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Announcement of Interim Results for the six months ended 30 June 2017

- Revenue decreased to approximately RMB687.6 million, representing a decrease of approximately 24.0%.
- Gross profit margin decreased from approximately 23.2% in the first half of 2016 to approximately 22.5% in the first half of 2017.
- Profit attributable to owners of the Company was approximately RMB8.335 million representing a decrease of approximately 85.7%.
- Basic earnings per share for the six months ended 30 June 2017 was approximately RMB1.02 cents.

The board (the “Board”) of directors (the “Directors”) of MOBI Development Co., Ltd. (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in 2016. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
	Notes	(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Revenue	3	687,603	904,259
Cost of sales		(532,672)	(694,085)
		<hr/>	<hr/>
Gross profit		154,931	210,174
Other income and expenses	3	20,082	11,148
Research and development costs		(53,679)	(42,958)
Distribution and selling expenses		(46,189)	(49,540)
Administrative expenses		(57,886)	(55,269)
Finance costs	4	(7,202)	(6,119)
Share of results of an associate		(185)	—
		<hr/>	<hr/>
Profit before taxation		9,872	67,436
Income tax expenses	5	(1,537)	(9,185)
		<hr/>	<hr/>
Profit and the total comprehensive income for the period attributable to owners of the company	6	8,335	58,251
		<hr/>	<hr/>
Earnings per share			
– basic (RMB cents)	8	1.02	7.11
– diluted (RMB cents)	8	0.99	7.11

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	30 June 2017 (Unaudited) RMB'000	30 December 2016 (Audited) RMB'000
Non-current assets			
Property, plant and equipment		388,434	387,448
Deposits for purchase of plant and equipment		8,562	8,830
Prepaid lease payments		27,101	27,426
Deferred tax assets		34,323	29,961
Intangible assets		37,560	34,376
Interest in an associate		23	208
		496,003	488,249
Current assets			
Inventories		371,448	340,202
Trade receivables	9	524,995	454,648
Notes receivable		381,454	417,683
Income tax recoverable		1,896	1,896
Prepayments, deposits and other receivables		101,957	72,255
Pledged bank balances		204,183	124,612
Bank balances and cash		226,182	291,477
		1,812,115	1,702,773
Current liabilities			
Trade payables	10	333,672	298,000
Notes payable		263,153	240,121
Other payables and accruals		158,272	126,546
Tax payable		4,776	4,240
Bank borrowings – due within one year		236,247	186,267
Deferred income		3,471	4,620
		999,591	859,794
Net current assets		812,524	842,979
Total assets less current liabilities		1,308,527	1,331,228
Non-current liabilities			
Bank borrowings – due after one year		65,000	70,000
Deferred income		12,688	11,849
		77,688	81,849
Net assets		1,230,839	1,249,379
Capital and reserves			
Issued capital		6	6
Reserves		1,230,833	1,249,373
Equity attributable to owners of the Company		1,230,839	1,249,379

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed consolidated interim financial statements does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle

The directors of the Company anticipate that the application of the above revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments to report segment information for the six months period ended 30 June 2016 and 2017. Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), being the chief executive officer of the Company, for the purpose of resource allocation and performance assessment. Information reported to the CODM is focused on three principal categories of products - antenna system, base station RF subsystem and coverage extension solution.

No measure of segment assets and liabilities are reported to the CODM for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

The Group's reportable segments under HKFRS 8 are as follows:

Antenna system - manufacture and sale of antenna system and related products

Base station RF subsystem - manufacture and sale of base station RF subsystem and related products

Coverage extension solution - manufacture and sale of a wide array of coverage products

Information of segment revenues and segment results

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Segment revenues		
Antenna system	364,688	622,602
Base station RF subsystem	271,454	249,026
Coverage extension solution	51,461	32,631
	<hr/> 687,603	<hr/> 904,259
Segment results		
Antenna system	97,018	164,004
Base station RF subsystem	(24,298)	2,765
Coverage extension solution	28,532	447
	<hr/> 101,252	<hr/> 167,216
Reconciliation of segment results to profit before taxation:		
Other income and expenses	20,082	11,148
Unallocated expenses	(104,075)	(104,809)
Finance costs	(7,202)	(6,119)
Share of results of an associate	(185)	—
Profit before taxation	<hr/> 9,872	<hr/> 67,436

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other segment information		
Depreciation:		
Antenna system	3,538	3,696
Base station RF subsystem	5,622	9,983
Coverage extension solution	244	399
	<hr/>	<hr/>
Segment total	9,404	14,078
Unallocated amount	6,160	4,734
	<hr/>	<hr/>
Group total	15,564	18,812
	<hr/>	<hr/>
Research and development costs:		
Antenna system	27,972	20,930
Base station RF subsystem	24,445	19,925
Coverage extension solution	1,262	2,103
	<hr/>	<hr/>
Group total	53,679	42,958
	<hr/>	<hr/>

Revenues reported above represent revenues generated from external customers. There are no inter-segment sales during the six months ended 30 June 2016 and 2017.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the annual report of the Company for the year ended 31 December 2016. The Group does not allocate other income, distribution and selling expenses, administrative expenses, finance costs and income tax expenses to individual reportable segments when making decisions about resources to be allocated to the segments and assessing their performance.

Entity-wide disclosures:

Information about products

Revenues from each group of similar products within the reportable segments are as follows:

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
<i>Antenna system</i>		
Low-band refarming/IoT antennas	139,219	46
Multi-band/Multi-system antennas	81,299	45,955
WCDMA/FDD-LTE antennas	52,795	199,805
TD/TD-LTE antennas	23,806	269,911
GSM/CDMA antennas	11,572	34,538
PRE5G antennas	10,458	—
Microwave antennas	10,156	12,381
Other antennas	35,383	59,966
	<hr/>	<hr/>
	364,688	622,602
<i>Base station RF subsystem</i>		
Low-band refarming/IoT RF devices	107,325	5,654
GSM/CDMA RF devices	50,901	67,903
WCDMA/FDD-LTE RF devices	46,541	72,835
TD/TD-LTE RF devices	39,523	63,738
Other devices	27,164	38,896
	<hr/>	<hr/>
	271,454	249,026
<i>Coverage extension solution</i>		
Aesthetic antennas	48,822	28,100
Other products	2,639	4,531
	<hr/>	<hr/>
	51,461	32,631
	<hr/>	<hr/>
	687,603	904,259

Information about major customers

Revenues from customers of the corresponding periods contributing over 10% of the total sales of the Group are as follows:

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Customer A ¹	314,632	498,499
Customer B ²	150,622	44,151
Customer C ¹	71,923	78,615

¹ revenue mainly from antenna system and base station RF subsystem

² revenue mainly from antenna system and coverage extension solution

Geographical information

The reportable segments of the Group are mainly operated in the PRC and overseas (mainly Russia and Romania). An analysis of the Group's geographical information on revenues attributed to the region on the basis of the customer's location is set out in the following table:

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PRC	587,610	807,984
Overseas		
Russia	21,141	8,157
Romania	14,261	955
Others	64,591	87,163
Subtotal	99,993	96,275
	687,603	904,259

All non-current assets (other than deferred tax assets) of the Group are located in the PRC.

3. REVENUE, OTHER INCOME AND EXPENSES

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of wireless communication antenna systems, base station RF subsystems and products of coverage extension solution	687,603	904,259
Other income and expenses		
Government grants	8,846	8,367
Compensation income	3,968	368
Rental income	4,391	—
Interest income	3,207	1,575
Others	(330)	838
	20,082	11,148

4. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank borrowings		
– wholly repayable within five years	7,202	6,119

5. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
PRC income tax	5,898	12,192
Deferred tax	<u>(4,361)</u>	<u>(3,007)</u>
	<u>1,537</u>	<u>9,185</u>

The Company was incorporated in the Cayman Islands and is exempted from income tax. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period.

MOBI Antenna Technologies (Shenzhen) Co., Ltd. (“MOBI Shenzhen”) was established in Shenzhen, PRC, with applicable tax rate of 15%.

The applicable tax rate of MOBI Telecommunications Technologies (Ji An) Co., Ltd. (“MOBI Jian”) and MOBI Technologies (Xi An) Co., Ltd. (“MOBI Xian”) are 15% for the six months ended 30 June 2017.

6. PROFIT AND THE TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit and the total comprehensive income for the period has been arrived at after charging (crediting) the following items:

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Depreciation	15,564	18,812
Amortization of prepaid lease payments	334	334
Cost of inventories recognised as expenses	532,671	687,188
Net exchange loss (gain)	<u>631</u>	<u>(350)</u>

7. DIVIDENDS

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Dividends recognised as distribution during the period:		
2015 final dividend of HKD0.04 per ordinary share	—	27,997
2016 final dividend of HKD0.04 per ordinary share	<u>28,436</u>	—
	<u><u>28,436</u></u>	<u><u>27,997</u></u>

At the Board meeting held on 23 August 2017, the Directors of the Company do not recommend any payment of interim dividend for the six months ended 30 June 2017.

8. EARNINGS PER SHARE

The earning figures for calculation of the basic and diluted earnings per share attributable to the ordinary owners of the Company are based on the following data:

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
<i>Earnings</i>		
Profit for the period attributable to owners of the Company and earnings for purpose of basic and diluted earnings per share	<u>8,335</u>	<u>58,251</u>
	<u><u>8,335</u></u>	<u><u>58,251</u></u>
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	819,014	818,907
Effect of dilutive potential ordinary shares – 2013 share options	<u>19,438</u>	—
– 2015 share options	—	—
	<u><u>19,438</u></u>	<u><u>—</u></u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>838,452</u>	<u>818,907</u>
	<u><u>838,452</u></u>	<u><u>818,907</u></u>

All dilutive potential ordinary shares for the six months ended 30 June 2017 arose from share options. The amount of diluted earnings per share for the six months ended 30 June 2016 was the same as basic earnings per share as there was no dilutive potential ordinary shares in existence during the six months ended 30 June 2016.

9. TRADE RECEIVABLES

The Group offers credit terms generally accepted in the antenna system, base station RF subsystem and coverage extension solution manufacturing industry to its trade customers, which is around 30 to 240 days for a significant number of the Company's products, although a longer credit term may be extended to certain customers, depending on price, the size of the contract, credibility and reputation of the customers. In order to manage the credit risks associated with trade receivables effectively, credit limits of customers are evaluated periodically. Before accepting any new customer, the Group conducts research on the creditworthiness of the new customer and assesses the potential customer's credit quality. Trade receivables that are neither past due nor impaired have the high ranking record attributable to their corresponding research on the creditworthiness.

The following is an aged analysis based on invoice date of trade receivables net of impairment losses at the end of reporting period:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
0 to 30 days	182,681	167,315
31 to 60 days	95,558	52,848
61 to 90 days	51,910	26,443
91 to 120 days	42,645	32,067
121 to 180 days	30,011	46,319
Over 180 days	<u>122,190</u>	<u>129,656</u>
	<u><u>524,995</u></u>	<u><u>454,648</u></u>

10. TRADE PAYABLES

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
0 to 30 days	84,673	78,709
31 to 60 days	73,794	75,529
61 to 90 days	87,947	48,768
91 to 180 days	83,987	71,102
Over 180 days	<u>3,271</u>	<u>23,892</u>
	<u><u>333,672</u></u>	<u><u>298,000</u></u>

Typical credit term of trade payables ranges from 60 to 120 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Revenue

The Group's unaudited consolidated revenue for the six months ended 30 June 2017 amounted to approximately RMB687.6 million, representing a decrease of approximately 24.0% as compared with approximately RMB904.3 million in the corresponding period of 2016. In which, sales of antenna system products decreased by approximately 41.4% to approximately RMB364.7 million, sales of base station RF subsystem products increased by approximately 9% to approximately RMB271.5 million, and sales of coverage extension solution products also increased by approximately 57.7% to approximately RMB51.46 million.

Antenna system

The Group's products of antenna system are primarily sold to the domestic network operators and network operators in overseas markets (for example in emerging markets such as Russia, Romania and Southeast Asia); whilst a portion of our products of antenna system are sold to operators worldwide by way of network solution provider customers such as ZTE.

In the first half of 2017, revenue from sales of antenna system products decreased by approximately 41.4% to approximately RMB364.7 million as compared with the corresponding period of 2016 (1H 2016: approximately RMB622.6 million), mainly attributed to the changes in the construction of 4G networks by operators. Of which, there was an outbreak in revenue from low-band refarming/IoT antennas by 800M/900M operators in the first half of 2017, significantly increasing approximately 300,122.7% to approximately RMB139.2 million as compared with the corresponding period of 2016. In addition, revenue from multi-frequency multi-system antenna products increased significantly by approximately 76.9% to approximately RMB81.30 million as compared with the corresponding period of 2016, mainly attributed to the significant increase in the sales of the existing series of multi-frequency multi-system antenna products developed by the Group. Besides, we recorded a significant increase of revenue from the PRE5G antenna products, increasing significantly by 100% to RMB10.46 million as compared with the corresponding period of 2016. However, the above increase was offset by the decrease in the needs of TD/TD-LTE antennas. In the first half of 2017, revenue from TD/TD-LTE antenna product decreased significantly by approximately 91.2% to approximately RMB23.81 million. The TD-LTE Phase 4 was conducted during the first half of 2016. The major tender of the TD-LTE Phase 5 was completed in the second quarter of 2017 and the construction is expected to commence in the second half of 2017. The price competition of the TD-LTE antenna is more and more intense in

2017. All of the above contributed to the significant decrease of sales of the TD-LTE antenna during the first half of 2017 as compared with the corresponding period of 2016. The Group believes that low-band refarming, Internet of Things, 5G networks and multi-network stations are becoming the trend in networks construction. Therefore, such business developments of the Group mentioned above will help to maintain its competitive edge in the technology aspect.

After entering into the 4G era, as the technologies required by 4G networks are more complicated, operators' requirements on technologies and reliabilities of antenna systems are more complicated, and technology update speed is also accelerating. Therefore, suppliers capable of developing 4G high performance antennas are far fewer than before. The Group believes that the increase in the low-band refarming is not accidental in the first half of 2017 due to the increasing number of applications and formats and the scarcity of frequency resources, as well as the need for operators to reduce capital expenditure. The Group held a leading industrial position in the PRC in respect of the development technology and customer testing of new generation high performance antenna, and procured substantially all the share of supply from major customers. Therefore, it is expected that revenue from the antenna system products of the Group will have large potential for growth in the future.

On top of this, the Group has successfully developed the research and development platform for the new generation of antenna and made a further breakthrough in the high quality antenna technology. It is believed that this can meet the mainstream demand of the international market, thereby laying a foundation for future development.

Base station RF subsystem

The Group is a supplier of core RF subsystems for international communication equipment manufacturers, such as ZTE and Nokia, and provides them with a variety of products and solutions, including 3G and 4G RF subsystem products. During the six months ended 30 June 2017, revenue from base station RF subsystem products increased by approximately 9.0% to approximately RMB271.5 million as compared with the corresponding period of 2016 (1H 2016: approximately RMB249.0 million). The Group believes that base station RF subsystem products would still have continued growth room in the future.

For the six months ended 30 June 2017, revenue from Low-band refarming/IoT base station RF subsystem products increased significantly by approximately 1,798.2% to approximately RMB107.3 million as compared with the corresponding period of 2016. In addition, revenue from TD/TD-LTE and WCDMA/FDD-LTE RF subsystem products decreased significantly by approximately 38.0% and approximately 36.1% to approximately RMB39.52 million and approximately RMB46.54million, respectively as compared with the corresponding period of 2016. Revenue from GSM/CDMA RF subsystem products decreased significantly by approximately 25% as compared with the corresponding period of 2016 to approximately RMB50.90 million.

The competition of base station RF subsystem was more intense in 2017. On one hand, the product technology and quality requirements continued to improve. On the other hand, the price of the product continued to decline. Over the past period, due to the macroeconomic reasons, there was still certain surplus in the capacity of precise machine process, resulting in some of the upstream precise machine process providers entering into the field of RF subsystems, making this area particularly and fiercely competitive. The Group expects that the technology and quality improvement will promote the clearing for the industry, so as to optimize the competition of this area. The Group currently is positioned as the core supplier in major equipment customers, with stable and increasing share of supply and ability to respond to current challenges.

Coverage extension solution

The Group dedicates to achieve a balanced portfolio of products. In the first half of 2017, revenue from coverage extension solution segment of the Group increased significantly by approximately 57.7% to approximately RMB51.46 million as compared with the first half of 2016 (1H 2016: approximately RMB32.63 million), mainly attributed to the increase in the needs for aesthetic antenna in the first half of 2017. The Company believes that given the increasing scarcity of sites for base stations and the operation of Tower Company (鐵塔公司), the demand for aesthetic antennas by operators will continue to increase substantially.

Customers

As the TD-LTE networks adopt turn-key delivery model, the Group's TD-LTE antenna system products and RF subsystem products are all delivered to network solution providers, such as ZTE. Affected by the delay of TD-LTE Phase 5 and the declining price, the sales of TD-LTE products of the Group in the first half of 2017 decreased significantly as compared with the corresponding period of 2016, which thus dragged down the Group's year-on-year revenue from network solution provider, ZTE, decreasing by approximately 36.9% to approximately RMB314.6 million.

In addition, in the first half of 2017, sales to Nokia decreased by approximately 8.5% to approximately RMB71.92 million as compared with the corresponding period of last year. It is because that the projects developed by Nokia in the last year were still in the climbing stage for the first half of 2017 and they are not delivered at their biggest scale yet. Meanwhile, the Group became a global qualified antenna provider of Nokia in 2016. In the first half of 2017, the sales of antenna to Nokia increased in multiples, even close to the sales scale of base station RF subsystem products. The Group believes that our position as provider of Nokia clients is stable. Currently, the cooperation projects are gradually turning into bulk projects. In the future, it is hopeful to further expand our cooperation projects.

For domestic operators, sales to China Unicom and China Mobile in the first half of 2017 decreased by approximately 60.3% and approximately 57.7% to approximately RMB64.48 million and approximately RMB7.28 million, respectively as compared with the first half of 2016, while sales to China Telecommunications increased significantly by approximately 241.1% to approximately RMB150.6 million as compared with the first half of 2016. The capital expenditure of base station of China Unicom was decreasing, which was the major reason for the decrease in the sales of the Group to China Unicom. China Mobile announced a large scale of tender for the 946,000 antenna on June 2017, while the tender for NB-IoT base station antenna has not yet ended. Therefore, the Group believes that the decrease of sales to China Mobile in the first half of 2017 was mostly due to the timing of projects. The significant increase of sales to China Telecommunications was due to the large-scale of demand for low-band refarming from China Telecommunications. At present, the Group actively participated and gained shares in the major demand projects of the major operators.

In the first half of 2017, the demands from overseas markets, such as India, Russia and Romania, for 4G and multi-band and multi-system products remained robust continuously.

Gross Profit

Our gross profit decreased by approximately RMB55.30 million or approximately 26.3% from approximately RMB210.2 million in the first half of 2016 to approximately RMB154.9 million in the first half of 2017.

During the six months ended 30 June 2017, the Group's overall gross profit margin decreased to approximately 22.5%, as compared with approximately 23.2% of the corresponding period last year. Such decrease was mainly due to the decrease in sales of antenna system and the decrease in price resulting from competition. The Group improved the overall gross profit margin through the constantly optimizing products sales portfolio and increasing the proportion of high-tech products in sales.

Other Income and Expenses

Other income and expenses increased significantly by approximately 80.1% from RMB11.15 million in the first half of 2016 to approximately RMB20.08 million in the first half of 2017, mainly due to an increase in the government subsidies received by the Group, the increased compensation income and the increased rental income.

Distribution and Selling Expenses

Distribution and selling expenses decreased by 6.8% from approximately RMB49.54 million in the first half of 2016 to approximately RMB46.19 million in the first half of 2017, primarily due to the decrease in business expenditures, logistics fees, and maintenance costs resulting from the decrease in sales products.

Administrative Expenses

Administrative expenses increased by approximately 4.7% from approximately RMB55.27 million in the first half of 2016 to approximately RMB57.89 million in the same period of 2017, mainly due to (1) the increase in the average number of employees, which led to the increase in expenses such as salaries, social security contributions, welfare expenses and recruitment and personnel agency fees; and (2) the increase in expenses such as business expenditures, communication costs, rental fees, audit, consulting and advisory fees and legal costs.

Research and Development Costs

For the six months ended 30 June 2017, the Group recognized development costs of approximately RMB6.92 million as capitalization expenses. After the capitalization, research and development costs increased by approximately 25.0% from approximately RMB42.96 million in the first half of 2016 to approximately RMB53.68 million in the first half of 2017, which was mainly attributable to the increase in salaries for research and development activities, surcharge on wages, travelling expenses, social security contributions, testing fees and research and development materials costs.

Finance Costs

Finance costs increased by approximately 17.6% from approximately RMB6.12 million in the first half of 2016 to approximately RMB7.20 million in the first half of 2017, primarily due to the increase in bank borrowings.

Profit before Taxation

Profit before taxation for the first half of 2017 decreased by approximately RMB57.57 million, or approximately 85.4%, from approximately RMB67.44 million for the corresponding period in 2016 to approximately RMB9.87 million. Net profit margin before tax charges decreased from approximately 7.5% in the first half of 2016 to approximately 1.4% in the first half of 2017.

Income Tax Expenses

Our income tax expenses decreased by approximately RMB7.64 million from approximately RMB9.18 million in the first half of 2016 to approximately RMB1.54 million in the first half of 2017. Our effective tax rates calculated from the tax charged to the consolidated statements of comprehensive income over the profit before tax were approximately 13.6% in the first half of 2016 and approximately 15.6% in the first half of 2017, respectively.

Profit for the Reporting Period

Profit for the first half of 2017 decreased by approximately 85.7% from approximately RMB58.25 million for the corresponding period in 2016 to approximately RMB8.34 million. Our net profit margin decreased from approximately 6.4% for the first half of 2016 to approximately 1.2% for the first half of 2017.

FUTURE PROSPECTS

In the future, the Group will further develop both domestic and international markets, and focus on the market of RF technology of wireless communication, especially on the base station RF technology and RF technology for other wireless communications.

Customers

The Group will maintain its focus on global market and provide RF technology solutions to global leading network solution providers and network operators.

The Group is also one of the few one-stop providers in China who can provide RF solutions to international system providers and network operators. Due to keen competitions and the effects of global economic conditions, customers are more concerned of costs, technologies and qualities. Furthermore, international reputable customers require longer turnaround time and very strict certification requirements on their suppliers. By leveraging on its advantages of cost and technology, the Group has established strong relationships with a number of international well-known customers. We believe this can strengthen our competitiveness in the global market to a greater extent. The Group will further improve its development strategy for overseas markets and international business.

During 2017, the domestic operators (particularly China Mobile and China Telecommunications) increased their investment in low-band refarming and NB-IoT Internet of Things base station, the amount of which was above the previous level and beyond the Group's expectation. According to media coverage, in August 2017, China Mobile issued Tender Notice for the Centralized Procurement Items of Narrowband Internet Antenna during 2017 to 2018 and the total antenna purchase is estimated to be 1.11 million units. Therefore, the Group believes that the purchase demand for antenna and RF subsystems will remain at a high level for domestic operators in the second half of 2017 and even 2018. Of course, the competition will be more and more intense.

In addition, in the second half of 2017, demands for networks construction in overseas emerging markets remains robust. The Group will proactively participate in these overseas projects, including those areas in Asia Pacific, Africa and Latin America, by itself or through equipment manufacturers. Meanwhile, the Group is also expected to be included in the short list of antenna supply of more international equipment manufacturers and international operators. In the long term, the Group still insists on its internationalized market strategies, especially in the multinational operators markets in Europe, and will continue to develop towards this direction.

The Group has developed our global market for many years. With the improvement on our product technology, product integrity and quality standards, we have gained recognition from many international customers. The Group believes that the scale of our global sales will experience a rapid growth in the foreseeable future.

The Group is confident in its annual results of operation for 2017.

Products

The total demand for TD-LTE products is affected by the construction progress and pricing and the overall demand has slowed down from the peak level during the previous two years. However, the network construction of LTE-FDD is slightly behind that of TD-LTE. Therefore, there expected to be a strong demand for LTE-FDD products from the domestic operators. Meanwhile, the demands for low-band refarming and NB-IoT base station products shows a rapid growth, which is expected to be a major driver of the demands of domestic antenna and RF subsystems for a period of time in the future.

Meanwhile, the technology of antenna products is evolving rapidly around the world. Integration and multi-system stations have become the trend of development. The multi-band/multi-system antenna products developed by the Group encompass a series of products which have passed the tests by and received positive recognition from international customers in networks construction. It will be a crucial marketing strategy for the Group to expand our business overseas aggressively in the future.

In respect of base station RF subsystem products, the Group will continue to enhance cooperation with international network solutions providers, expand product portfolios. The competition of base station RF subsystems is increasingly intense and the industry is rapidly adjusting its patterns. The Group is still firmly positioned as the major providers of our major customers in the world and is committed to expand its market share and undertake more new projects. In addition, the Group has layouts in multi-industries and multi-cities in mainland China, which helps to optimize its cost structure. The Group believes that with the long term and close cooperation with international network solutions providers, the Group is well positioned to keep abreast of the advanced technologies of base station RF. We can have better communication with the customers and understand their requirements, which will deepen the trust within us, and the competitive edges of the Group will also be strengthened.

In respect of coverage extension products, as the station sites environment in 4G era is more complicated, specific antennas and high quality aesthetic antennas are expected to be applied more broadly, and the Group has leading technology strengths in such areas.

Conclusion

The Group is one of the few one-stop solution providers of RF technology for global network operators and network solution providers. The Group has a wide range of reputable customers and diversified income sources, which contributes to the positive and stable growth of the Group.

The Group will continue to optimize its customer base and structure, adapt strategies of product differentiation based on the technologies and costs, maximize the market opportunities in 3G, LTE and the new generation wireless technology. The Group will also strive to enhance its integrated competitiveness to ensure the stable growth of the operating results of the Group and to maximize the returns to its shareholders and the society.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, we have funded our operations and capital requirements from cash generated from our operations, trade credit from our suppliers and short term bank borrowings. We apply cash primarily in satisfying our increased working capital requirements and capital expenditures on purchases of production equipment in Shenzhen, Jian and Xian, China.

As at 30 June 2017, the Group had net current assets of approximately RMB812.5 million (31 December 2016: approximately RMB843.0 million) including inventories of approximately RMB371.4 million (31 December 2016: approximately RMB340.2 million), trade and notes receivables of approximately RMB906.4 million (31 December 2016: approximately RMB872.3 million) and trade and notes payables of approximately RMB596.8 million (31 December 2016: approximately RMB538.1 million).

For the six months ended 30 June 2017, average turnover days of our inventories, trade and notes receivables and trade and notes payables are approximately 121 days (six months ended 30 June 2016: approximately 92 days), 234 days (six months ended 30 June 2016: approximately 212 days) and 193 days (six months ended 30 June 2016: approximately 182 days), respectively. Turnover days are derived by dividing the arithmetic mean of the beginning and ending balances of relevant assets/liabilities classes for the relevant period by sales/cost of sales and multiplying by the number of days in the period. The increased weighting of trade receivables attributable to PRC network operators led to the lengthening of average receivable turnover days. In general, the average credit period for PRC network operators is longer than global network operators and solution providers. We offer credit terms generally accepted in the antennas and base station RF subsystems manufacturing industry to our trade customers.

As at 30 June 2017, the Group pledged bank balance with a value of approximately RMB204.2 million to the bank (31 December 2016: approximately RMB124.6 million), cash and bank balances of approximately RMB226.2 million (31 December 2016: approximately RMB291.5 million) and recorded bank borrowings of approximately RMB301.2 million (31 December 2016: approximately RMB256.3 million). The current ratio (current assets divided by current liabilities) decreased to approximately 1.81 times as at 30 June 2017 from approximately 1.98 times as at 31 December 2016. The gearing ratio (bank borrowings divided by total assets) was approximately 13.1% as at 30 June 2017, whereas the gearing ratio as at 31 December 2016 was approximately 11.7%.

The Board is of the opinion that the Group has a solid and stable financial position and adequate resources to support the necessary operating funding requirements and foreseeable capital expenditures.

FOREIGN EXCHANGE EXPOSURE

Renminbi (“RMB”) is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. We have foreign currency sales and purchases and certain trade receivables and bank balances are denominated in United States dollar (“US\$”), Euro (“EUR”) and Hong Kong dollars (“HK\$”). We currently do not have a foreign currency hedging policy. However, the management monitors and will consider hedging of foreign currency exposure when necessary.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had approximately 3,618 staff. The total staff costs amounted to approximately RMB161.5 million for the six months ended 30 June 2017. The remuneration of the Group’s employees is determined on the basis of their responsibilities and industry practices. Regular training is provided to improve the skills and expertise of relevant staff. The Group also grants share options and discretionary bonuses to eligible staff based on their performance.

CHARGE ON ASSETS

As at 30 June 2017, bank balances of approximately RMB204.2 million were pledged to bank to secure the banking facilities provided to the Group.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 30 June 2017, the Group had contracted for capital commitments relating to acquisition of property, plant and equipment of approximately RMB28.41 million. The Group did not have any significant contingent liabilities.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2017.

DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Board has been adamant in upholding high standards of corporate governance to maximize the operational efficiency, corporate values and shareholder returns of the Company. The Company adopted sound governance and disclosure practices and continued to upgrade internal control system, strengthen risk control management and reinforce the corporate governance structure.

The Company has complied with the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") during the six months ended 30 June 2017 except for the deviation of code provision A.2.1.

The code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. Currently, Mr. Hu Xiang ("Mr. Hu") is both the Chairman and Chief Executive Officer of the Company. Mr. Hu is one of the founders of the Group and has extensive experience in the telecommunication industry. Given the current stage of development of our Group, the Board believes that vesting the two roles in the same person provides our Company with strong and consistent leadership and facilitates the implementation and execution of our Group's business strategies. We shall nevertheless review the structure from time to time in light of the prevailing circumstances.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

AUDIT COMMITTEE

The Company has set up an audit committee with written terms of reference. The audit committee comprises three independent non-executive Directors. The principal duties of the audit committee include the review and supervision of the Group's financial reporting systems and internal control procedures, review of the Group's financial position and review of the relationship with the external auditor of the Company.

The Group's condensed consolidated interim financial statements for the six months ended 30 June 2017 have been reviewed by the audit committee of the Company, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND 2017 INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.mobi-antenna.com. The 2017 Interim Report of the Company will be available on both websites and dispatched to shareholders in due course.

By order of the Board
MOBI Development Co., Ltd.
Hu Xiang
Chairman

Hong Kong, 23 August 2017

As at the date of this announcement, the executive directors are Mr. HU Xiang, Mr. LIAO Dong and Mr. CHEN Zhaojun; the non-executive director is Mr. QU Deqian and the independent non-executive directors are Mr. LI Tianshu, Mr. ZHANG Han and Mr. LI Guinian.