	RMB'000	RMB'000
Cash and bank balances denominated in:		
– USD	**8,379**	32,966
– HKD	**3,782**	3,618

Bank balances carried interest at market rates which range from nil to 0.35% per annum as at 31 December 2016 (2015: from 0.01% to 0.39%).

The bank balances denominated in RMB were deposited with banks in the PRC and the conversion of such balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables (Note)	**47,820**	350,760
Bills payables	**391,388**	684,228
	439,208	1,034,988

Note: The balances included the payables to Vanchip (Tianjin) Electronic Technology Co. Ltd ("Vanchip"), which is controlled by Ms. Gao. The amount is RMB5,268,000 as at 31 December 2016 (2015: RMB5,268,000). According to the three parties' agreement signed between Benywave Wireless, Vanchip and Benywave Technology Co.,Ltd. ("Benywave Technology"), the payables was settled by the borrowings between Vanchip and Benywave Technology, the Company should pay off the debt to Benywave Technology in the future.

The following is an aged analysis of trade payables presented based on the recognition date of inventory at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Within 90 days	**40**	259,830
91 to 180 days	**3,297**	59,069
181 days to 1 year	**13,187**	27,779
Over 1 year	**31,296**	4,082
	47,820	350,760

Included in trade payables are the following carrying amounts denominated in a currency other than the functional currency of the relevant group entity.

	2016 RMB'000	2015 RMB'000
USD	**2,840**	146,410

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

24. TRADE AND BILLS PAYABLES (CONTINUED)

The following is an aged analysis of bills payables based on the date of issue at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Within 90 days	**43,333**	324,842
91 to 180 days	**83,055**	359,386
181 days to 1 year	**265,000**	-
	391,388	684,228

25. ACCRUAL AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Payable for insurance premium and freights	**1,934**	1,070
Staff cost payable	**1,143**	1,516
Royalties payable	**13,210**	13,210
Others	**4,314**	4,244
	20,601	20,040

26. AMOUNT DUE TO THE CONTROLLING SHAREHOLDER

The amount represents the advance to the Group from the Company's controlling shareholder, Ms. Rong, which is unsecured, non-interest bearing and will be matured in November 2017.

27. BANK LOAN

The loan carried fixed interest rate at 4.60% per annum with the maturity date on 16 March 2016 and was fully repaid during the year. The loan was secured by the pledged bank deposits of USD3,000,000 (approximately to RMB19,481,000).

28. PROVISION

	Warranty provision RMB'000
At 1 January 2015	23,332
Reversal of provision	(12,989)
At 31 December 2015	10,343
Reversal of provision	(7,879)
At 31 December 2016	2,464

The warranty provision represents management's best estimate of the Group's liability under one-year warranty granted on mobile telecommunication devices, based on prior experience.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

29. SHARE CAPITAL

	Year ended 31 December 2016 and 2015		
	Number of shares	per share HKD	Share capital HKD
Authorised			
On 12 August 2014 incorporation (Note i)	500,000	0.1	50,000
Increase on 9 June 2015 (Note ii)	999,500,000	0.1	99,950,000
At 31 December 2016 and 2015	1,000,000,000		100,000,000
Issued			
On 12 August 2014 incorporation (Note i)	100	0.1	10
Shares issued to the shareholders (Note iii)	900	0.1	90
Shares increased by capitalisation issue (Note iv)	645,999,000	0.1	64,599,900
Shares issued under global offering (Note v)	204,000,000	0.1	20,400,000
At 31 December 2016 and 2015	850,000,000		85,000,000

	RMB'000
Presented as	67,041

Notes:

(i) On 12 August 2014, the Company was incorporated in the Cayman Islands as an exempted company with limited liability with authorised share capital comprised of 500,000 shares at par value of HKD0.1 per share. Upon its incorporation, 1 subscriber share of par value of HKD0.1 was allotted, issued and credited as nil paid to a third party as the initial subscriber. On the same day, the third party transferred the one share to Winmate. Furthermore, 92 new shares and 7 new shares with par value of HKD0.1 each were issued and allotted to Winmate and Favor Gain Enterprises Limited ("Favor Gain"), respectively pro-rata to their respective shareholdings in Vital Profit Technology Inc. ("Vital Profit"). None of the 100 shares in the Company issued to Favor Gain and Winmate were paid up on allotment.

(ii) On 9 June 2015, pursuant to a shareholders' resolution, the authorised share capital of the Company was increased to HKD100,000,000 divided into 1,000,000,000 shares of par value of HKD0.1 each by the creation of an additional 999,500,000 shares, which shall rank pari passu in all respects with the shares in issue prior to such increase.

(iii) On 26 May 2015, 837 shares were issued by the Company to Winmate at par value. These 837 shares together with the 93 shares previously allotted were fully paid up at par value. On 9 June 2015, a further 63 shares were issued by the Company to Favor Gain at par value. These 63 shares together with the 7 shares previously allotted to Favor Gain were fully paid up at par value.

29. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

(iv) Pursuant to the written resolution passed by the shareholders of the Company on 9 June 2015 conditional upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the directors were authorised to capitalise the amount of HKD64,599,900 (approximated to RMB50,951,000) from the amount standing to the credit of the share premium account of the Company to pay up in full at par of 645,999,000 shares for allotment and issue to the then existing shareholders in the Company.

(v) On 26 June 2015, 204,000,000 new shares have been subscribed under the global offering and the offer price was HKD2.48 per share.

30. SHARE-BASED PAYMENT TRANSACTIONS

On 9 June 2015, the Company approved and adopted the restricted share unit scheme (the "RSU Scheme"). The purpose of the RSU Scheme is to (i) recognise the contributions of the personnel to the Group or its business; (ii) retain them for the continual operation and development of the Group; and (iii) to attract suitable personnel for the development of the Group (collectively referred to as the "Participant(s)"). The RSU Scheme shall be valid and effective for a term of 10 years commending from 9 June 2015, subject to certain conditions and termination clause.

Upon the adoption of the RSU Scheme, The Core Trust Company Limited was appointed as RSU Scheme trustee (the "Trustee"), while Wisdom Managements Worldwide Limited which is a wholly-owned subsidiary of the Trustee was identified as nominee of the Trustee (the "Nominee").

On 26 May 2015, Winmate transferred to the Nominee by way of gift 50 shares for the RSU Scheme. Subject to the capitalisation issue, a further 32,299,950 shares have been allotted to the Nominee credited as fully paid up. Upon completion of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited and as at December 31, 2016, the Nominee holds 3.8% of the total shares of the Company, represents 32,300,000 shares. Ms. Rong is the settlor of the Trust.

On 2 November 2016, pursuant to RSU Scheme, a total of 32,300,000 restricted shares were granted to the selected grantees without the initial price, among which 18,950,000 restricted shares were granted to 2 executive directors, 3 independent non-executive directors of the Company and 16 employees of the Group and remaining 13,350,000 restricted shares were granted to 13 personnel of the fellow subsidiaries of the Company. The directors consider those 13 personnel are not relevant to the Group's business and those grants have no effect to the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

30. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

The details of specific categories of options are as follows:

Number of restricted shares	Date of grant	Vesting period	Exercise price
5,830,000	November 2, 2016	Vested immediately	Nil
13,120,000	November 2, 2016	1/3 in each of the three years	Nil
18,950,000			

A Participant does not have any contingent interest in any ordinary shares underlying an RSU unless and until these ordinary shares are actually transferred to the Participants from the Trustee. Furthermore, a Participant may not exercise any voting right in respect of the ordinary shares underlying the RSU(s).

The following table discloses the movement of the Company's shares granted to the Participants for the year ended December 31, 2016 and outstanding at December 31, 2016 was as following:

Category of Participant	Outstanding at 2016.1.1	Granted during the year	Vested during the year	Outstanding vested at 2016.12.31	Exercisable At 2016.12.31	Share price at grant date HKD	Vesting condition	Lock up period
Independent non-executive directors	–	930,000	930,000	–	310,000	1.14	No vesting condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Executive directors	–	7,120,000	2,373,333	4,746,667	2,373,333	1.14	Remain in service for three years	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Subtotal	–	8,050,000	3,303,333	4,746,667	2,683,333			

30. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Category of Participant	Outstanding at 2016.1.1	Granted during the year	Vested during the year	Outstanding vested at 2016.12.31	Exercisable at 2016.12.31	Share price at grant date HKD	Vesting condition	Lock up period
Key employees I	–	6,000,000	2,000,000	4,000,000	2,000,000	1.14	Remain in Service for three years	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked On 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Key employees II	–	4,900,000	4,900,000	–	1,633,333	1.14	No vesting Condition	1/3 of total shares unlocked on 2 November 2016 1/3 of total shares unlocked on 2 November 2017 1/3 of total shares unlocked on 2 November 2018
Subtotal	–	10,900,000	6,900,000	4,000,000	3,633,333			
Total	–	18,950,000	10,203,333	8,746,667	6,316,666			

The fair value with total amount of RMB18,818,000 of the granted shares is determined based on the market price of the shares of the Company at the date of grant, without taking into account any service vesting condition.

The Group recognised the share base payment expense of RMB14,053,000 for the year in relation to the RSU Scheme in which the fair value of restricted shares granted and vested during the year amounting to RMB10,132,000 was recognised as a shareholder's contribution in other reserve.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

31. OPERATING LEASES COMMITMENTS

The Group as lessee

At the end of the year, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016	2015
	RMB'000	RMB'000
Minimum lease payments under operating leases:		
Within one year	**1,685**	1,984
In the second to third year	**194**	1,792
	1,879	3,776

The above operating lease payments commitments represent rental payable by the Group for offices and equipment rental. The lease was negotiated for lease terms of one to third years. Monthly rental was fixed for certain lease.

32. RETIREMENTS BENEFITS CONTRIBUTION

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. Contributions from employers and employees are 5% each of the employee's relevant income. The maximum mandatory contribution per employee is HKD1,500 per month. During the year ended 31 December 2016, the retirement benefit scheme contribution arising from the MPF Scheme charged to profit or loss were approximately RMB 21,000 (2015: nil).

The PRC employees of the Group are members of a state-managed retirement benefit plan operated by the government of the PRC. The PRC subsidiaries of the Company are required to contribute a specified percentage of payroll costs to the retirement benefit plan to fund the employee benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The retirement benefit cost charged to profit or loss for the year 31 December 2016 amounted to RMB1,921,000 (2015: RMB3,816,000).

33. RELATED PARTY TRANSACTIONS OTHER THAN THE BALANCES DISCLOSED

(a) Name and relationship

Name	Relationship
Beijing Tianyu Communication Equipment Co. Ltd ("Tianyu")	Company controlled by Ms. Rong and Mr. Ni
Benywave Technology	Company controlled by Ms. Rong and Mr. Ni
Henan Ketai Lexun Communication Equipment Industry Park Co. Ltd ("Ketai")	Company controlled by Ms. Rong and Mr. Ni

(b) Related party transactions

	2016	2015
	RMB'000	RMB'000
Premises rental expense charged by Tianyu	**764**	818
Equipment rental expense charged by Benywave Technology	**70**	77
Service expense charged by Ketai	**422**	–
Purchase from Ketai	**1,463**	–

(c) Remuneration of key management personnel of the Group

	2016	2015
	RMB'000	RMB'000
Short term employee benefits	**3,340**	3,165
Post-employment benefit	**336**	593
Equity-settled share-based payments	**9,351**	–
	13,027	3,758

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2016	2015
	RMB'000	RMB'000
Non-current asset		
Investment in a subsidiary	**–**	–
	–	–
Current assets		
Trade and other receivables	**3,454**	839
Amount due from a subsidiary	**49,019**	42,280
Cash and bank balances	**3,686**	3,526
Pledged bank deposits	**427,156**	361,083
	483,315	407,728
Current liabilities		
Accrual and other payables	**843**	45
Amounts due to subsidiaries	**107,809**	27,627
	108,652	27,672
Net current assets	**374,663**	380,056
Net assets	**374,663**	380,056
Capital and reserves		
Share capital	**67,041**	67,041
Share premium and reserves	**307,622**	313,015
Total equity	**374,663**	380,056

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Statement of changes in equity includes:

	Attribute to equity holders of the Company					
	Share capital RMB'000	Share premium RMB'000	Share-based payment reserve RMB'000	Other reserve RMB'000	(Accumulated Losses) Retained profits RMB'000	Total RMB'000
At 1 January 2015	–	–	–	–	(12,589)	(12,589)
Profit and total comprehensive income for the year	–	–	–	–	14,024	14,024
Net proceeds from the global offering	16,090	362,531	–	–	–	378,621
Capitalisation issue	50,951	(50,951)	–	–	–	–
Balance at 31 December 2015	67,041	311,580	–	–	1,435	380,056
Profit and total comprehensive income for the year	–	–	–	–	16,017	16,017
Recognition of equity-settled share-based payment	–	–	14,053	–	–	14,053
Shareholder's contribution attributable to share-based payment	–	–	(10,132)	10,132	–	–
Dividends recognised as distribution	–	–	–	–	(36,729)	(36,729)
Shareholder's contribution	–	–	–	1,266	–	1,266
Balance at 31 December 2016	67,041	311,580	3,921	11,398	(19,277)	374,663

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

35. SUBSIDIARIES

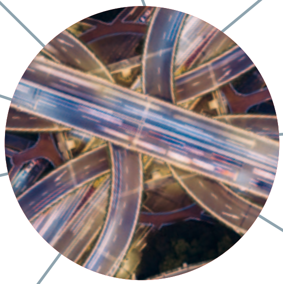
Details of the Company's subsidiaries at the end of the reporting period are set out below.

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Equity interest attributable to the Group		Principal activities
			31 December 2016 %	31 December 2015 %	
Vital Mobile Limited ("Vital BVI"s)*	British Virgin Islands 27 June 2014	USD1	**100**	100	Investment Holding
Vital Mobile (HK) Limited ("Vital HK")	Hong Kong 4 July 2014	HKD1	**100**	100	Selling mobile telecommunication with added supply chain management services (ROM modification, other related mobile telecommunication functions development)
Beijing Benywave Wireless Communication Co., Ltd.+ ("Benywave Wireless") 北京百納威爾無綫通信設備有限公司	People's Republic of China ("PRC") 22 July 2014	RMB100,000,000	**100**	100	Selling mobile telecommunication services manufacturer, selling mobile telecommunication with added supply chain management services (ROM modification, other related mobile telecommunication functions development), sale of mobile telecommunication related components and accessories, targeting global markets excluding the PRC

Notes:

* Directly held by the Company.

\+ The English name is for identification only.



Vital Mobile Holdings Limited
維太移動控股有限公司