

# Q3·2014

## INTERIM REPORT



## Vtion Wireless Technology at a glance

		Q3			9M		
		2014	2013	+/-%	2014	2013	+/-%
Revenues	million €	12.43	17.46	-29	35.34	45.26	-22
Gross profit	million €	2.42	3.42	-29	7.14	8.58	-17
Gross profit margin	%	20	20	0PP	20	19	1PP
EBITDA	million €	1.02	1.89	-46	3.08	4.23	-27
EBITDA margin	%	8	11	-3PP	9	9	0PP
EBIT	million €	0.88	1.76	-50	2.69	3.83	-30
EBIT margin	%	7	10	-3PP	8	8	0PP
Net profit	million €	0.51	1.70	-70	2.23	3.36	-34
Net profit margin	%	4	10	-6PP	6	7	-1PP
Earnings per share <sup>1</sup>	€	0.04	0.13	-69	0.17	0.25	-32
Net Cash flow from operations	million €	-0.58	4.95	n/a	-4.54	6.78	n/a

## Company profile

The Vtion Group is a leading supplier of wireless data terminals and associated services for the mobile use of computers via broadband wireless networks in the People's Republic of China. Vtion operates its own online appstore and serves as an aggregator and distributor of Android applications through its wholly-owned subsidiary, Vtion Anzhuo. Vtion was established in 2002 and currently has 242 employees, with offices in Fuzhou, Beijing, and Frankfurt.

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## Letter from Vtion's CEO

Dear Fellow Shareholders,

I am pleased to present to you our third quarter 2014 and nine-months financial results. As many of you know, and have seen in our previous results, our company currently finds itself at a turning point due to the decline of our core business. My management team and I began a process of adapting our business model to our changing market in 2012, and we are beginning to see progress in several of our newer, non-core business segments. However, in our software and applications businesses, monetization remains difficult, and thus the aforementioned progress is yet to be reflected in our operating results.

Therefore, our nine-months results showed a decline from the same period a year ago. For the third quarter this year we reached sales of EUR 12.4 million and for the reporting period nine months 2014 sales amounted to EUR 35.3 million. Despite the lower sales our company remained profitable with an EBIT margin of approximately 7.6% for the nine months period. During our period of transition, and particularly before we are able to have more success in monetizing our newer business ventures, we will place a very particular emphasis on maintaining a lean cost structure.

While selling price declines and weak demand continue to be major headwinds for our core business, 21% of the revenue contribution in the core business comes from the tax control program. Furthermore we have made progress in our industry-specific computing solutions and mobile applications businesses. Vtion has expanded its client base to currently eleven companies in that segment, while sales in the segment has gained progress obviously compared with the same reporting period of last year. In Vtion Anzhuo, since the business concentrates on customized app store for big screen manufacturers in domestics, Vtion Anzhuo is expanding its business in other countries such as South East of Asia. We recently signed a cooperation agreement with Sharp to provide its own appstore in the South East of Asia. And Vtion Anzhuo develops independently a customized app in terms of pictures and collaborate with China Network Television (CNTV) and intend to promote it in China.

Although our financials, particularly regarding sales, continue to be a disappointing, I would like to commend our management team and employees for their efforts over the first nine months of the current year. We all continue to work to improve our operating situation and monetize our new businesses as well as to seek a new chance for our business in the special period for China and European area. I'm confident that with continued work our efforts will soon begin to pay off.

Best Regards,

Chen Guoping

CEO Vtion Wireless Technology AG

# Highlights

## **Profitability Maintained**

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Against the background of a difficult operating environment and in line with lower sales, the company achieved an EBIT margin of 7.6% in the first nine months 2014. This is primarily due to the company's efforts of maintaining a lean cost structure.

## **Progress in Newer Business Segments**

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In the first nine months of 2014, the customized wireless data card for the tax control program achieved 21% of the total revenues. Compared with the first nine months of 2013, Vtion increased sales over the first nine months 2014 based on its client base in the insurance industry solutions business. We were able to reach cooperation agreements with several device manufacturers through its Vtion Anzhuo subsidiary, which will focus on building and operating customized app store for large-screen device manufacturers.

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## **On Track for Guidance**

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Despite lower sales in the periods third quarter and the nine months 2014, Vtion is on track to reach its amended revenue guidance of EUR 48 million in sales for the full year. We intend to stay profitable with an EBIT margin of approximately 7%.

## **Strong Balance Sheet**

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As at September 30, 2014 the equity ratio of Vtion was 95%. Moreover we had a strong liquidity positions with cash per share of EUR 9.6. The company is well financed for future group development once the overhaul of its business model is complete and Vtion is strategically positioned to face a changing marketplace.

# The Share

## Market Environment

For the third quarter of 2014, the political and economic situation remained further intense and unstable, which influenced the stock market. Also the so far stable German economy was influenced by this development. As a result the business Climate Index fell to a 17-months low and the GfK Consumer Climate Index for October reduced the second time in a row. While the President of the European Central Bank (ECB) Draghi lowered the main Refinancing Operations Rate by 10 basis points to 0.05% which led to a historical low. **Simultaneously** the ECB decreased the Deposit Facility to 0.2% on September 4<sup>th</sup><sup>1</sup>. Furthermore, in October, a fall in China's inflation rate to a five-year low and a decline in U.S. producer prices for the first time in over a year were worrisome signs to investors. The stocks fell dramatically as global economy fears mount. As of the third quarter, DAX declined by 3.65%, the MADX -4.88% and the Tex DAX -4.56%. After the first half of the year, the Vtion share still kept moving and increased by 2.6% during the third period.

## Vtion Share Performance

After the first half of the year, Vtion share still kept moving and increased by 4.23% during the third period. In July, Vtion share price has been traded around the price between EUR 3.31 and EUR 3.43 and tried to cross above the resistance of EUR 3.46. On July 29<sup>th</sup>, after the release of the preliminary numbers for the first half 2014, the Vtion share price retreated to EUR 3.21. In August, the share price showed a volatile performance and shares came heavily under pressure. Afterwards, the upward trend took place after the presentation of the first half 2014 preliminary number on August 21<sup>st</sup> and ended at Euro 3.00. In September, Vtion share suffered from negative stock market environment and fell back to the low point of the months at EUR 2.88. On the day of the company's announcement of the redemption of the treasury shares, the stock jumped to Euro 3.48 intraday. After an upswing, the shares closed at EUR 3.13 at the end of September. During the third quarter, the level of EUR 3.00 worked out as a resistance level for the shares of Vtion. Compared to the beginning of the third quarter the share price of Vtion increased by 4.3%. Compared to the beginning of the reporting period the share price decreased by 9.8%. and closed at the price of Euro 3.128.

## Share Buyback

On September 23<sup>rd</sup>, Vtion resolved to cancel 1,084,855 treasury shares which had been acquired under a voluntary public tender offer to all shareholders between 11 April 2014 and 9 May 2014 and to reduce the Company's share capital accordingly, which is effective since October 1<sup>st</sup>, 2014. After that, the share capital of the Company amounts to EUR 12,213,640.00 and is divided into 12,213,640 no par value bearer shares with a notional amount of the Company's share capital of EUR 1.00 each.

## Sponsorship and Research Coverage

The company has had research coverage from M.M. Warburg since January 2010. Equinet AG is Vtion's market maker and designated sponsoring services provider.

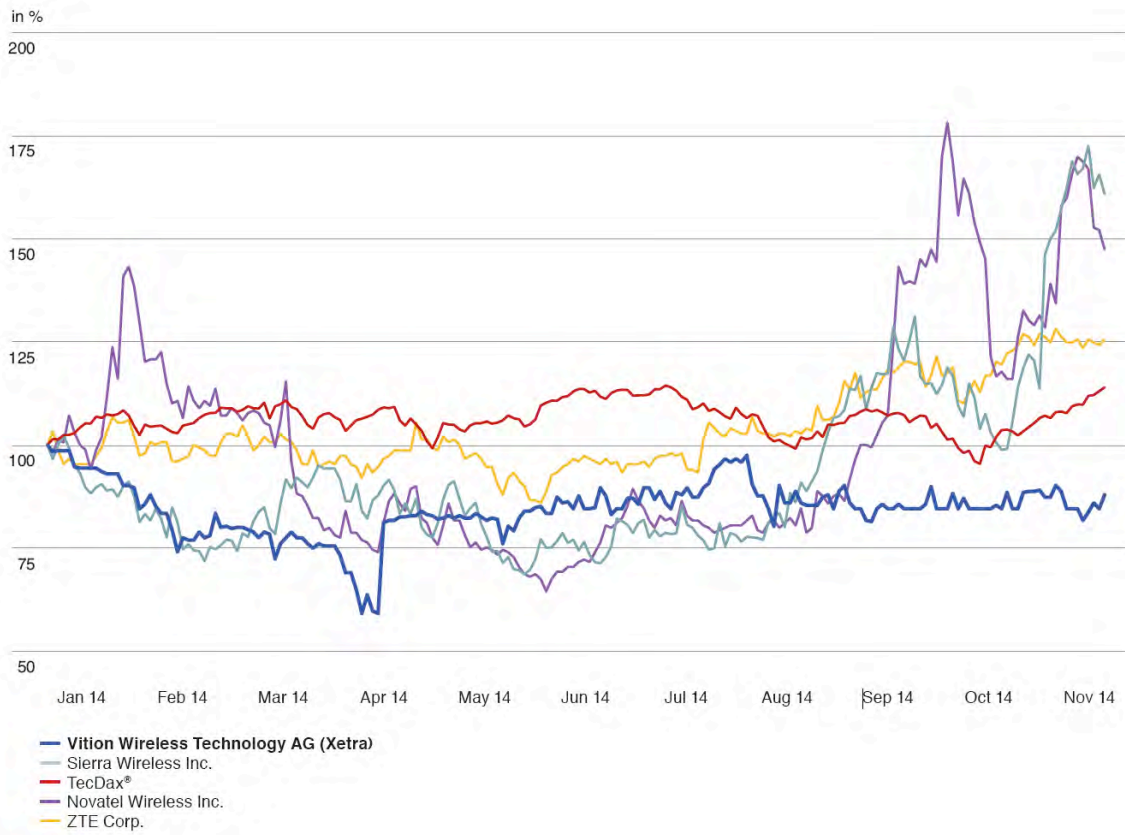
## Investor Relations

Vtion engages in roadshows in Europe throughout the year to reach both current shareholders and new potential investors. The company will present at the Germany Equity Capital Markets Forum in Frankfurt and is a regular participant in other conferences throughout the year. The company is committed to maintaining accessibility to its investors.

<sup>1</sup> <http://www.ecb.europa.eu/home/html/index.en.html>

### VTION STOCK PRICE

in Percent



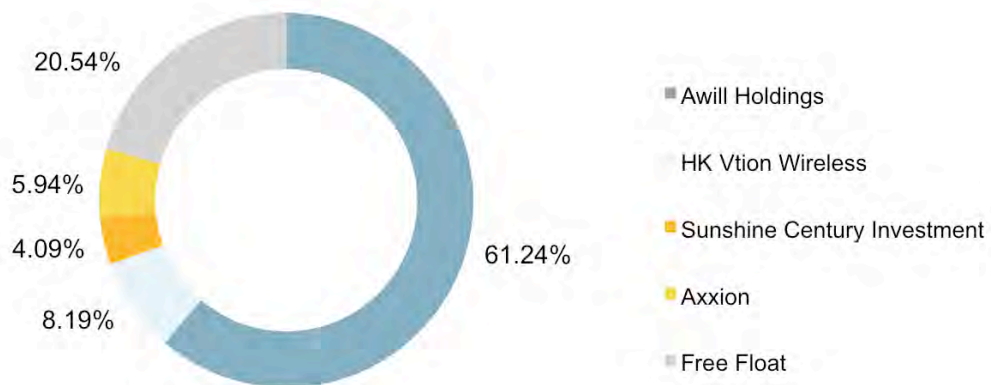
## Vtion Master Data

as of September 30, 2014

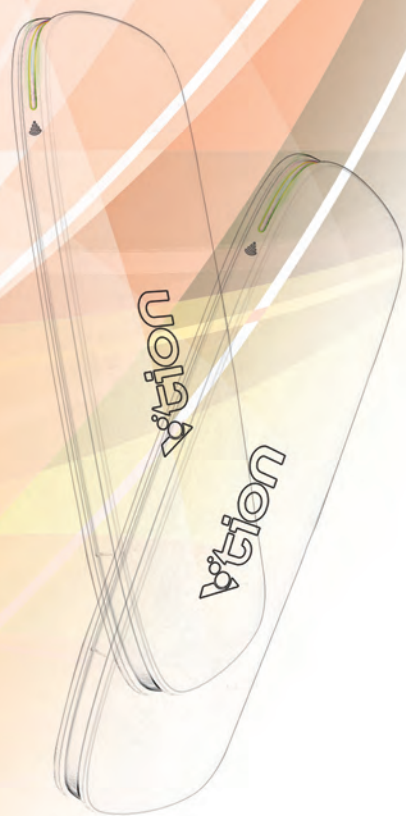
		<b>September 30, 2014</b>
Number of shares	Mio Shares	13,298,495
Closing price	€	3.128
Market Cap.	Mio €	41.598
Share price high (24 week)	€	3.48
Share price low (24 week)	€	2.10
Average trading volume per day	Shares	3,035

## Vtion Shareholder Structure

as of October 1, 2014







# Interim Management Report

## Business and Operating Environment

### OVERVIEW

The international Monetary Fund recently cut its growth outlook for the global economy this year to 3.3 percent from 3.4 percent, while China's GDP grew at a rate of 7.3% in the third quarter of 2014 and a growth rate of 7.4% for the nine-month period, weaker than the expectations for the quarter and original projections for the year, which called for an annual growth rate of 7.5%. While China has achieved a higher employment rate and CPI has increased by 2.1% for nine month, compared with the same period of last year<sup>2</sup>. Though the overall growth rate has slightly slowed, a policy shift to greater promotion of domestic consumption which has ameliorated the effect of the slowing growth on domestic enterprises. From the start of this year, China has promoted reforms and made innovations in macroeconomic regulations to create a level playing field for various economic institutions so they can compete in a fair and equitable environment<sup>3</sup>.

### GENERAL MARKET CONDITIONS AND BUSINESS DEVELOPMENT

China currently boasts a total of 632 million internet users in total, 83.4% of which are mobile internet users.<sup>4</sup> The mobile internet has seen rapid growth in the past few years, primarily through the proliferation of smartphones and tablet PC's. Market projections are that the growth in mobile internet users will outpace overall growth in internet user numbers given the continued improvement of network quality and penetration, as well as the further expansion of mobile device offerings.

Currently, most provinces of China is covered by 3G technology or 3.5G networks. In some rural areas older technologies are still in use. The fourth generation, or 4G technology, has already been introduced into the market, albeit in a very limited capacity. Currently, China Mobile is working on building out a TD-LTE network, which is in trail use in a limited number of locations. China Unicom and China Telecom are still in the process of solidifying their 4G solutions, with rollouts expected in 2015.

Vtion continues to rely on the three major telecom operators for a large portion of its hardware sales, particularly wireless data cards and routers. After the first half of 2014, Vtion ceased sales of its mobile camera products due to a policy change on the part of the operators, through which they would no longer subsidize the purchase and further sale of such products to the end users.

Given the early phase of the introduction of 4G technology standards to the Chinese market, Vtion plans sales of 4G wireless router (MIFI) with collaboration of China Mobile. The company has already completed a 4G router for the TD-LTE standards, and is prepared with further solutions for the 4G networks, which will be introduced depending on market development and demand.

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<sup>2</sup> [http://www.stats.gov.cn/tjsj/sjjd/201407/t20140716\\_582269.html](http://www.stats.gov.cn/tjsj/sjjd/201407/t20140716_582269.html)

<sup>3</sup> [http://m.yna.co.kr/mob2/en/contents\\_en.jsp?domain=3&ctype=A&site=0100000000&cid=AEN20141022008200315&mobile](http://m.yna.co.kr/mob2/en/contents_en.jsp?domain=3&ctype=A&site=0100000000&cid=AEN20141022008200315&mobile)

<sup>4</sup> <http://www.cnnic.cn/hlwfzyj/hlwxzbg/hlwtjbg/201407/P020140721507223212132.pdf>

In the industry-specific computing solutions and mobile applications segments, Vtion has continued to see progress in its business development, despite difficulty with monetization of these businesses. The company has expanded its client base for its insurance sales and continues to work on growing revenue per client, which in most cases improve apparently during the third quarter of this year. The company has been successful in generating more recurring revenues from this business segment, as most clients now pay for services on a monthly contractual basis.

In Vtion Anzhuo, we shift our business strategy and concentrate on the collaboration with big-smart screen manufacturers to develop customized solutions in their online stores. Currently the company has long term cooperation agreements with 11 clients through the Vtion Anzhuo subsidiary. Through the channel from these clients, Vtion Anzhuo will gain more users who will create benefit via purchasing paid applications and some paid game tools in the appstores.

## Result of Operations

The following table presents income statement data of the consolidated interim financial statements of the Company under IFRS for the third quarter ended 30 September 2014, with comparative information for the third quarter ended 30 September 2013 as well as three-quarter results of 2014 with comparative information for the first three quarters of 2013.

### INCOME STATEMENT – Group

Jan. 1 – Sep. 30 (in k€ )	Q3			9M		
	2014	2013	+/-%	2014	2013	+/-%
<b>Sales</b>	<b>12,427</b>	17,460	<b>-29</b>	<b>35,343</b>	45,255	<b>-22</b>
			<b>-29</b>		-	
Cost of sales	<b>-10,003</b>	-14,045		-28,202	36,672	<b>-23</b>
<b>Gross profit</b>	<b>2,424</b>	3,415	<b>-29</b>	<b>7,141</b>	8,583	<b>-17</b>
Other operating income	<b>68</b>	0	<b>n/a</b>	104	19	<b>447</b>
Selling and distribution expenses	<b>-321</b>	-509	<b>-37</b>	-965	-1,229	<b>-21</b>
Administrative expenses	<b>-1,287</b>	-1,149	<b>12</b>	-3,577	-3,541	<b>1</b>
Other operating expenses	<b>0</b>	0	<b>n/a</b>	-10	-3	<b>233</b>
<b>Profit from operations (EBIT)</b>	<b>884</b>	1,757	<b>-50</b>	<b>2,693</b>	3,829	<b>-30</b>
Finance income	<b>441</b>	444	<b>-1</b>	1,320	1,237	<b>7</b>
Finance costs	<b>-5</b>	-5	<b>0</b>	-17	-14	<b>21</b>
Foreign exchange gain/loss	<b>-117</b>	76	<b>n/a</b>	-192	-76	<b>153</b>
Profit before income tax	<b>1,203</b>	2,272	<b>-47</b>	3,804	4,976	<b>-24</b>
Income tax	<b>-690</b>	-568	<b>21</b>	-1,577	-1,618	<b>-2</b>
<b>Profit for the period</b>	<b>513</b>	1,704	<b>-70</b>	<b>2,227</b>	3,358	<b>-34</b>
Earnings per share*	0.04	0.13	<b>-69</b>	0.17	0.25	<b>-32</b>

\* Computed on the basis of weighted average 12,762,028 shares for 9M 2014 and 12,213,640 shares for Q3 2014, weighted average 13,298,495 shares for 9M 2013 and Q3 2013 respectively

## SALES

In the first nine months of 2014, sales amounted to EUR 35.3 million, decreased by EUR 10 million or 22% compared with the same period in 2013 (9M 2013: EUR 45.3 million). The decrease was primarily due to the decrease in the sales of wireless data cards, network camera, mobile trade and wireless high definition sharer named "PCtoTV", which was partly offset by the increase of sales from wireless routers and service in connection with mobile application mainly designed for insurance industry.

In 9M 2014, Vtion Group recognized EUR 17.1 million sales from wireless data cards, which decreased from EUR 24.2 million in 9M 2013 by EUR 7.1 million or 29%, as a result of severe falling of demand for 3G wireless data cards of the current popular versions due to increasing usage of other devices to access the mobile internet, which was partly offset by the increase of sales from wireless data cards downloaded with taxation software.

In 9M 2014, Vtion Group generated EUR 11 million from its wireless router business, an increase of EUR 1.2 million, or 12% compared with the same period in 2013 (9M 2013: EUR 9.8 million), as a result of an increase of sales of upgraded wireless routers with High-Fidelity, which was partly offset by a falling of sales of wireless routers of the old versions.

In 9M 2014, Vtion Group generated EUR 4.3 million from "PCtoTV", a decrease of EUR 0.5 million, or 10% compared with the same period in 2013 (9M 2013: EUR 4.8 million).

In 9M 2014, Vtion Group generated EUR 1.2 million from network camera, a decrease of EUR 3.4 million, or 74% compared with the same period in 2013 (9M 2013: EUR 4.6 million).

In 9M 2014, Vtion Group generated EUR 0.7 million from mobile trade comprising the sales of iPhone and other smart phones and service income for supporting mobile package sales, which decreased from EUR 1.4 million in 9M 2013 by EUR 0.7 million, or 50%.

In 9M 2014, Vtion Group generated sales from the category "All Others" increased to EUR 1 million by EUR 0.5 million, or 100% compared with the same period in 2013 (9M 2013: EUR 0.5 million). The increase was mainly due to the increase of sales from service in connection with mobile application mainly designed for insurance industry and health self-checking instrument in connection with mobile health care, partly offset by a decrease of sales from accessories to mobile phones.

In the third quarter of 2014, Vtion Group had generated EUR 12.4 million from all segments, decreased by EUR 5.1 million, or 29%, from EUR 17.5 million in Q3 2013. This decrease was mainly due to the decrease in the sales of wireless data cards, network camera, mobile trade and accessories to mobile phones, which was partly offset by the increase of sales from wireless routers, wireless high definition sharer named "PCtoTV", service to Android application developers and mobile application stores, service in connection with mobile application mainly designed for insurance industry and health self-checking instrument in connection with mobile health care, which was launched in Q4 2013 but was discontinued in Q2 2014.

## COST OF SALES

Cost of sales decreased to EUR 28.2 million in 9M 2014 by EUR 8.5 million, or 23% from EUR 36.7 million in 9M 2013. Cost of sales amounted to EUR 10 million in Q3 2014, a decrease of EUR 4 million, or 29% compared with the same period in 2013 (Q3 2013: EUR 14 million). The decrease was primarily due to the decrease of sales volume of wireless data cards, network camera, wireless routers of the old version and the decrease of cost of service for supporting mobile package sales, which was partly offset by the increase of sales volume of wireless routers with High-Fidelity, health self-checking instrument and the increase of cost service in connection with mobile application mainly designed for insurance industry.

Cost of sales of wireless data cards decreased from EUR 19.1 million in 9M 2013 to EUR 13.6 million in 9M 2014, by EUR 5.5 million or 29%. Cost of sales of wireless routers increased from EUR 8.8 million in 9M 2013 to EUR 9.1 million in 9M 2014, by EUR 0.3 million or 3%. Cost of sales of network camera decreased from EUR 3.5 million in 9M 2013 to EUR 0.9 million in 9M 2014, by EUR 2.6 million or 74%. Cost of sales of "PCtoTV" decreased from EUR 3.8 million in 9M 2013 to EUR 3.4 million in 9M 2014, by EUR 0.4 million or 11%. Cost of service for supporting mobile package sales decreased from EUR 1.1 million in 9M 2013 to EUR 0.5 million in 9M 2014, by EUR 0.6 million or 55%. Cost of sales of health self-checking instrument amounted to EUR 0.3 million in 9M 2014, which was launched in Q4 2013 and discontinued in Q2 2014. Cost of service in connection with mobile application designed for industry amounted to EUR 284 thousand in 9M 2014, an increase of EUR 225 thousand, or 381% compared with the same period in 2013 (9M 2013: EUR 59 thousand).

## GROSS PROFIT

The overall gross profit margin was 20% in 9M 2014, a slight decrease from the margin of 21% for H1 2014, and a slight increase from 19% in 9M 2013.

### **OTHER OPERATING INCOME**

In 9M 2014, Vtion Group recognized other operating income amounting to EUR 104 thousand (9M 2013: EUR 19 thousand), mainly resulting from money subsidy amounting to EUR 53 thousand from Beijing government to Vtion Anzhuo to implement technologic innovation project and the transfer of the rest half of land use right to Fujian government amounting to EUR 50 thousand by which Fujian government compensated Vtion Group for expenses incurred in the past. Since the government adjusted the purpose of the area around and Vtion had not constructed the ground buildings, as the former owner, Vtion IT was required to return the rest half of the land. As a government administrative action, the government took back the land use right and returned the transfer fund and deed tax Vtion IT paid before based on the land area transferred back. Meanwhile the government compensated Vtion IT for charges for some construction such as filling, geological survey, environmental assessment paid by Vtion IT before. The transfer fund, deed tax and compensation were returned by cash in bank, which Vtion IT had already received.

### **SELLING AND DISTRIBUTION EXPENSES**

Selling and distribution expenses decreased from EUR 1,229 thousand in 9M 2013 by EUR 264 thousand, or 21%, to EUR 965 thousand in 9M 2014. If excluding the impact of exchange differences arising from currency translation, selling and distribution expenses decreased by 19% in terms of RMB in 9M 2014. The decrease was primarily due to a decrease of EUR 223 thousand in salary and welfare, a decrease of EUR 10 thousand in entertainment and marketing expenses, a decrease of EUR 10 thousand in rental expenses and a decrease of EUR 9 thousand in carriage expenses. Selling and distribution expenses decreased from EUR 509 thousand in Q3 2013 by EUR 188 thousand, or 37%, to EUR 321 thousand in Q3 2014. The decrease was primarily due to a decrease of in salary and welfare, entertainment and marketing expenses, rental expenses and travel expenses.

The ratio of selling and distribution expenses to total sales was 2.7% in 9M 2014 and 9M 2013.

### **ADMINISTRATIVE EXPENSES**

Administrative expenses increased from EUR 3,541 thousand in 9M 2013 by EUR 36 thousand, or 1%, to EUR 3,577 thousand in 9M 2014. If excluding the impact of exchange differences arising from currency translation, administrative expenses increased by 4% in terms of RMB in 9M 2014. The increase was primarily due to an increase of EUR 224 thousand in salary and welfares mainly resulting from department reclassification in Q2 2014, an increase of EUR 33 thousand in rental expenses and an increase of EUR 22 thousand in consulting expenses, partly offset by a decrease of EUR 147 thousand in research and development expenses, a decrease of EUR 68 thousand in remuneration of Supervisory Board and a decrease of EUR 42 thousand in entertainment and marketing expenses. Administrative expenses increased from EUR 1,149 thousand in Q3 2013 by EUR 138 thousand, or 12%, to EUR 1,287 thousand in Q3 2014. The increase was primarily due to the increase in payroll expenses and travel expenses, partly offset by a decrease in research and development expenses and consulting expenses.

Research and development expenses decreased to EUR 892 thousand in 9M 2014 by EUR 147 thousand, or 14% from EUR 1,039 thousand in 9M 2013. If excluding the impact of exchange differences arising from currency translation, research and development expenses decreased by 12% in terms of RMB in 9M 2014. The decrease was mainly due to the decrease of salary and welfares resulting from department reclassification in Q2 2014, partly offset by the increase of certification and testing expenses and amortization of intangible assets.

The ratio of administrative expenses to sales was 10.1% in 9M 2014 and 7.8% in 9M 2013.

### **PROFIT FROM OPERATIONS (EBIT)**

Profit from operations decreased to EUR 2,693 thousand in 9M 2014 by EUR 1,136 thousand, or 30%, from EUR 3,829 thousand in 9M 2013. The decrease was largely due to the decrease of sales and gross profit of wireless data cards and network camera, partly offset by the increase of gross profit of wireless routers and service in connection with mobile application mainly designed for insurance industry in 9M 2014.

### **EBIT MARGIN**

Vtion Group's EBIT margin (profit from operations divided by sales) retained 8% in 9M 2014 (9M 2013: 8%). This resulted from an increase of overall gross profit margin, but offset by an increase of ratio of administrative expenses to total sales.

**FINANCE INCOME AND FINANCE EXPENSES**

Finance income comprises interest income earned from bank deposit. Finance income increased from EUR 1,237 thousand in 9M 2013 by EUR 83 thousand, or 7%, to EUR 1,320 thousand in 9M 2014.

Finance expenses comprise bank charges. Finance expenses amounted to EUR 17 thousand in 9M 2014 (9M 2013: EUR 14 thousand).

**FOREIGN EXCHANGE GAIN OR LOSS**

Since the functional currency of the Group is RMB, the Group recognized foreign exchange losses EUR 192 thousand in 9M 2014 (9M 2013: EUR 76 thousand) mainly resulted from revaluing liquid assets and liabilities at the balance sheet date and money exchange from RMB to EUR when the EUR/RMB exchange rate rose in May 2014. Vtion IT exchanged RMB to EUR 2.1 million when the average EUR/RMB rate was about 8.7113, rising by 4% compared with the rate as at 31 December, 2013. The EUR seriously dropped by 0.6229 or 7.5% from 8.3491 RMB (31 December, 2013) to 7.7262 RMB (30 September, 2014). This led to foreign exchange losses arising from revaluing liquid assets and liabilities of the Vtion Group at the balance sheet date.

**INCOME TAX**

Income tax mainly comprises taxation actually payable. Vtion IT applies an effective tax rate of 25% in year 2014 in accordance with the Income Tax Law of the People's Republic of China. Vtion Software, Vtion Communication, Vtion Anzhuo and Vtion Service were exempted from the corporate income tax because of cumulative tax losses carried forward from the establishment. The Chinese companies of Vtion Group recorded an income tax charge of EUR 1.6 million in 9M 2014 based on an effective tax rate of 25% in China. Vtion Wireless Technology AG accumulated a net tax loss under German GAAP. So altogether Vtion Group recorded a net income tax expense of EUR 1.6 million in 9M 2014.

**NET PROFIT AND EPS**

Net profit in the first three quarters of 2014 amounted to EUR 2.2 million, a decrease of 34% year-on-year. The earnings per share in 9M 2014 was EUR 0.17, a decrease of 32% year-on-year.<sup>5</sup>

**NET PROFIT MARGIN**

The net profit margin decreased from 7% in 9M 2013 to 6% in 9M 2014. The decrease mainly resulted from the increase of foreign exchange loss.

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<sup>5</sup> Computed on the basis of weighted average 12,762,028 shares for 9M 2014 and 12,213,640 shares for Q3 2014, weighted average 13,298,495 shares for 9M 2013 and Q3 2013 respectively.

## Balance Sheet Structure

The following table presents balance sheet data under IFRS as of ended September 30, 2014 and December 31, 2013

	Sep. 30, 2014	Dec. 31, 2013
	kEUR	kEUR
<b>ASSETS</b>		
<b>Current assets</b>		
Inventories	3,284	2,256
Trade receivables	16,794	18,411
Other receivables	3,822	2,447
Amounts due from related parties	310	101
Cash and cash equivalents	127,672	126,614
	151,882	149,829
<b>Non-current assets</b>		
Property, plant and equipment	762	816
Land use rights	0	276
Intangible assets	685	794
Deferred tax assets	407	406
	1,854	2,292
<b>Total assets</b>	<b>153,736</b>	<b>152,121</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Short-term loans		
Trade payables	5,130	13,422
Other payables	2,055	1,358
Provisions	408	509
Amounts due to related parties	2	0
Income tax payable	681	505
<b>Total liabilities</b>	<b>8,276</b>	<b>15,794</b>
<b>CAPITAL AND RESERVES</b>		
Share capital	13,298	14,495
Treasury stock	-1,085	-1,197
Capital reserves	38,320	40,436
Retained earnings	63,463	61,895
Foreign exchange differences	31,464	20,698
<b>Total equity</b>	<b>145,460</b>	<b>136,327</b>
<b>Total liabilities and equity</b>	<b>153,736</b>	<b>152,121</b>
<b>Equity to total assets ratio</b>	<b>95%</b>	<b>90%</b>



## Current Assets

### INVENTORIES

Inventories comprise raw materials, work in progress and finished goods.

	Sep. 30, 2014	Dec. 31, 2013
	kEUR	kEUR
Goods and materials	3,284	2,248
Advances to suppliers	0	8
	<b>3,284</b>	<b>2,256</b>

Inventories increased from EUR 2,256 thousand as at 31 December 2013 by EUR 1,028 thousand to EUR 3,284 thousand as at 30 September 2014, due to the merchandise of wireless data cards downloaded with taxation software and wireless high definition sharer named "PCtoTV for the sales in the next months.

### TRADE RECEIVABLES

Trade receivables decreased from EUR 18,411 thousand as at 31 December 2013 by EUR 1,617 thousand, or 9%, to EUR 16,794 thousand as at 30 September 2014. If excluding the impact of exchange differences arising from currency translation, trade receivables decreased by 16% in terms of RMB, mainly due to accelerated collection of receivables in 9M 2014. The amount of trade receivables with a maturity of less than 90 days as at 30 September 2014 represented 74% of total trade receivable as at 30 September 2014, an decrease of 1 percent compared with that of 31 December 2013. Meanwhile the part with a maturity of more than 90 days but below 180 days was 26% of the total trade receivables as at 30 September 2014, representing an increase of 1 percent compared with that of 31 December 2013.

### OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments increased from EUR 2,447 thousand as at 31 December 2013 by EUR 1,375 thousand, or 56% to EUR 3,822 thousand as at 30 September 2014. If excluding the impact of exchange differences arising from currency translation, other receivables and prepayments increased by 45% in terms of RMB, which mainly resulted from the increase of interest receivable of bank term deposit in 9M 2014.

### AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties increased from EUR 101 thousand as at 31 December 2013 by EUR 209 thousand to EUR 310 thousand as at 30 September 2014, primarily due to an increase of advance to Mr. Chen grouping for business trip and meeting expenses.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash in bank accounts, bank deposit on bank's acceptance bill. Cash and cash equivalents amounted to EUR 127,672 thousand as at 30 September 2014. For a further description of cash in banks, see item 7.4 Cash and Cash Equivalents in the notes. For a description of the changes in the first three quarters of 2014, see "Cash Flow Statement" in this section.

	Sep. 30, 2014	Dec. 31, 2013
	kEUR	kEUR
Cash on hand	13	16
Cash in banks	126,106	125,340
Deposit on bank's acceptance bill	1,553	1,258
	<b>127,672</b>	<b>126,614</b>

## Non-current Assets

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment decreased from EUR 816 thousand as at 31 December 2013 by EUR 54 thousand, or 7%, to EUR 762 thousand as at 30 September 2014. If excluding the impact of exchange differences arising for currency translation, property, plant and equipment decreased by 14%, which mainly resulted from the disposal of old motor vehicle and depreciation charges in 9M 2014, partly offset by the purchase of new motor vehicle and an increase of property for broadband network project and construction in progress.

### LAND USE RIGHTS

Vtion Group didn't hold any land use rights as at 30 September 2014 due to the transfer of the rest half of land use rights to Fujian province government. Since the government adjusted the purpose of the area around and Vtion had not constructed the ground buildings, as the former owner, Vtion IT was required to return the rest half of the land.

### INTANGIBLE ASSETS

Intangible assets decreased from EUR 794 thousand as at 31 December 2013 by EUR 109 thousand, or 14%, to EUR 685 thousand as at 30 September 2014. If excluding the impact of exchange differences arising for currency translation, intangible assets decreased by 20% due to the amortization in 9M 2014.

## Liabilities

### TRADE PAYABLES AND NOTES PAYABLE

Trade payables and notes payable decreased from EUR 13,422 thousand as at 31 December 2013 by EUR 8,292 thousand, or 62% to EUR 5,130 thousand as at 30 September 2014. If excluding the impact of exchange differences arising for currency translation, trade payables and notes payable decreased by 65%, which mainly resulted from the payment of trade payables due in 9M 2014.

### OTHER PAYABLES

Other payables increased from EUR 1,358 thousand as at 31 December 2013 by EUR 697 thousand, or 51% to EUR 2,055 thousand as at 30 September 2014. If excluding the impact of exchange differences arising from currency translation, other payables increased by 40%, which mainly resulted from the increase of tax payables in 9M 2014, partly offset by the decrease of other payables for consulting service.

## Equity

### EQUITY TO TOTAL ASSETS RATIO

The equity to total assets ratio increased from 90% as at 31 December 2013 to 95% as at 30 September 2014.

## Financial Position

### CASH FLOW STATEMENT

The following table was extracted from the cash flow data of the Company which was derived from the Company's consolidated financial statements under IFRS for 9M 2014 and 9M 2013.

	9M 2014	9M 2013
	kEUR	kEUR
Operating cash flow before working capital changes	3,035	4,211
Cash generated from/(used in) operations	-3,190	7,498
Net cash generated from operating activities	-4,542	6,775
Cash flow generated in investing activities	241	4,844
Cash flow from financing activities	-3,860	-731
<b>Net increase in cash and cash equivalents</b>	<b>-8,161</b>	<b>10,888</b>
Cash at beginning of year	126,614	113,510
Foreign exchange difference	9,219	-765
<b>Cash at end of the period</b>	<b>127,672</b>	<b>123,632</b>

### NET CASH GENERATED FROM OPERATING ACTIVITIES

The Company used net cash of EUR 4.5 million in operation activities in the first three quarters of 2014, representing a decrease of EUR 11.3 million compared with that of EUR 6.8 million generated from operation activities in 9M 2013. The decrease was mainly due to the decrease of profit before income tax, a decrease of collection of trade receivables, a decrease of interest received, an increase of payment of trade payables and an increase of inventory, which was partly offset by an increase of collection of other receivable and prepayments and a decrease of payment of other payables and accruals.

### CASH FLOW FROM INVESTING ACTIVITIES

The net cash inflow in investing activities in 9M 2014 amounted to EUR 241 thousand mainly due to receiving the fund for the transfer of the land use rights from the government in Q3 2014 and disposal of old motor vehicles, which was partly offset by investment of new motor vehicles and the property for broadband network project (9M 2013: EUR 4,844 thousand net cash inflow mainly due to liquidation of EUR 4.9 million of short-term investment).

### CASH FLOW FROM FINANCING ACTIVITIES

The net cash outflow in financing activities in 9M 2014 amounted to EUR 3.9 million, which were used in share buyback program (EUR 3.2 million) and dividend paid to shareholders (EUR 0.7 million) in H1 2014 (H1 2013: EUR 0.7 million in dividend paid).

### CASH AT THE END OF THE PERIOD

Cash at the end of the period amounted to EUR 127.7 million as at 30 September 2014, representing an increase of EUR 1.1 million from the cash balance as at 31 December 2013. If excluding the impact of exchange differences arising from currency translation, cash and cash equivalents decreased by 7% as at 30 September 2014, which mainly resulted from the payment of trade payable and payment for share buyback program 9M 2014, partly offset by the collection of trade receivables.

## Human Resources

In light of margin pressure and decreasing demand in its core business, the company has made concerted efforts to maintain a lean cost structure in order to remain profitable. As of the end of the third quarter of 2014, there were a total of 242 employees. This represented an increase of 14 persons in comparison with the end of the first half of 2014. The primary reason of the increasing was in the Sales & Marketing department, which represented 65 persons instead of 56. Meanwhile R&D department had 45 employees, compared with 40 in the last quarter. The number of employees in administration increased from 113 to 114. The customer service and call center still had only 5 persons. There are constantly 5 management board members in the company and Vtion maintained a small production department of 8 persons that has the primary role of product testing and quality control. Currently, Vtion's wholly-owned subsidiary in the mobile applications market, Vtion Anzhuo had 90 persons in total, the R&D department had 5 more persons compared with the end of the last quarter.

## Research and Development

Vtion's wireless data terminal R&D activities center on the development of wireless data cards and mobile 3G routers. Currently, Vtion offers wireless data cards for each of the mobile networks currently in use in the Chinese market, namely the HSPA+ network of China Unicom, China Telecom's EVDO Rev.B network and the TD-SCDMA network operated by China Mobile. The company also offers 3G mobile routers for both China Unicom's and China Telecom's networks. Given that demand for mobile routers has grown despite a decline in the wireless data card market, the company will focus future R&D efforts on developing further router offerings. While the company currently does not offer a mobile router for China Mobile's TD-SCDMA network, it has recently completed work on a router for China Mobile's fourth generation TD-LTE technology standard. Product offerings for the networks operated by China Telecom and China Unicom remain centered on the two companies' 3.5G technologies primarily because the manner in which they will enter the 4G market remains relatively uncertain.

The strength of Vtion's wireless data terminal R&D is based on the company's understanding of telecom operators' requirements, the ability to develop specifications and the close work with suppliers to ensure quality. Though production is outsourced, Vtion's unique design capability ensures that it continues to provide products with industry-leading quality for the Chinese market in its wireless data terminal segment.

In Vtion's software-oriented business segments, namely the industry-specific computing solutions and mobile applications, the company relies heavily on sourcing from outside software and application providers. However, the company has taken steps to increase its in-house software development capacity and is continuing to build these resources. For example, the company's E-Agency platform that is sold to insurance companies was developed entirely in-house. The company employs a team of professionals who were formerly employed as database managers at various insurance companies, in order to better understand client needs and develop customized products for them. As Vtion looks to begin offering industry-specific solutions to other sectors, the company will seek to expand its internal expertise to other sectors on a case-by-case basis.

Vtion Anzhuo has continued to build up its online appstore construction and operation capacities. Recently, major focuses of the Vtion Anzhuo R&D efforts have centered on the gaming sector, particularly games that are downloaded for free but feature a pay-for-play or a pay-for-use model. Further, Vtion Anzhuo is focusing R&D efforts on applications designed for large screen devices, to take advantage of the growing market in China for IPTV and related applications. Vtion Anzhuo is also currently working on expanding its sales reach in order to be a more attractive option as a publisher for smaller application developers. Going forward Vtion will continue to increase its in-house software capacity in order to reduce reliance on outside providers and increase its competitive advantages.

## Risk Report

### RISK AND OPPORTUNITY MANAGEMENT

Vtion Group's business relies on solid experiences, clear focus on high quality products, broad product portfolio, deep market insights, and strong business relationship with existing and potential customers. Vtion Group is exposed to a variety of risks. However, the success cannot be achieved without risk. Risk management helps to exploit potential opportunities and control risks, and ultimately helps to achieve the strategic targets and to maximize strategic potential.

Vtion's management carefully balances opportunities and associated risks through regular strategic reviews. The company engages in risk only if it can be managed using established methods and measures within the organization and only if there is a corresponding opportunity to appropriately increase shareholders' value.

Vtion Group deploys accounting, control, and planning tools as an integral part of the risk management process. To closely monitor business developments and risks, management regularly conducts sales volume and structural analysis, gross margin analyses, liquidity analysis and monitors the progression of accounts receivables. Monthly and quarterly financial reporting process is a core tool in the management of our business and will ensure that information on business and market trends are regularly updated. As part of the company's financial control procedures, significant variations between actual and budgeted figures are identified and analyzed which is served as the basis of developing corrective measures.

An internal audit department has been set up and is working to support the necessary processes to enhance the overall integrity and accountability. Vtion is making efforts to continuously implement improvements on internal control systems. As in prior periods Vtion Group has a continuous substantial cash position and the group has no loan exposure. Cash management will remain a high priority within the group as a whole, and within individual companies.

The largest shareholder, Mr. Chen Guoping, is the CEO of the company and involved in the daily business management. He is supervising the overall development of the group as well as closely monitoring the sales and profit development in order to safeguard his and other shareholders' interests. In addition, Vtion's other Management Board Members, Supervisory Board, auditor and other third party consultants help the company to prepare for and hedge against various risks to minimize the potentially negative impact on the company.

To manage risks and to capitalize on opportunities, Vtion Group pursues a forward-looking product strategy and will continue to invest in R&D, while at the same time observing current and speculating on future market trends and customer requirements, and continuously strives to develop and maintain unique selling points related to its technology.

According to sec. 91 para. 2 AktG, an early risk monitoring system has been established to cover the whole group, which is an important part of the overall risk management system. The key risks are identified, analyzed, assessed, managed and the resolutions to cope with different risks are recommended and implemented accordingly. The early warning system is reviewed regularly by the management board members and escalated to supervisory board members for further review.

### Report on Post-Balance Sheet Date Events

On 23 Sep 2014, Vtion settled the cancellation of 1,084,855 treasury shares that had been purchased via a public tender offer between 11 April to 9 May 2014, consequently reducing the company's total share capital to 12,213,640 shares, which is effective since October 1<sup>st</sup>, 2014.

## Outlook

With the half year report, Vtion issued an updated full year guidance which called for revenues of at least EUR 48 million and an EBIT margin of approximately 7%. The company remains on track to reach this guidance for 2014, and expects that results will be improving in the last quarter of 2014.

In the remainder of 2014, the company management continue to see further pressure in the core hardware business, including potential further revenue decline in that segment. Thus, even though expectations are for greater revenue contributions from the company's newer business segments, such revenue could be offset by further decline in the core business, wireless data terminals, which will continue to contribute the majority of the company's revenues. With secular pricing pressure in the hardware space and limited core demand for wireless data cards in traditional consumer market, the company expects to promote more specialized products (taxation program) in other provinces in China to keep profit in the segment. In contrast, the revenue from wireless routers have improved because of its multifunction during the first nine months of 2014, and three Chinese carriers intend to research and develop wireless router rather than wireless data card in the 4G market. Thereby, Vtion adjusts its 4G product scheme according to the demand of three telecom operators and will concentrate on launching 4G wireless data routers in the near future.

In the wireless intelligent terminal, the cooperation with three China telecom operators has been cancelled because more tax cost would be caused for original cooperation model owing to the tax discipline reform in China. Hence Vtion has decided to exit the business with the VCAM mobile cameras in the second half of the year. Therefore there will be less sales in the second half of 2014 from this business segment.

Vtion Anzhuo has the model portfolio of mobile application offerings, particularly those offered through the online appstore V-Market. Further, it has strengthened its presence as a third party designer and operator of online application stores for other companies, particularly other device manufacturers. In order to increase revenues, Vtion Anzhuo will look to increase its presence in the more profitable gaming sector, as well as target companies offering large-screen devices such as Internet TV, as competition is not as intense in this space as it is in the more mature handset and tablet markets. In its industry-specific computing solutions business, there are a total of 11 clients and this business has made a big improvement in the revenue contribution in this period. The company expects it to gain more profit over the course of the remainder of the year.

In general, the management expects further decline in the hardware segments going forward. This will be somewhat offset by increased specialization in the company's hardware product offerings, similar to the special-use wireless data cards that the company already offers. The company expects revenue from the industry-specific computing solutions and mobile applications business segments to continue to increase beyond the last quarter of this year, but has not yet disclosed specific predictions for these business segments, given the unclear nature of monetizing such businesses.

Frankfurt/Main, November 26, 2014

Management Board

Chen Guoping

Zheng Hongbo

Ding Chaojie

Fei Ping

He Zhihong



# Financial Statements Vtion Wireless Technology AG

## Consolidated Statement of Comprehensive Income

for the period from January 1 to September 30,

	Q3		9M	
	2014	2013	2014	2013
Sales	12,427,441	17,460,244	35,343,425	45,255,485
Cost of sales	-10,003,495	-14,045,201	-28,202,542	-36,672,736
<b>Gross Profit</b>	<b>2,423,946</b>	<b>3,415,043</b>	<b>7,140,883</b>	<b>8,582,749</b>
Other operating income	67,971	377	104,302	19,573
Selling and distribution expenses	-320,646	-509,357	-965,018	-1,229,250
Administrative expenses	-1,287,159	-1,149,091	-3,576,760	-3,540,842
Other operating expenses	-151	-2	-10,357	-3,118
<b>Profit from operations</b>	<b>883,961</b>	<b>1,756,970</b>	<b>2,693,050</b>	<b>3,829,112</b>
Finance income	441,636	443,520	1,320,420	1,236,749
Finance expenses	-5,246	-5,243	-16,974	-14,425
Foreign exchange gain/loss	-116,996	76,354	-192,258	-76,249
<b>Profit before income tax</b>	<b>1,203,355</b>	<b>2,271,601</b>	<b>3,804,238</b>	<b>4,975,187</b>
Income tax	-689,995	-567,594	-1,577,495	-1,617,293
<b>Profit for the period</b>	<b>513,360</b>	<b>1,704,007</b>	<b>2,226,743</b>	<b>3,357,894</b>
<b>Other comprehensive income:</b>				
Exchange differences on translating foreign operations	12,781,664	-4,007,599	10,765,260	-751,183
<b>Other comprehensive income for the period</b>	<b>12,781,664</b>	<b>-4,007,599</b>	<b>10,765,260</b>	<b>-751,183</b>
<b>Total comprehensive income for the period</b>	<b>13,295,024</b>	<b>-2,303,592</b>	<b>12,992,003</b>	<b>2,606,711</b>
Earnings per share (basic and diluted)*	0.04	0.13	0.17	0.25

\* Computed on the basis of weighted average 12,762,028 shares for 9M 2014 and 12,213,640 shares for Q3 2014, weighted average 13,298,495 shares for 9M 2013 and Q3 2013 respectively.

The profit and the total comprehensive income are completely attributable to the owners of the parent company.



## Consolidated Statement of Financial Position

for the period ending September 30

	Sep. 30, 2014	Dec. 31, 2013
	EUR	EUR
<b>ASSETS</b>		
<b>Current assets</b>		
Inventories	3,283,884	2,255,805
Trade receivables	16,794,027	18,411,081
Other receivables and prepayments	3,822,172	2,446,881
Short-term investment	-	-
Amounts due from related parties	309,552	101,379
Cash and cash equivalents	127,671,635	126,614,078
	<b>151,881,270</b>	<b>149,829,224</b>
<b>Non-current assets</b>		
Property, plant and equipment	762,206	816,446
Land use rights	-	276,378
Intangible assets	685,052	793,895
Deferred tax assets	406,582	406,022
	<b>1,853,840</b>	<b>2,292,741</b>
<b>Total assets</b>	<b>153,735,110</b>	<b>152,121,965</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade payables	5,129,985	13,422,085
Other payables	2,054,615	1,357,695
Provisions	407,789	508,892
Amounts due to related parties	1,941	0
Income tax payable	680,889	505,546
	<b>8,275,219</b>	<b>15,794,218</b>
<b>Total liabilities</b>	<b>8,275,219</b>	<b>15,794,218</b>
<b>CAPITAL AND RESERVES</b>		
Share capital	13,298,495	14,495,086
Treasury stock	-1,084,855	-1,196,591
Capital reserves	38,320,188	40,435,655
Retained earnings	63,462,539	61,895,333
Foreign exchange differences	31,463,524	20,698,264
<b>Total equity</b>	<b>145,459,891</b>	<b>136,327,747</b>
<b>Total liabilities and equity</b>	<b>153,735,110</b>	<b>152,121,965</b>

## Consolidated Statement of Changes in Equity

for the period from January 1 to September 30,

in EUR

	Share capital Vtition AG	Treasury stocks	Capital reserves	Retained earnings	Foreign exchange differences	Total equity
<b>Balance as at December 31, 2012</b>	14,495,086	1,196,591	40,435,655	58,227,122	22,840,460	134,801,732
<b>Buyback ordinary share</b>						
<b>Treasury stock redemption</b>						
<b>Dividend distribution</b>				-731,417		-731,417
<b>Total comprehensive income for the period</b>	-			3,357,894	-751,183	2,606,711
<b>Balance as at September 30, 2013</b>	14,495,086	-1,196,591	40,435,655	60,853,599	22,089,277	136,677,026
<b>Balance as at December 31, 2013</b>	14,495,086	-1,196,591	40,435,655	61,895,333	20,698,264	136,327,747
<b>Buyback ordinary share</b>						
<b>Treasury stock redemption</b>						
<b>Dividend distribution</b>	-1,196,591	1,196,591		-659,537		-659,537
<b>Total comprehensive income for the period</b>				2,226,743	10,765,260	12,992,003
<b>Balance as at September 30, 2014</b>	13,298,495	-1,084,855	38,320,188	63,462,539	31,463,524	145,459,891

## Consolidated Cash Flow Statement

for the period from January 1 to September 30,

	9M 2014	9M 2013
	EUR	EUR
<b>Profit before income tax</b>	<b>3,804,238</b>	<b>4,975,187</b>
Adjustments for:		
Amortization of intangible assets	159,851	149,612
Depreciation of land use rights	4,241	7,089
Allowance for doubtful trade debts	-	1,477
Depreciation of property, plant and equipment	218,332	240,554
Gain on disposal of property, plant and equipment	-40,466	-17,335
Interest income	-1,320,420	-1,236,749
Interest expense	-	-
Bank charges	16,974	14,425
Foreign exchange loss	192,258	76,248
<b>Operating cash flow before working capital changes</b>	<b>3,035,008</b>	<b>4,210,508</b>
<b>Working capital changes:</b>		
(Increase)/decrease in:		
Inventories	-782,582	-236,515
Trade receivables	2,868,183	5,438,315
Other receivables and prepayments	5,792	-820,205
Amounts due from related parties	-184,961	-88,295
Increase/(decrease) in:		
Trade payables	-8,669,329	2,545,203
Other payables and accruals	411,843	-3,504,559
Amounts due to related parties	1,795	-
Income tax payable	124,465	-46,503
<b>Cash generated from/(used in) operations</b>	<b>-3,189,784</b>	<b>7,497,949</b>
Interest received	225,188	1,071,008
Interest expense	0	-
Income tax expense	-1,577,496	-1,793,470
<b>Net cash generated from operating activities</b>	<b>-4,542,092</b>	<b>6,775,487</b>
<b>Cash flow from investing activities</b>		
Purchase of intangible assets	-	-58,664
Purchase of land, property, plant and equipment	-140,608	-392,317
Disposal of land, property, plant and equipment	381,624	394,877
Decrease of short term investment		4,900,000
<b>Cash flow from investing activities</b>	<b>241,016</b>	<b>4,843,896</b>
<b>Cash flow from financing activities</b>		
Payment in connection with share buyback	-3,200,322	
Dividend paid to shareholders	-659,537	-731,417
<b>Cash flow from financing activities</b>	<b>-3,859,859</b>	<b>-731,417</b>
<b>Net increase in cash and cash equivalents</b>	<b>-8,160,935</b>	<b>10,887,966</b>
Cash at the beginning of the period	126,614,078	113,509,797
Foreign exchange differences	9,218,492	-765,400
<b>Cash at the end of the period</b>	<b>127,671,635</b>	<b>123,632,363</b>

# Selected Notes to the Consolidated Financial Statements

For the period from January 1 to September 30, 2014

## 1. Background and Basis of Preparation

The condensed interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), and/or International Accounting Standards (IAS) as adopted by International Accounting Standards Board (IASB) and by the EU along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) at the balance sheet date. The condensed interim consolidated financial statements comply with all IFRSs that had to be adopted by the balance sheet date. The interim financial statements are presented in Euro, and all monetary amounts are rounded to full Euro except when otherwise stated.

The following subsidiaries of Vtion Wireless Technology AG are consolidated.

in kEUR	Share	Equity Sep. 30, 2014	Results from Jan. 1 to Sep. 30, 2014
Vtion Technology (China) Co. Ltd., Tortola, British Virgin Island	100%	1,945	7,328
Vtion Information Technology (Fujian) Co. Ltd., Fuzhou, PRC	100%	104,499	4,692
Vtion Software (Fujian) Co. Ltd., Fuzhou, PRC	100%	18,006	-375
Vtion Communication (Fujian) Co. Ltd., Fuzhou, PRC	100%	881	5
Vtion Anzhuo (Beijing) Technology Co., Ltd, PRC	100%	584	-1,018
Vtion Communication Technology Service (Fuzhou) Co., Ltd, PRC	100%	111	-4

Per the agreement signed on 28 July, 2014, Vtion Software (Fujian) Co., Ltd increased the investment to Vtion Anzhuo (Beijing) Technology Co., Ltd by RMB 20 million. By means of debt-to-equity swap, the registered capital of Vtion Anzhuo was increased by about RMB 16 million, and the rest of the investment of RMB 4 million will be paid by Vtion Software in the following months. After the additional investment, Vtion Software (Fujian) Co., Ltd still holds 100% shares of Vtion Anzhuo (Beijing) Technology Co., Ltd.

## 2. Significant accounting policies

The condensed interim consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU at the balance sheet date. The condensed interim consolidated financial statements comply with all IFRSs as applicable in the European Union (EU), that had to be adopted by the balance sheet date.

With regard to the preparation of the interim consolidated financial statements, in accordance with IAS 34 <Interim Financial Reporting>, the Management Board is required to make estimates and judgments which influence the application of accounting policies within the Company, and the reporting of assets and liabilities as well as income and expenses. Actual amounts can differ from these estimates. In the interim consolidated financial statement as of September 30, 2014, the same accounting policies and methods of computation are followed as compared with the recent annual financial statements as of December 31, 2013.

In 2013, Vtion has decided to make a change in accounting method of land use rights because of an application notice from the German Financial Reporting Enforcement Panel. The acquisition of land use rights is accounted according to the rules for a change in accounting policy (IAS 8) as a finance lease transaction in accordance with IAS 17. The land use rights are continued to be presented separately at the face of the consolidated statement of financial position. Due to the change in accounting policy the land use rights

present a tangible asset. The corresponding disclosure of cash flow statements and related notes for 9M 2013 is also adjusted to assure the information comparable.

### 3. Functional and Presentation Currency

The functional currency of the Group is Renminbi (“RMB”) as the currency of the primary economic environment in which the Group operates. Because of its status as a German holding company, the presentation currency of the Group is EUR.

The currency rates for the translation from RMB to EUR are:

EUR	RMB	
	2014	2013
September 30	7.7262	8.2645
Average first nine month	8.3544	8.1225

### 4. Impairment of Non-financial Assets, if any

In the nine months of 2014 and 2013 no non-financial asset has been impaired, except as mentioned in note 7.1. For inventory an impairment provision of EUR 30 thousand has been recorded as of September 30, 2014 (EUR 27 thousand as of December 31, 2013).

### 5. Segment Analysis

#### A) BUSINESS SEGMENT

Vtion Group’s operating businesses are organized in three business segments, namely “Wireless Data Terminals”, “Wireless Intelligent Terminals” and “All Others”. From the second quarter of 2013, network camera has been adjusted to be presented in “Wireless Intelligent Terminals” rather than “All Others”. So the corresponding disclosures of the segment information for the third quarter and the first three quarters of 2014 and 2013 are comparable.

#### B) GEOGRAPHICAL BUSINESS

Vtion Group’ is principally engaged in products supplying and services providing in People’s Republic of China (“PRC”) and all of its customers are based in PRC. In addition, all identifiable assets of the Group are principally located in the PRC. Accordingly, no geographical segment analysis is presented.

#### C) ALLOCATION BASIS

Revenue and cost of sales are directly attributable to the segments. Other operating expenses and income are allocated to the segments on a reasonable basis.

Segment assets, liabilities and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the items which cannot be allocated reasonably.

Inter-segment sales are eliminated on consolidation.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment revenue		Segment profit	
	Period ended Sep. 30, 2014	Period ended Sep. 30, 2013	Period ended Sep. 30, 2014	Period ended Sep. 30, 2013
	kEUR	kEUR	kEUR	kEUR
Wireless Data Terminal	32,447	38,790	3,899	4,456
Wireless Intelligent Terminal	1,861	5,989	154	874
All Others	1,035	476	-991	-981
Total for continuing operations	35,343	45,255	3,062	4,349
Central administration costs	0	0	-369	-520
Finance result	0	0	1,111	1,146
Profit before tax (continuing operations)	0	0	3,804	4,975

## 6. Notes to the Consolidated Statement of Comprehensive Income

### 6.1 TOTAL INCOME

	Q3		9M	
	2014	2013	2014	2013
	EUR	EUR	EUR	EUR
<b>Sale of goods</b>	12,427,441	17,460,243	35,343,425	45,255,485
<b>Other operating income</b>		0		
Government grant	17,953	0	53,456	
Service income	12	363	24	419
Others	50,006	14	50,822	19,154
	<b>67,971</b>	<b>377</b>	<b>104,302</b>	<b>19,573</b>
<b>Finance income</b>				
Interest income	441,636	443,520	1,320,420	1,236,749
<b>Total income</b>	<b>12,937,048</b>	<b>17,904,140</b>	<b>36,768,147</b>	<b>46,511,807</b>

Sales of goods represent the invoiced amount of delivered goods net of discounts, returns and valued added tax. All intra-group transactions are excluded from the revenue of the consolidated group.

Government grant in 9M 2014 was due to money subsidy amounting to EUR 53 thousand from Beijing government to Vtion Anzhuo to implement technologic innovation project. Others operating income in 9M 2014 was mainly due to the transfer of the rest half of land use right to Fujian government amounting to EUR 50 thousand.

## 6.2 SPLIT-UP OF SALES

	Q3		9M	
	2014	2013	2014	2013
Split-up of sales	EUR	EUR	EUR	EUR
<b>Sales to external customers</b>				
Wireless Data Terminals	12,125,096	15,007,905	32,446,989	38,790,113
Wireless Intelligent Terminals	111,895	2,327,679	1,861,084	5,988,980
All Other Segments	190,450	124,660	1,035,352	476,392
	<b>12,427,441</b>	<b>17,460,244</b>	<b>35,343,425</b>	<b>45,255,485</b>

The Group is principally engaged as manufacturing entity of computer accessories, broadband servers, and wireless communication products in People's Republic of China ("PRC"). Its customers are based in PRC.

## 6.3 COST OF SALES

	Q3		9M	
	2014	2013	2014	2013
Split up of Cost of Sale	EUR	EUR	EUR	EUR
Cost of materials				
- raw materials	4,348,694	5,000,059	9,427,207	14,189,518
- purchased goods	5,341,737	8,562,849	17,665,626	20,963,978
- services	218,934	399,741	843,802	1,150,863
- business taxes and surcharges	61,094	60,885	173,069	306,351
	9,970,459	14,023,534	28,109,704	36,610,710
Directly attributable payroll expenses and non-attributable shared costs	33,036	21,667	92,838	62,026
	10,003,495	14,045,201	28,202,542	36,672,736

**6.4 AVERAGE NUMBER OF EMPLOYEES/PAYROLL COSTS**

	9M 2014	9M 2013
Average number of employees		
Management and administration	115	82
Research and development*	54	73
Sales	64	85
	<b>233</b>	<b>240</b>

	9M 2014	9M 2013
	EUR	EUR
Payroll costs		
Wages and salaries	1,815,311	1,777,054
Social security costs	270,877	278,178
Welfare	75,394	57,439
	<b>2,161,582</b>	<b>2,112,671</b>

\* The decrease of average number of employees of the Research and development department was mainly due to the department reclassification in Q2 2014. The employees of industrial application department are divided by function from the Research and development to the Management and administration.

**6.5 AMORTIZATION OF INTANGIBLE ASSETS AND DEPRECIATION OF PROPERTY, PLANT, EQUIPMENT AND LAND USE RIGHTS**

	9M 2014	9M 2013
	EUR	EUR
Amortization of intangible assets and land use rights		
Software	94,056	81,939
Licenses	61,306	63,056
Trademark	4,489	4,617
Sum	159,851	149,612
Depreciation of Land use rights	4,241	7,089
Depreciation of property, plant and equipment	218,332	240,554
<b>Total of amortization and depreciation</b>	<b>382,424</b>	<b>397,255</b>

Except about EUR 6,733 of amortization of intangible assets was booked as part of "cost of sales" for insurance industry in 9M 2014 (9M 2013: EUR 6,925), the remaining amortization of intangible assets was booked in "Administrative expenses" in 9M 2014.



## 6.6 FINANCE EXPENSES

	Q3		9M	
	2014	2013	2014	2013
	EUR	EUR	EUR	EUR
<b>Finance Expense</b>				
Bank charges	5,246	5,243	16,974	14,425
	<b>5,246</b>	<b>5,243</b>	<b>16,974</b>	<b>14,425</b>

## 6.7 FINANCE FOREIGN EXCHANGE LOSS

The Group recognized EUR 192,258 foreign exchange loss in 9M 2014 (9M 2013: EUR 76,249), mainly resulted from revaluing liquid assets and liabilities at the balance sheet date and money exchange from RMB to EUR when the EUR/RMB exchange rate rose in May 2014. Vtion IT exchanged RMB to EUR 2.1 million when the average EUR/RMB rate was about 8.7113, rising by 4% compared to the rate as at 31 December, 2013. The EUR seriously dropped by 0.6229 or 7.5% from 8.3491 RMB (31 December, 2013) to 7.7262 RMB (30 September, 2014). This led to foreign exchange loss arising from revaluing liquid assets and liabilities of the Vtion Group at the balance sheet date.

## 6.8 INCOME TAX

	Q3		9M	
	2014	2013	2014	2013
	EUR	EUR	EUR	EUR
Current income tax (ordinary activities)	689,995	609,282	1,577,495	1,746,967
Deferred income tax induced by:				
-tax rate change				
-temporary differences	0	12,366	0	35,630
-tax loss carry forward	0	-54,054	0	-165,304
Income tax recognized in profit and loss	<b>689,995</b>	<b>567,594</b>	<b>1,577,495</b>	<b>1,617,293</b>

## 6.9 APPLICABLE TAX RATE

Vtion IT applied an effective tax rate of 25% in 9M 2014 in accordance with the Income Tax Law of the People's Republic of China.

Vtion Communication incurred accounting gains for the first nine months of operation, but Vtion Software, Vtion Anzhuo and Vtion Service incurred accounting losses for the first nine months of operation. These four Chinese subsidiaries were exempted from the corporation income tax because of cumulative tax losses carried forward.

## 7. Notes to the Consolidated Statement of Financial Position

### 7.1 INVENTORIES

	Sep. 30, 2014	Dec. 31, 2013
	EUR	EUR
Inventory-advances to supplier	0	8,050
Goods and material	3,313,965	2,275,591
Less: stock provision	-30,081	-27,836
	3,283,884	2,255,805

### 7.2 TRADE AND OTHER RECEIVABLES

	Sep. 30, 2014	Dec. 31, 2013
	EUR	EUR
<b>Trade receivables</b>		
Trade receivables	16,794,027	18,411,081
Allowance for trade receivables	0	(0)
	16,794,027	18,411,081

	Sep. 30, 2014	Dec. 31, 2013
	EUR	EUR
<b>Other receivables</b>		
Other receivables	3,760,898	2,363,204
Prepaid expenses	61,274	83,677
	3,822,172	2,446,881

All trade receivables are non-interest bearing. They are recognized at their originally invoiced amounts which represent their fair values on initial recognition.

### 7.3 AMOUNTS DUE FROM RELATED PARTIES

Amounts due from related parties are non-interest bearing and are repayable on demand. All related parties receivables are without collateral and are to be settled in cash. There is no allowance for doubtful debts arising from the non-trade outstanding balance.

	Sep. 30, 2014	Dec. 31, 2013
<b>Related parties</b>	<b>EUR</b>	<b>EUR</b>
Amount due from related parties - non-trade	309,552	101,379
	309,552	101,379

### 7.4 CASH AND CASH EQUIVALENTS

	Sep. 30, 2014	Dec. 31, 2013
	<b>EUR</b>	<b>EUR</b>
Cash on hand	12,350	16,029
Cash in banks	126,105,999	125,340,339
of Mainland China	125,443,564	123,546,706
of Germany and offshore	662,436	1,793,633
Deposit on bank's acceptance bill (in China)	1,553,286	1,257,710
	127,671,635	126,614,078

The deposit on bank's acceptance bill is pledged for the note payables which has a maturity of no longer than 6 months. As the deposits are security deposits for banks acceptance bill, the pledged deposit will be offset while the notes become due.

Among the balance of cash and cash equivalents as of September 30, 2014, EUR 127,557 thousand were held in countries in which prior approval is required to transfer funds abroad. Nevertheless if the Group can comply with those criteria, such liquid funds can be transferred within a reasonable period of time.

### 7.5 DEFERRED TAX ASSETS

Vtion IT recognized deferred tax assets resulting from the timing difference between the accounting profit and the taxable profit calculated in accordance with Income Tax Law of the People's Republic of China.

Vtion Wireless Technology AG ("Vtion AG") accumulated a tax loss under German GAAP till September 30, 2014. At the balance sheet date the company didn't adjust the estimation of net taxable income of the next five years

## 7.6 TRADE AND OTHER PAYABLES

All trade payables are non-interest bearing. The fair value of trade payable as well as other payables has not been disclosed, since, due to their short duration, management considers the carrying amounts recognized at the balance sheet to be a reasonable estimate of their fair value. The trade payables include notes payable, which amount to RMB 24 million and increased by RMB 3 million as compared with that as of December 31, 2013. 50% of the funds received (EUR 1,553 thousand) are kept as a cash deposit on bank acceptance bills. Please see “cash and cash equivalents”.

	Sep. 30, 2014	Dec. 31, 2013
	EUR	EUR
<b>Other payables</b>		
VAT payable	1,744,174	1,041,328
Other payable	120,881	135,598
Advances from customers	84,385	90,448
Other tax payables	105,175	90,321
	2,054,615	1,357,695

## 7.7 PROVISIONS

	Sep. 30, 2014	Dec. 31, 2013
	EUR	EUR
<b>Provisions</b>		
Accrued payroll	262,190	254,937
Other accruals	145,599	253,955
	407,789	508,892

**8. NOTES – OTHER****8.1 CONTINGENT LIABILITIES**

The Company does not have any contingent liabilities as at September 30, 2014.

**8.2 RELATED PARTY DISCLOSURES****SALES AND PURCHASE OF GOODS AND SERVICE**

The following transactions took place between the Group and related parties during the financial year:

	9M 2014	9M 2013
	EUR	EUR
Rental fee paid to a related party	99,109	101,939
	99,109	<b>101,939</b>

**9. Events after Balance Sheet Date**

On 23 Sep 2014, Vtion settled the cancellation of 1,084,855 treasury shares that had been purchased via a public tender offer between 11 April to 9 May 2014, consequently reducing the company's total share capital to 12,213,640 shares, which is effective since October 1<sup>st</sup>, 2014.

**10. Approval of the Financial Statements**

The financial statements were approved and authorized for issuance by the Board of Directors on November 26, 2014.

Frankfurt, November 26, 2014

Chen Guoping

Zheng Hongbo

Ding Chaojie

Fei Ping

He Zhihong

## Responsibility Statement of the Management

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Frankfurt, November 26, 2014

Vtion Wireless Technology AG

Management Board

Chen Guoping

Zheng Hongbo

Ding Chaojie

Fei Ping

He Zhihong

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENT

This document contains forward-looking statements which are based on the current estimates and assumptions by the corporate management of Vtion. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by Vtion and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside Vtion's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and other involved in the marketplace. Vtion neither plans nor undertakes to update any forward-looking statements.

## Credits

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## Financial Calendar

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