2011
Annual Report

Vtion
Wireless Anywhere

VTION WIRELESS TECHNOLOGY AG

Vtion Wireless Technology at a glance

		2011	2010	+/–%
Revenues	million €	77.09	101.66	–24
Gross profit	million €	14.30	37.27	–62
Gross profit margin	%	19	37	–18PP
EBITDA	million €	8.40	29.65	–72
EBITDA margin	%	11	29	–18PP
EBIT	million €	7.92	29.23	–73
EBIT margin	%	10	29	–18PP
Net profit	million €	5.28	21.99	–76
Net profit margin	%	7	22	–15PP
Earnings per share	€	0.34	1.38	–75
Net Cash flow from operations	million €	23.10	30.58	–24

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. The company also offers tablet PC and other products in its mobile intelligent terminals business segment. Vtion operates its own online appstore and serve as an aggregator and distributor of Android mobile applications through its wholly-owned subsidiary, Vtion Anzhuo. Vtion was established in 2002 and currently has 248 employees, with offices in Fuzhou, Beijing, and Frankfurt.

Content

Letter from Vtion's CEO

Dear Fellow Shareholders,

I would like to open by thanking you for your support through what has been a difficult transition year for our company. We took the steps necessary to re-position our company in a changing market and emerge stronger in the future.

Despite an initial shock in our core wireless data terminal market, we still achieved our stated guidance for the year, with a revenue figure of Euro 77 million, and an EBIT margin of 10.3%, both of which fall within our guidance, which called for revenues of between Euro 75-100 million, and an EBIT margin of 10%-12%. While this represents a deviation from our previous growth curve, it shows that we were successful in what we set out to accomplish for the year 2011. Namely, we stayed profitable and cash flow positive in the wireless data terminal segment despite pricing and volume pressure, due primarily to our lean cost structure. We also established a market presence in two areas that we expect will be key growth drivers for us in the future: mobile intelligent terminals and mobile applications. We realized our first tablet PC sales in the second half of 2011 through our retail sales channels, and will have our first sales to insurance industry clients in the first half of 2012. Our wholly owned subsidiary in the mobile applications market, Vtion Anzhuo, made strong progress in establishing its own online app platform and shop-in-shop cooperation agreements with China Telecom, China Unicom and China Mobile. We expect Vtion Anzhuo to create its first significant revenues in the second half of 2012.

For our 2012 operating results, we suppose to resume growth and have issued revenue guidance that calls for revenues between Euro 80-100 million. We expect our margins to remain steady in comparison with 2011, with an expected EBIT margin of 10%-12%. Between our business segments, we anticipate flat to moderate growth in the wireless data terminal segment; though this is not a growth driver for our company, it remains a profitable business for us. In the tablet PC segment, we expect continued steady growth in the consumer space, which we address through our retail distribution partners, as well as our first sales in insurance industry space. Finally, we expect to see Vtion Anzhuo make its first revenue contributions towards the end of the year.

We were again profitable in 2011, with a net profit figure of Euro 5.28 million (EPS of Euro 0.34), free cash flow of Euro 16.7 million, which brings our total cash position to Euro 125 million or Euro 7.93 per share. With our strong cash position, we are well placed to adapt to a changing market place, while also returning cash to shareholders. We fully intend to continue share buyback programs in the future as a tax-efficient means of returning cash to shareholders. We will also issue a dividend again this year, to be paid the day after our AGM, as was the case last year. Once we have taken a resolution on our dividend, we will communicate that to the market as well.

After a difficult year, our company remains profitable, with a business model well structured to take advantage of China's rapidly growing mobile internet market. I look forward to an exciting year, in which we are able to generate greater shareholder value and fulfill the expectations that our investors have for our company. I thank you again for your continuing confidence and support.

Sincerely,

Chen Guoping, CEO
Vtion Wireless Technology AG

Highlights

Full Year Guidance Met

Vtion exceeded the bottom end of its guidance which called for revenues of at least Euro 75 million by reaching Euro 77 million in revenues. The company also reached an EBIT margin of 10.3%, within the expected range for the year. For 2012, Vtion expects to resume growth, with revenue between Euro 80 million and 100 million, with EBIT margins remaining stable.

Evolving Strategy

Though revenues in 2011 were lower than those in 2010, it was a very good year for the development and diversification of the company's business model. Vtion moved to a multi-segment business model, realizing its first sales of mobile intelligent terminals in July 2011. The company also set up a strong foundation in the mobile applications business, with three major sales channels offering a total of nearly 10,000 applications by the first quarter of 2012.

Well-Capitalized

Vtion finished 2011 with a net cash position of Euro 125 million. This allows the company the flexibility of both returning cash to shareholders through dividends and a share buyback program while also having enough cash on hand to finance further development and guard against risk.

Efficient Cost Structure

Despite difficulties in the wireless data terminal core business, the company remained profitable throughout the year due to an efficient cost base and strong relations with suppliers. Vtion realized a net profit of Euro 5.28 million, which is a margin of 7% and an EPS of Euro 0.34 per share.

Share Buyback Program

Vtion initiated a share buyback program in May 2011, and as of March 30, 2012 had repurchased a total of 858,632 shares at an average price of Euro 3.58 for a total consideration of Euro 3,070,337.68. Vtion will continue this program until it has reached the total 1.598 million shares repurchased as authorized by the 2010 AGM.

Outlook

Vtion expects 2012 to be the year when its new business segments will begin to bear fruit. The company has already received initial orders in the insurance-industry mobile computing solutions business, and sales continue in the consumer tablet PC market. Vtion Anzhuo continues to strengthen its presence in both the operators' online appstores while building up its own user base, and is expected to make its first significant revenue contributions in the second half of 2012.

The Share

DIFFICULT BEGINNING TO 2011

The Vtion share experienced downward pressure to open 2011, as the company announced a guidance of revenue between Euro 75 million and 100 million and an EBIT margin of 10%–12%, which was below market expectations. This resulted in strong downward pressure on the Vtion share, reaching a low of Euro 2.23 on (October 4，2011). The share price stabilized thereafter and traded largely horizontally for the remainder of the year, closing the year at Euro 3.10 on December 31, 2011. Following the initial share price drop in February of 2011, the Vtion share reached a high price for the remainder of the year of Euro 4.96 on (April 21， 2011). Trading volumes remains rather low, with an average daily volume of 10,682 shares traded daily.

DIVIDEND AND SHARE BUYBACK

Vtion will take a resolution on its dividend policy at a Supervisory Board meeting on April 18, 2012, to determine a payment amount for 2012. Previously, Vtion has stated that it will maintain its payout ratio of 15% of net profit as a minimum payout for 2012. The dividend will be paid the day after the AGM provided the resolution passes at the meeting.

As of March 30, 2012, the company has repurchased a total of 858,632 shares at an average price of Euro 3.58 for a total consideration of Euro 3,070,337.68. Vtion will continue its share buyback program until it has repurchased all 1.598 million shares autorized under the resolution at the 2010 AGM.

DESIGNATED SPONSERING AND RESEARCH COVERAGE

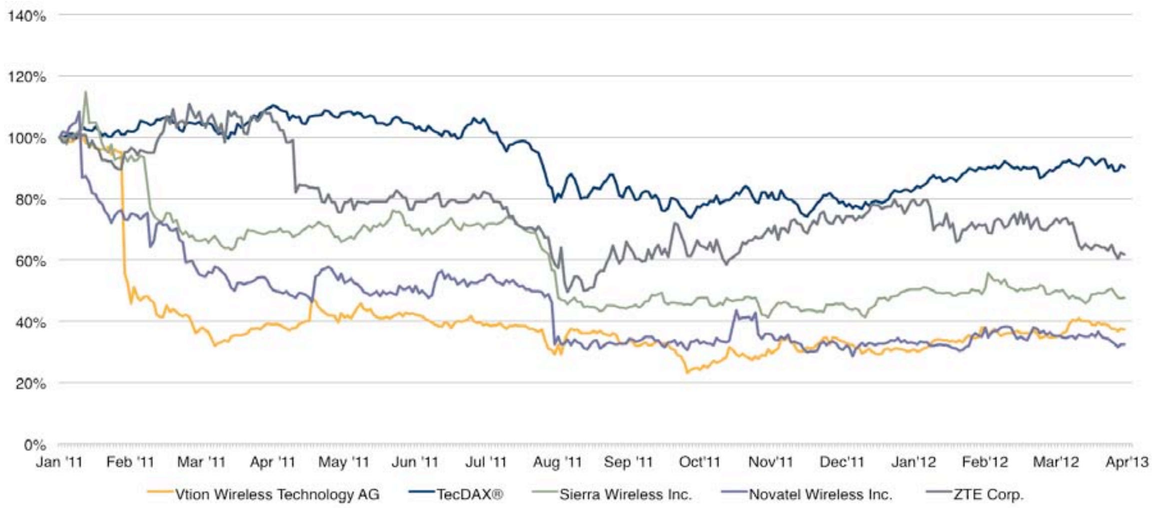
As of April 2010, the company has had designated sponsorship and research coverage from Macquarie Capital, which was also a co-manager of the company's IPO in 2009. The company has also had research coverage from Warburg Research since January of 2010. Dr. Kalliwoda Research, a boutique research firm based in Frankfurt wrote a research note on the company in November 2009.

INVESTOR RELATIONS

Vtion is committed to active investor communications and maintaining accessibility to its shareholders and interested potential investors. The company is a regular participant in investor conferences and regularly engages in roadshows with management. Vtion is particularly committed to accountability in its investor communications given the challenges associated with maintaining close contact with European investors when operations are located primarily in China. Following the release of the Q3 2011 report, Vtion will meet with investors both on a mid-November roadshow, and at the German Equity Forum. The company plans to undertake another roadshow during the week of May 12, 2012, corresponding with the release of the Q1 2012 interim report.

Vtion Stock Price

in Percent



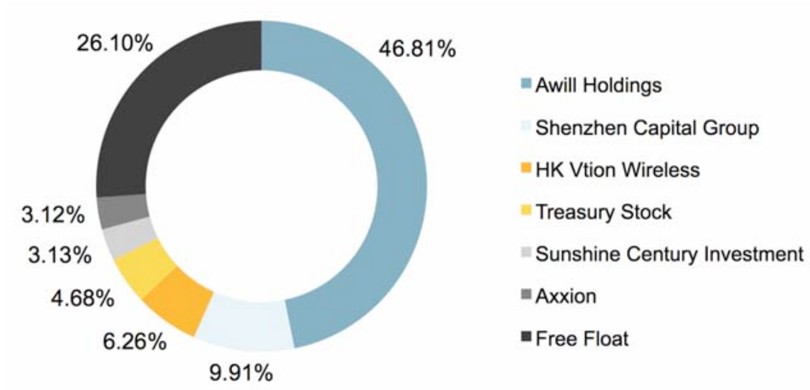
Vtion Master Data

as of December 31, 2011

		2011
Number of shares	Mio Shares	15,980,000
Closing price	€	3.05
Market Cap.	Mio €	48.7
High price	€	10.02
Low price	€	2.32
Average trading volume per day	Shares	10,000

Vtion Shareholder Structure

as of December 31, 2011



Report of the Supervisory Board

In this report the Supervisory Board gives an account of its work in the financial year 2011. Central topics of the discussions with the Management Board were the Company's long-term product and business development strategy, in particular the impact of mobile internet, Tablet PC, and Android application on Vtion's business model, as well as capital markets and investor relations strategy and the Company's annual financial statements.

MONITORING AND ADVICE IN CONTINUOUS DIALOGUE WITH THE MANAGEMENT BOARD

In the financial year 2011, the Supervisory Board continued to perform the monitoring and advisory functions for which it is responsible under the German Stock Corporation Act (Aktiengesetz/AktG)), the Articles of Association (Satzung) and the Rules of Procedure (Geschäftsordnung) for the Management Board and the Supervisory Board and the German Corporate Governance Code. It has intensely supervised and advised the Management Board during the reporting period. The Supervisory Board was comprehensively and timely involved in all matters of significant importance for the group. Transactions and other issues requiring the approval of the Supervisory Board were discussed with the Management Board during Supervisory Board meetings, and Supervisory Board members were available both during meetings and on an informal basis to lend their expertise to the Management Board on a wide array of issues they faced. In particular, several members of the Supervisory Board have extensive experience in the telecom industry both in China and Europe, and they make this expertise available to the Management Board in their strategic deliberations.

The Supervisory Board regularly advised the Management Board on major matters pertaining to the management of the Company and continuously observed and supervised its conduct of the business through intensive and open exchanges. Through a monthly reporting system that we discussed with and devised in cooperation with the Management Board, the Management Board kept us informed of Company developments on a regular basis, with particular attention to reporting on the Company's financial situation, monthly sales figures, development on the capital markets and any extraordinary events. Given the current development of the wireless data services industry, in particular the huge impact of mobile internet, Tablet PC, and Android application on Vtion's business, and the particular challenges of supervising a Chinese company listed in Germany, we paid particular attention to the product strategy, investment strategy, the earnings situation including the risk situation and risk management. The Supervisory Board continued to place particular emphasis on routinizing the reporting between the Management Board and the Supervisory Board, and ensuring that the Supervisory Board is placed in proper alignment in its role vis-à-vis the Company.

All events of importance to the Company were discussed in detail by the full Supervisory Board on the basis of reports and presentations by the Management Board. Where required by law and the Articles of Association, the Supervisory Board voted on the reports and resolution proposals of the Management Board after detailed examination and discussion. We were also in regular contact with the Management Board outside the regularly scheduled Supervisory Board meetings.

The Supervisory Board intensively discussed the business situation, the operational and strategic development of the Company and its areas of business in five ordinary meetings and one extraordinary meeting. In addition, various resolutions were taken by way of written votes. The Strategy Committee held two meetings in the financial year 2011.

Finally, the Chairman of the Supervisory Board was in regular contact with the Management Board to exchange actual information, particularly with respect to current business developments and major events for the Vtion Group.

EFFICIENT WORK IN THE SUPERVISORY BOARD

In the financial year 2011, the Supervisory Board held five ordinary meetings and one extraordinary meeting (concerning the appointment of the new CFO). The meetings were held in Germany or Beijing/China and, if appropriate, via conference call. The meetings were usually attended by all Supervisory Board members. There were no conflicts of interests of members of the Supervisory Board during the reporting period; the only exception being Mr Volker Potthoff who works as Of Counsel for the law firm CMS Hasche Sigle, which is also the Company's legal advisor in Germany. In order to account for this potential conflict of interest, Mr Volker Potthoff abstained from voting during the vote of the Supervisory Board on the approval of the engagement letters between Vtion and CMS Hasche Sigle in the Supervisory Board meeting on 20 April 2011.

In the meetings the members deeply discussed the business, the strategy development and other matters of the business. The main contents of the Supervisory Board meetings can be summarized as follows:

At the Supervisory Board meeting on 31 January 2011, the latest business developments of Vtion Group's business were reported by the Management Board. Furthermore, the Company's business plan and the budget for the financial year 2011 were presented by the Management Board and thoroughly discussed with the Supervisory Board.

At the Supervisory Board meeting on 20 April 2011, the individual and consolidated financial statements as at 31 December 2010 were discussed in detail in presence of the Chief Executive Officer and the Chief Financial Officer as well as the auditor. The Supervisory Board unanimously approved the financial statements. Furthermore, the Supervisory Board approved the Compliance Statement (Entsprechenserklärung), the proposal on the dividend distribution and the agenda to the annual general shareholders' meeting. In addition, the current business situation of the Company and the forecasts for the financial year 2011 were discussed in detail. Finally, the Supervisory Board and the Management Board agreed on certain enhancements concerning the reporting by the Management Board to the Supervisory Board to allow for a better discussion basis in the Supervisory Board meetings.

The Supervisory Board meeting on 21 June 2011 was devoted to a rehearsal for the annual general shareholders' meeting, the interim financial report for the first quarter of 2011 and the business development of Vtion Group's business within the first five months of the financial year 2011, as well as the forecast for the remaining financial year 2011. The latter also included a detailed discussion on the launch of new products of the Company and the challenges associated with these new products. Furthermore, the Supervisory Board discussed investor relations activities of the Company.

At the Supervisory Board meeting on 1 September 2011, the interim financial report for the second quarter of 2011 was presented by the Management Board. In addition the Supervisory Board discussed the current business and market situation of the Company and its investor relations activities.

Main topics of the Supervisory Board meeting on 6 December 2011 related to the interim financial report for the third quarter of 2011, the recent developments of the market environment, and the implementation of an adjusted business strategy. The discussion particularly focused in the Company's business plan and the budget for the financial year 2012 and the enhancement of a sustainable medium term strategy for the Company. In addition, the financial calendar for the financial year 2012 and the schedule of Supervisory Board and Shareholders meetings for the financial year 2012 were adopted and the financial statements for the Company and Vtion group were discussed on a preliminary basis.

All meetings concerning the annual financial statements were attended by the auditors, the Chief Executive Officer and the Chief Financial Officer. They mainly dealt with the individual and consolidated financial statements, the audit reports of the auditors as well as the development of the risk management. The auditors reported in detail on all findings and occurrences of significance to the work of the Supervisory Board that had arisen in the course of the audit of the annual financial statements and the audit review of the interim reports.

The Supervisory Board also dealt with the engagement of the auditors for the financial year 2011. After the election of BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg by the Annual General Meeting, the Supervisory Board satisfied itself of the auditor's independence and engaged the auditors to audit the individual and consolidated financial statements of Vtion Wireless Technology AG and to carry out audit reviews of the interim reports. The audit was awarded in accordance with the requirements of statutory law and the recommendations of the German Corporate Governance Code.

POSITIVE ROLE OF STRATEGY COMMITTEE

In the financial year 2010, the Supervisory Board introduced a Strategy Committee to further discuss and enhance the Company's business strategy together with the Management Board. The Strategy Committee consists of the three Supervisory Board members Mr. Volker Potthoff (Chairman), Mr. Norbert Quinkert and Mr. Yang Hua. The committee regularly reports to the Supervisory Board for further discussion and approval, particularly the substantial strategic policies relating to Vtion's business model.

In the financial year 2011, the Strategy Committee held two meetings and started to play an important role in advising on the strategy for the operation of business and the capital markets, and closely monitored the Company's product development and implementation of new product strategies. The Strategy Committee and the Management Board continuously worked towards improving the reporting systems and business processes of the Management Board. With respect to the Supervisory Board meetings, the preparation in the Strategy Committee contributes to more efficiency in the Supervisory Board Meetings.

For other matters, Vtion Wireless Technology's Supervisory Board has not established committees. As the Supervisory Board only consists of six members, the Supervisory Board believes that it will create most benefits for the Company to rely on the know-how of all Supervisory Board members when discussing and resolving issues in the Supervisory Board.

CORPORATE GOVERNANCE AND COMPLIANCE STATEMENT

The Supervisory Board again continuously monitored the further development of corporate governance standards in the reporting year. The Management Board – also on behalf of the Supervisory Board – reports on corporate governance at Vtion Wireless Technology in the corporate governance report in accordance with Section 3.10 of the German Corporate Governance Code.

On 29 March 2012, the Management Board and Supervisory Board jointly issued an updated Compliance Statement in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz/ AktG) and made it permanently available to the public shareholders on the Company's website (www.vtion.de). Vtion complies with the recommendations of the German Corporate Governance Code in its latest version of 26 May 2010 with only some exceptions. For further information please refer to the Corporate Governance chapter.

AUDIT OF THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The (individual) financial statements of Vtion Wireless Technology AG were prepared in accordance with the German generally accepted accounting principles as provided in the German Commercial Code (Handelsgesetzbuch/HGB). The consolidated financial statements of Vtion Wireless Technology AG were prepared in accordance with the International Financial Reporting Standards (IFRS) as these are to be applied in the European Union (EU). Pursuant to Section 315a HGB, the Company is released from the obligation to prepare annual consolidated financial statements in accordance with the provisions of HGB.

The individual and the consolidated financial statements as at 31 December 2011 and the report of the Management Board on the relations with affiliated entities were examined in detail by the auditor appointed by the Annual Shareholders' Meeting, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, and approved with an unqualified audit opinion. The audit did not lead to any qualifications. Each member of the Supervisory Board was provided with these annual accounting documents including the auditor's report. These documents were examined by all board members and discussed in detail at the Supervisory Board meeting on 18 April 2012 in the presence of the auditor who reported on the main results of the audit and was available for questions and supplementary information. In the same meeting, on the basis of its own examination and discussion, the Supervisory Board approved the result of the audit and the individual and consolidated financial statements. No objections are to be raised with respect to the reports. The individual financial statements of Vtion Wireless Technology AG for the time period from 1 January until 31 December 2011 were, thus, adopted.

The financial statements of Vtion Wireless Technology AG accounted for annual net profits of EUR 4.7 million for the financial year ended 31 December 2011. Due to the dividend distribution (EUR 3.3 million) to the shareholders and the cumulative share premium of repurchasing 747,602 ordinary shares of no par value (EUR 1.9 million) in 2011 accumulated retained earnings under German GAAP decrease from EUR 3.9 million of previous year to EUR 3.4 million of current year.

The Supervisory Board was provided with the report regarding the Company's relations to affiliated entities prepared by the Management Board in accordance with Section 312 German Stock Corporation Act (Aktiengesetz/AktG). The Supervisory Board considered the report – as well as the related audit report prepared by the auditor – thoroughly. The unqualified opinion of the auditor is as follows:

“According to the circumstances known to us at the time the transactions were executed, or measures were implemented or omitted, Vtion Wireless Technology AG received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures.” The auditor attended the deliberations of the Supervisory Board on April 18, 2012 and provided a material report on the results of the audit. The Supervisory Board approved the audit by the appointed auditor. There are no objections to the statements of the Management Board regarding the Company's relation to affiliated companies.

APPOINTMENT OF NEW CHIEF FINANCIAL OFFICER

The former CFO, Mr. Chen Huan left the Company for personal reasons effective as of 23 October 2011.

In an extraordinary Supervisory Board meeting dated 23 October 2011, the Supervisory Board accepted the resignation of Mr Chen Huan and unanimously appointed – in line with the proposal of the Management Board and after having satisfied itself of the capabilities of the new candidate for the CFO – Mr. Zheng Hong Bo as the new CFO of the Company with effect as of 24 October 2011 and for an initial term of three years. As prescribed by law, the Supervisory Board also resolved upon his remuneration. Mr. Chen Huan, whose work has always been appreciated by the Management Board and the Supervisory Board, has agreed to act as an external advisor to the Company for an interim period. The Supervisory Board therefore also resolved on the appointment of Mr. Chen Huan as external advisor to the Company.

The Supervisory Board would like to take the occasion to express its gratitude to the members of the Management Board for the excellent cooperation and to all the other employees of Vtion's for their hard work and achievement in the financial year 2011.

Warmest Regards,

Mr. Qian Yingyi

Chairman of the Supervisory Board

Frankfurt, April 18, 2012

Corporate Management of Vtion AG

as of December 31, 2011

Management Board (Vorstand)

Mr. Chen Guoping

- Chief Executive Officer (Chairman)
  Born in 1968
- Initially appointed on October 9, 2007
- Additional positions:
- Member of the Committee of Fujian People's Political Consultative Conference;

Mr. Zheng Hongbo

- Chief Financial Officer
  Born in 1977
- Initially appointed on October 24, 2011

Mr. He Zhihong

- Chief Technology Officer
  Born in 1974
- Initially appointed on October 9, 2007

Mr. Ding Chaojie

- Responsibilities: Sales, strategic planning and marketing
  Born in 1975
- Initially appointed on November 14, 2007

Ms. Fei Ping

- Responsibilities: Procurement, outsourcing, quality control, logistics, human resources and general administration
  Born in 1972
- Initially appointed on November 14, 2007

From left zu right:
Zheng Hong Bo, Ding Chaojie, Chen Guoping, He Zhihong, Fei Ping

Supervisory Board

as of December 31, 2011

Mr. Qian Yingyi

- Chairman of Supervisory Board
- Born in 1956
- Appointed in 2009
- Additional positions:
  - Dean of the School of Economics and Management of Tsinghua University, Beijing;
  - Independent director of Industrial and Commercial Bank of China (ICBC);
  - Member of the Advisory Committee for Development Strategies of China Mobile
  - Member of the International Advisory Council of China Investment Corporation (CIC)

Mr. Norbert Quinkert

- Vice Chairman of Supervisory Board
- Born in 1943
- Appointed in 2009
- Additional positions:
  - Chairman of the board of Management TSB Technology Foundation, Berlin/Germany
  - Member of the board of directors of Advanced Metallurgical Group (AMG) Wayne, Pa, USA
  - Member of the board of directors of PFW Aerospace AG, Speyer/Germany
  - Member of the advisory Council of MSC Gleichmann Group, Karlsruhe/Germany
  - Member of the advisory council of East Commerzbank AG, Frankfurt/Germany

Mr. Volker Potthoff

- Born in 1954
- Appointed in 2009
- Additional Positions:
  - Capital markets expert at CMS Hasche Sigle
  - General Manager of Addwis s.à r.l and Addwis GmbH
  - General Manager of Obermark s.à r.l
  - Chairman of the Supervisory Board of pfm medical AG
  - Member of the Supervisory Board of Powerland AG

Mr. Liu Yangsheng

- Born in 1946
- Appointed in 2009
- Additional Positions:
  - Chairman of Cosmos Posts & Telecommunications International Leasing Co. Ltd.

Mr. Wang Ning

- Born in 1955
- Appointed in 2009
- Additional positions:
  - Executive Vice President of China Electronic Chamber of Commerce

Mr. Yang Hua

- Born in 1959
- Appointed in 2009
- Additional positions:
  - Secretary General of TD Industry Alliance

Vtion Anzhuo

Vtion Anzhuo is a wholly owned subsidiary of Vtion Wireless Technology AG headquartered in Beijing. The company is focused on the procurement, integration and publication of mobile applications for the Android operating system. Currently Vtion Anzhuo operates through three main sales channels, its own application store, known as the "V-Market", through a shop-in-shop model in cooperation with China's three major telecom operators, and through cooperation with smartphone and tablet PC device manufacturers. Anzhuo currently employs 46 employees.

Partner

Customers

App Store

End User

Developer Cooperation

Vtion Anzhuo seeks to cooperate with developers both inside and outside of China, publishing their apps both through its domestic sales channels, and its growing overseas channels, such as its growing cooperation with Korea's telecom operators, LG Telecom, KT Olleh and SK Telecom. In addition to building up sales channels in Korea, Vtion Anzhuo has also increased its procurement in Korea and has started seeking out applications in Europe and the United States that it believes would be well-received in the Chinese market. Anzhuo is able to draw on its strong reputation within China as an application publisher to attract cooperation from a wide variety of application developers, maintaining diversification in its supply channels. Currently, the top three suppliers of applications to Anzhuo in China are the developers ASC, Wooboo and The Ninth City, while its top three suppliers outside of China are Appzil, Gpstuner and Thumbstar.

Most Popular Applications

Vtion Anzhuo's most successful case was taking an application developed in China, called "The Last Defender", which is a first person shooter game, and publishing it in Korea through its connections with the Korean telecom operators.
Vtion Anzhuo published "The Last Defender" in the KT Olleh, LG Telecom and SK Telecom stores, reaching 191,668
total downloads in the first month the application was available through all three stores. Outside of the gaming space, the most popular applications were in a series called "Virtual Makeup", which Vtion Anzhuo published in China through cooperation with a Korean developer named Zestin, which is well-known for developing cosmetics applications.
Some of the applications from the "Virtual Makeup" series are also imbedded in the V7 Tablet PC that Vtion markets towards young female consumers.

Management Report

Group Management Report for the Financial Year 2011

Business and Operating Environment

Vtion Group is one of the leading providers of wireless data solutions for mobile computing over wide area networks in China

OVERVIEW

Over the course of 2011, the Chinese economy continued on a path of strong and relatively rapid growth, despite of headwinds coming out of the international economy, particularly the debt crisis in Europe and stagnant growth in both Europe and the United States. For the entire year, China's GDP reached 47.2 trillion RMB, representing growth rate for the year of 9.2%.[1] Behind this strong overall growth figure, however, is the reality that growth slowed quarter-over-quarter over the course of the year. Growth rate in the first quarter was 9.7%, 9.5% in the second, 9.1% in the third and 8.9% in the fourth quarter.[2] Though there is a slowing pattern over the course of the year in GDP growth, the fourth quarter figure of 8.9% still represents healthy economic growth within the government's targeted range. The gradual slowing while maintaining strong growth is an indication that the government's efforts to engineer a soft landing for the economy while maintaining growth are proving effective. For the year 2012, Chinese Premier Wen Jiabao has set a GDP growth target of 7.5%, hoping to create a model of greater domestic consumption and more sustainable development.[3]

Inflation remains a major challenge for the Chinese economy; over the course of the full year, CPI reached 5.4%, with a high point during the month of July of 6.5%.[4] In December the figure returned to 4.1%, within the government's targeted range and indicative that measures to control inflation are proving successful. The government has taken measures such as raising interest rates, which, though in the near term may constrain growth, will over the long term serve to stabilize liquidity and commodity prices. However, if growth continues to slow, there is the possibility of renewed pressure for the government to lower interest rates and reserve requirements to bring more liquidity to the economy and stimulate growth.

THE ORGANIZATIONAL AND LEGAL STRUCTURE

FORMATION, BUSINESS NAME AND REGISTERED OFFICE

Vtion Wireless Technology AG has been formed by means of a notarial deed of incorporation (Gründungsurkunde), dated October 1, 2007. The business name (Firma) of the Company is "Vtion Wireless Technology AG". The formation of the Company has become legally effective by registration in the commercial register (Handelsregister) with the local court (Amtsgericht) of Frankfurt am Main on November 12, 2007, where the Company is registered under the registration number HRB 81718. The legal domicile (Sitz) of the Company is Frankfurt am Main, Germany.

BUSINESS PURPOSE OF THE COMPANY

The Company's business purpose (Unternehmensgegenstand) is the holding and administration and the disposal of direct and indirect participations and investments in the area of Wireless Technology and the providing of services for affiliated entities. According to section 2, para. 2 of the Articles of Association, the Company is entitled to conduct all measures and business transactions, which it deems necessary and useful for the implementation of the purpose of the Company. In particular, it may for this purpose establish branches in the country, where it has its seat. Abroad, it may establish or acquire companies of the same or similar type, or acquire an interest in such companies, demerge parts of its business to subsidiaries and associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements, or limit itself to the management of shareholdings.

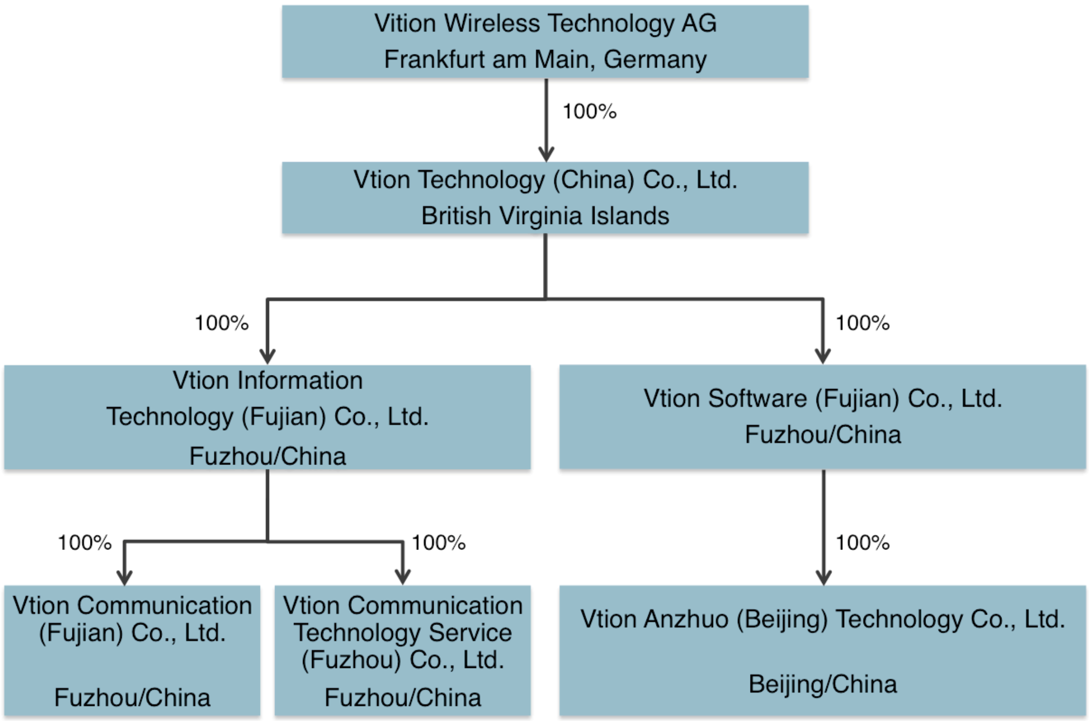
[1] http://www.stats.gov.cn/tjdt/gjtjjdt/t20120117_402779601.htm.
[2] IBID.
[3] http://www.guardian.co.uk/world/2012/mar/05/china-cuts-growth-target-7-5
[4] http://www.stats.gov.cn/tjfx/jdfx/t20120117_402779443.htm.

GROUP STRUCTURE

The operational business of Vtion Group in 2011 and 2010 were exclusively carried out by Vtion IT, Vtion Software, Vtion Communication and Vtion Anzhuo (established in 2011) all of which are limited liability companies formed under the laws of the PRC.

LEGAL STRUCTURE

Compared to last fiscal year 2010, two new subsidiaries were established in the first quarter of 2011.The current corporate structure as of December 31, 2011 of Vtion Group is shown in the chart below:



Vtion IT, Vtion Software, Vtion Communication, Vtion Service and Vtion Anzhuo are limited liability companies formed under the laws of the PRC. The sole shareholder of Vtion Communication and the Vtion Service is Vtion IT. The sole shareholder of Vtion Anzhuo is Vtion Software The sole shareholder of Vtion IT and Vtion Software is Vtion Technology (China) Co. Ltd. ("Vtion BVI Holding"), a limited liability company formed under the laws of British Virgin Islands, which is a wholly-owned subsidiary of Vtion Wireless Technology AG (the "Company").

Vtion IT was established in 2002 under the laws of People's Republic of China and was acquired by Vtion BVI Holding on May 9, 2007 (obtaining of control). The current registered capital and fully paid-in share capital of Vtion IT is USD 30,000,000 by December 31, 2011.

Vtion Software was established by Vtion BVI Holding on February 9, 2007 under the laws of People's Republic of China. The registered capital and fully paid up share capital of Vtion Software amounts to HKD 10,000,000 by December 31, 2011.

Vtion Communication was established by Vtion IT on November 20, 2009 under the laws of People’s Republic of China. The registered capital and fully paid up share capital of Vtion Communication amounts to RMB 8,000,000 by December 31, 2011.

Vtion Anzhuo (Beijing) Technology Co., Ltd, PRC (Vtion Anzhuo) was established on January 14, 2011 with RMB 10 million of capital. Vtion Software holds 100% of the shares in this subsidiary and fully paid in the registered capital in January 2011.

Vtion Communication Technology Service (Fuzhou) Co., Ltd, PRC (Vtion Service) was established on March 1, 2011 with RMB 1 million of capital. Vtion IT holds 100% of the shares in this subsidiary and fully paid in the registered capital in February 2011.

All shares in Vtion IT and Vtion Software are held by Vtion BVI Holding, a limited liability company, formed under the laws of British Virgin Islands on January 27, 2005 and being registered with the Registrar of Companies in British Virgin Islands under the registration number 639297. The authorized share capital of Vtion BVI Holding amounts to USD 50,000 and was fully paid-up by December 31, 2011.

Upon formation of the Company, all shares in Vtion BVI Holding were transferred to the Company by means of a share contribution agreement (Einbringungsvertrag) dated October 10, 2007 as a contribution in kind (Sacheinlage).

MANAGEMENT AND CONTROL

The members of the Management Board and their current areas of responsibility are listed as follows:

Mr. Chen Guoping is the Company’s chief executive officer (CEO) and responsible for strategic planning, overall marketing, investor relations as well as Vtion Group’s overall management.

Mr. He Zhihong is the Company’s chief technology officer (CTO) and responsible for the research and development.

Mr. Zheng Hongbo is the Company’s chief financial officer (CFO) and responsible for the overall financial management.

Mr. Chen Huan served as the Company’s chief financial officer (CFO) for the majority of 2011, before resigning effective October 23, 2011. On that date he was replaced by Mr. Zheng Hongbo, mentioned above.

Ms. Fei Ping is responsible for procurement, outsourcing, quality control, logistics, human resources and general administration.

Mr. Ding Chaojie is responsible for sales, strategic planning and marketing.

Under the current management controlling procedures, management board members hold internal meetings for their responsible areas and management meetings are held on a monthly basis. Decisions are made through management board’s group discussion.

PRODUCTS AND SERVICES

Vtion is leading supplier of wireless data card products and related after sales service support in the People's Republic of China. The company's product portfolio covers all three of the 3G telecom standards in operation in China, namely the CDMA 2000 EVDO standard used by China Telecom, China Unicom's WCDMA standard and the Chinese-developed TD-SCDMA standard operated by China Mobile.

During 2011, Vtion experienced a decline in its sales of wireless data terminals, particularly wireless data cards, in comparison to 2010. This is due primarily to the fact that the operators reduced their procurement prices for wireless data cards and also shifted to a business model that focused on developing data users through tablet PC and smart phone sales. Business in the wireless data terminal has now stabilized for Vtion at levels similar to those in Q2 and Q3 2011. The company continues to offer wireless data cards across all three technology standards, as well as a E6 mobile router for China Telecom's network and a V6 router for China Unicom's network. Vtion expects to remain profitable in the wireless data terminal business segment, bolstered by the recent introduction of 3.5G technology (HSPA+ and EVDO Rev.B) to the Chinese market and the upcoming introduction of 4G (TD-LTE) technology. The company expects steady results in this segment, while looking to its newer business segments as its primary growth drivers.

In June 2011, Vtion began selling the V7 tablet PC, its first venture into the mobile intelligent terminal space. The company sells this product through retailer distribution channels and offers imbedded applications for certain target markets, particularly cosmetics and fashion apps for the young female consumer market. The company intends to offer two new tablet PC models over the course of 2012, including a model designed specifically for insurance companies for use by their mobile sales forces. Vtion also offers a product called "PC to TV" in the mobile intelligent terminal segment; the "PC to TV" allows users to establish a wireless connection between a laptop computer and an HDTV monitor.

Viton's newest business segment is mobile applications for the Android platform. Vtion operates this business through Vtion Anzhuo, which is a wholly-owned subsidiary of Vtion Software. Vtion Anzhuo is engaged in the worldwide procurement of mobile applications which it then distributes through three major sales channels. The first is its own online applications store, which offers a wide selection of authorized applications and secure online payment procedures. The company also distributes applications through a shop-in-shop model in the application stores of all three major telecom operators. Vtion Anzhuo also cooperates with tablet PC and smartphone device manufacturers, reaching agreements to put the Vtion Anzhuo appstore in the devices these manufacturers sell. Vtion Anzhuo made important progress in establishing its business model over the course of 2011, particularly in setting up its own online store and reaching agreements with all three telecom operators as well as several device manufacturers; the company is expected to make its first significant revenue contribution in the second half of 2012.

SALES AND MARKETING

China's three major telecom operators remain a major focus of Vtion's sales and marketing efforts, as Vtion continues to sell the majority of its wireless data terminal products through China Unicom, China Telecom and China Mobile. Additionally, Vtion has established a shop-in-shop model to sell mobile applications through the online stores of each of the telecom operators. For both data terminals and mobile apps, Vtion continues to rely on its strong ties to China's mobile network operators.

Vtion also sells hardware products through its retail and distribution agent partners. Vtion has long-standing ties to several distributors of electronics products with extensive nationwide sales networks. Vtion sells both wireless data terminals and mobile intelligent terminals through these partners.

Vtion's newest sales channels center around its newest business ventures. First, the company has established a B2B sales model to sell directly to China's insurance companies, providing them with integrated solutions combining tablet PC hardware and imbedded applications designed specifically for insurance sales processes. Vtion has recruited sales personnel who previously worked within insurance companies to set up this sales network. In addition to selling through a shop-in-shop model in cooperation with China's telecom operators, Vtion Anzhuo also sells through device manufacturers of tablet PC and handset products. In doing so, the Vtion Anzhuo store or VMarket, is established as the primary online applications store for users of these devices through an imbedded link in the hardware. Finally, the VMarket also stands as an independent sales channel through which users of both Vtion's hardware and other hardware are able to access and download mobile applications.

RESEARCH AND DEVELOPMENT

Vtion's wireless data terminal R&D activities center around the development of wireless data cards, routers and the company's "PC to TV" products. Over the course of 2011 Vtion developed four models of wireless data terminals for China Mobile's TD-SCDMA network. For China Unicom's network Vtion developed four wireless data terminal models, three of which were wireless router hotspot products. For China Telecom's network, Vtion developed two wireless data card models and two wireless hotspots. The wireless hotspot that Vtion developed for the TD-SCDMA network represents Vtion's first hotspot product for China Mobile.

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

In the mobile intelligent terminal business segment, Vtion's value chain is largely the same as that for wireless data terminals, with product design and specification taking place in-house with production outsourced. Vtion's tablet PCs are designed with quality and attractive design at a premium, while selling at a price point below that of major international brands. Vtion will continue developing new tablet PC products based on market trends, including a 5-inch tablet PC that will be released in the second half of the year.

In Vtion's mobile applications business segment, the company relies on a worldwide procurement model to seek out developers and applications that the company will be able to effectively distribute. However, Vtion also does mobile application development in-house, particularly the applications it has designed for the insurance industry. Vtion's on-going R&D activities in the mobile applications space involve developing new applications, optimizing existing applications and optimizing the company's online store and distribution software.

2011 Vtion Wireless Data Terminal Segment Product List		
3G Standard	**Interface Type**	**Model**
EVDO	Mini-PCIE	E2060
	USB Stick	E2010
	EVDO WIFI Hotscale	E6+
	EVDO WIFI Hotscale	E8
WCDMA	USB Stick	U2916
	Hscale productionA WIFI Hotscale	W6
	Hscale productionA+ WIFI Hotscale	V6+
	Hscale productionA+ WIFI Hotscale	V8
TD	USB Stick	T2010
	USB Stick	TG2916
	USB Stick	TG1916
	TD WIFI Hotscale	T9

2011 Vtion Tablet PC segment product list		
Platform	**Model**	**Size**
NVDIA Tegra II	Vpad V1	10.1 (1280x800)
Qualcomm 7 series	Vpad V7	7 (800x480)
Freescale i.MX53 series	Vpad V7102	7 (1024x600)
Freescale i.MX53 series	Vpad V7106	7 (1024x600)
Qualcomm 8 series	Vpad V5502	5 (960x540)
Qualcomm 8 series	Vpad V5506	5 (960x540)

2011 Vtion Android Products List and Status Update	
Product Name	**Status Update**
Introduce in App application	1,544 applications were submitted to China Mobile MM-platform, 2,640 applications were submitted to China Telecom Tianyi scale productionace 3,588 applications were submitted to China Unicom Wo Store Year 2011 total introduced in 679 applications, 256apps were self-developmented
Android Appstore Operating Plattform	1. Up to Dec 31,2011,total 6278 applications were authorized, including 6158 apps available for use 2. Developed below target customers in mobile phone industry Haier/SONY Ericsson/MIUI mobile phone/land rover mobile/MOTOROLA/JinLi/ dexin mobile phone/TianYu mobile phones 3. Developed below target customers in tablet PC industry E 人 E 本/DELL mobile/ M touch
Android Appstore Smart TV Plattform	Developed below target customers in Smart TV industry: TCL/LG/Philips

SUPPLIERS

Throughout its history Vtion has used a value chain model centered on working closely with OEM's and ODM's and outsourcing all of its production. This has allowed the company to both assure high quality through only partnering with top-level manufacturers, as well as maintain a lean and effective cost base through lower overhead due to not having to pay for unused production capacity. Vtion has its own production department, staffed by 11 persons. This department is responsible primarily for the development and testing of product prototypes, while the company's actual scale production and mass production remains entirely outsourced.

For its wireless data card products, Vtion used to work with three manufacturers over the course of 2011. The first, a subsidiary of Foxconn called Hong Xun, based in Hangzhou, provides production services. BYD provides both ODM and production services, while the company also works with an ODM based in Guangzhou called Shenzhou Electronic Co., Ltd.

For the new products that the company released in the fourth quarter of 2010, the Coolbook C1 e-reader and the Vnet V6 and E6 3G wireless routers, Vtion used two other suppliers. The OEM for the C1 e-reader is a Taiwanese company called Netronix INC. Beijing's Weicom Limited is Vtion's ODM for its two models of 3G wireless routers.

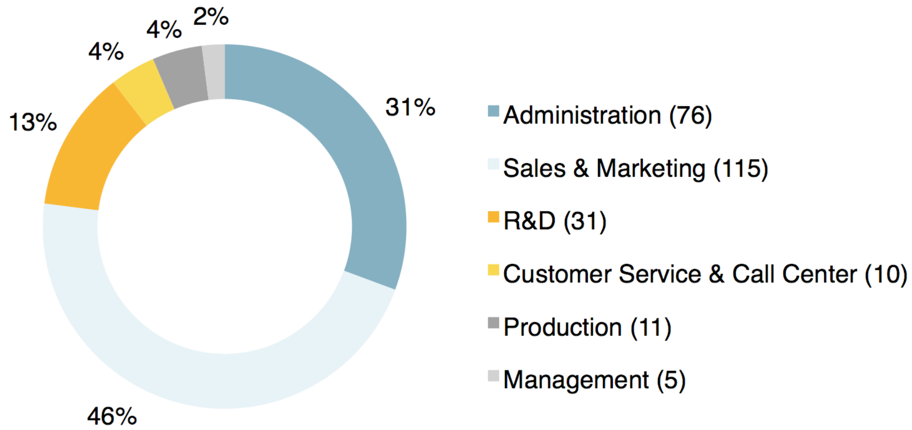
Vtion's tablet PC products also rely on an outsourced production model. Vtion's tablet PC hardware is produced by Foxconn.

Vtion Anzhuo also relies on outsourcing in its procurement of mobile applications to sell through its various sales channels, and leverages a global procurement network with offices in Frankfurt, Seoul and Taipei. The company works with a large number of application developers both inside and outside of China, sometimes on an ad-hoc basis and other times in a longer-term cooperation model. Currently, Vtion Anzhuo's top three domestic suppliers are ASC, Wooboo and The Ninth City, while its top three suppliers outside of China are Appzil, Gpstuner and Thumbstar.

EMPLOYEES

Vtion concluded 2011 with 248 employees, evident of the company's determination to maintain a lean cost structure. Vtion finished the full year of 2010 with 191 employees. Due to the fact that Vtion is expanding and diversifying its business model, the total number of employees increased over the course of 2011, with sales and marketing personnel still representing the vast majority of Vtion's employees with 115 persons. Administrative personnel are the second largest group, with 76 persons, followed by the R&D department with 31 persons. Though Vtion's production is outsourced, the company does have an 11-person production department; these employees are primarily concerned with product specification, testing and software interface. Vtion has 10 employees in its customer service call center and a 5-member management board.Vtion's newest subsidiary, Vtion Anzhuo, focused on the design, integration and distribution of mobile applications for the Android platform in China is currently comprised of 46 persons. Of these personnel, 14 are administrative, 16 persons belong to the R&D department and 16 are working in Sales and Marketing.

Allocation of Employees
as of December 31, 2011



VALUE AND PERFORMANCE MANAGEMENT

The goal of Vtion Group is to sustainably increase our market share in terms of qualitative growth and at the same time to expand the earnings base. The key performance indicators are derived from this.

We want to grow faster than the market. We measure this in terms of the growth rates in our regions, for which we have defined different growth targets.

In addition, we want to increase Vtion Group's earnings power. This is measured using the operating result (EBIT) in conjunction with the EBIT margin (the rate of EBIT to sales). We aim to generate competitive returns through active cost management and the highly efficient use of resources.

Finally, we aim to improve our return on capital (the ratio of EBIT to net operating capital) through continuous optimization of our net operating capital.

General Market Conditions and Business Development

According to data from the China Internet Network Information, by the end of 2011, total internet users in China reached 513 million users, representing a penetration rate of 38.3%.[5] New user additions over the course of the year reached 55.8 million, indicative that the internet market has entered an era of steady growth.[6] The growth in internet users, particularly in the mobile internet, was driven largely over the course of the year by second and third-tier city users as well as rural internet users; the total number of smartphone internet users in China reached 356 million by the end of 2011, an increase of 17.5% over the course of the year.[7]

Total investment in China's three 3G networks remained strong over the course of 2011; though statistics for the full year are not yet available, from January through November 2011 China Mobile, China Unicom and China Telecom invested a combined volume of 94.1 billion RMB in their 3G networks.[8] As of the end of November 2011, the total number of 3G users reached 118.7 million, an increase of 71.7 million users from the beginning of the year.[9] Of China's mobile phone users, 43.7% were using 3G devices at the beginning of the year, a figure that increased to 72.5% by the end of November 2011.[10] Of the three network carriers offering 3G service in China, China Mobile finished the year with just over 50 million 3G users on its TD-SCDMA network.[11] China Unicom finished the year with approximately 48 million 3G users on its WCDMA network.[12] China Telecom reports approximately 36 million 3G users on its CDMA 2000 EVDO network.[13] The total number of 3G users listed by the three network operators adds up to a figure greater than the total of 118.7 million 3G users due to the fact that some users connect to more than one network; for example a user may connect to one network with a smartphone and another with a wireless data card, thus being counted as a user by more than one network operator.

The increasing coverage of the 3G networks across China and the growing number of users supported Vtion's business over the course of the year. In the wireless data terminal business segment, Vtion remained profitable, with steady sales through the year, strongest in the second quarter. However, Vtion's revenues in this segment were weaker compared to 2010, as Vtion realized a revenue of Euro 97.4 million from the wireless data terminal segment in 2010, and revenues of Euro 54.3 million from this product group over the course of 2011. The reason for this is that after one year since 3G technology was introduced into China, the market began to move towards a model of greater product diversity, meaning that tablet PCs and smartphones cannibalized what was previously a market centered almost exclusively around wireless data cards and routers. Despite the diversification in the market, Vtion expects to remain profitable in its wireless data terminal segment for 2012 and beyond. Though the company does not see this space as a growth market, it is extremely cost-effective in this segment and expects to also see a boost from 3.5G and 4G technology in its hardware sales.

Though market development hurt Vtion's wireless data terminal segment results, the company was able to take advantage in another business segment, mobile intelligent terminals. Vtion began offering a 7-inch tablet PC, the V7, in Q2 2011. This product is intended for the consumer market and sold through Vtion's nationwide retail and distribution partners. The V7 contains imbedded applications targeted at specific segments of the population, such as fashion and cosmetic applications for young female consumers. All of Vtion's tablet PC sales for 2011 were realized in this consumer space between July and December 2011; revenues in this segment totaled Euro 22.2 million for the year, illustrating that Vtion has made a successful entry into the mobile intelligent terminal market. The second aspect of Vtion's mobile intelligent terminal business, industry specific solutions, did not contribute any revenue during 2011, though the company made inroads with several insurance companies over the course of Q4 2011.

Vtion's newest business segment is mobile applications, run through the company's wholly owned subsidiary, Vtion Anzhuo. The company was successful in building a foundation in this business segment over the course of the second half of 2011, establishing a sales model that includes selling to device manufacturers, China's three telecom network operators and selling through the company's own online appstore. Vtion Anzhuo currently offers over 10,000 total applications for the Android operating system through these three sales channels, and is expected to make its first significant revenue contributions during the second half of 2012.

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[5] http://www.cnnic.net.cn/dtygg/dtgg/201201/t20120116_23667.html.
[6] IBID.
[7] IBID.
[8] http://www.miit.gov.cn/n11293472/n11293832/n11294132/n12858447/14405125.html.
[9] IBID.
[10] IBID.
[11] http://www.c114.net/news/118/a666755.html.
[12] http://www.c114.net/news/118/a666314.html.
[13] http://www.c114.net/news/117/a666883.html.

Management feels that this will grow into a major growth driver over the next five years given the size of the Android market and the success the company has had in building its three sales channels.

Result of Operations

INCOME STATEMENT – Group
Jan. 1 – Dec. 31

	2011	2010	% change
	kEUR	kEUR	
Sales	**77,088**	**101,661**	**-24**
Cost of sales	-62,789	-64,394	-2
Gross profit	**14,300**	**37,267**	**-62**
Other operating income	69	556	-88
Selling and distribution expenses	-1,961	-4,739	-59
Administrative expenses	-4,482	-3,736	20
Other operating expenses	-2	-121	-98
Profit from operations (EBIT)	**7,923**	**29,227**	**-73**
Finance income	661	685	-4
Finance expenses	-53	-42	-26
Foreign exchange loss	-1,374	-3,849	-64
Profit before income tax	7,157	26,021	-72
Income tax	-1,877	-4,037	-54
Profit for the period	**5,280**	**21,985**	**-76**
Earnings per share[14]	0.34	1.38	-75
EBITDA[15]	8,405	29,654	-72
EBITDA margin[16]	11%	29%	-62
EBIT margin[17]	10%	29%	-66
Net profit margin[18]	7%	22%	-68

*Computed on the basis of weighted average 15,693,714 shares for 2011, and weighted average 15,980,000 shares for 2010, respectively.

14 Ibid.
15 Profit for the period plus income tax, finance expenses, depreciation and amortization minus finance income.
16 Relation of EBITDA to sales.
17 Relation of EBIT to sales.
18 Relation of profit for the period to sales.

SALES

Compared with last fiscal year, in 2011 Vtion acquired revenues generated from new products and services. Due to the business development, sales were extended to comprise the sale of wireless data cards, wireless router, e-book, VPAD, wireless high definition sharer named "PC to TV", IPhone and other intelligent mobile phones, the provision of data service solutions and so-called other sales. Other sales include the sales of dual mode mobile phones (only for fiscal year 2010), the sales of IP servers, the sales of customized software and the sales generated from service to Android application developers and mobile application stores. All supplied products and provided service were reclassified as below:

The Category "Wireless Data Terminals" included the sales of wireless data cards, wireless modems, wireless router, and wireless high definition sharer. Since Vtion discontinued the sales of the activated internet access plans in virtual network operation (VNO) packages, the commission for virtual network operation (VNO) packages was just included in the category for 2010.

The Category "Wireless Intelligent Terminals" included the sales of e-books, pads, IPhones and other intelligent mobile phones in 2011

The Category "Data Solution Service" included the commission from the membership of business club in 2011.

The Category "Others" included the sales of software, services in connection with wireless modem sales, accessories in connection with mobile phones and services in connection with Android applications which is a new revenue resource in 2011 and provided by Vtion Anzhuo. Vtion stopped the sales of dual mode mobile phone in 2011.

Sales decreased from EUR 101,661 thousand in fiscal year 2010 by EUR 24,573 thousand, or 24%, to EUR 77,088 thousand in fiscal year 2011. The said decrease was primarily due to the decrease in the sales of wireless data cards and VNO packages ("wireless data terminals" segment). Sales of wireless data cards decreased from EUR 93,432 thousand in 2010 by EUR 51,484 thousand, or 55%, to EUR 41,948 thousand in 2011. Since Vtion stopped the activated internet access plans in virtual network operation (VNO) packages, there was no commission for VNO packages. In 2010 the commission amounted to EUR 3,468 thousand.

Vtion continued to supply wireless routers in fiscal year 2011 and generated EUR 9,064 thousand of revenue in 2011, which increased by EUR 8,519 thousand or 1563% from EUR 545 thousand in 2010. Vtion started to supply wireless high definition sharer ("PC to TV") in May 2011. Revenues generated from the sales of "PC to TV" were EUR 3,211 thousand in 2011.

Sales of e-books increased from EUR 432 thousand in 2010 by EUR 2,437 thousand or 564% to EUR 2,869 thousand in 2011. Vtion generated revenue from mobile trades in 2011, which comprised the sales of IPhone and other intelligent mobile phones. Revenues from IPhones comprise commission of IPhone package sales and profit sharing from phone bills, which increased from EUR 1,128 thousand in 2010 by EUR 3,204 thousand or 284% to EUR 4,332 thousand in 2011. Vtion started to generate revenue from the sales of other intelligent mobile phones in 2011, which amounted to EUR 550 thousand in 2011.

Vtion started to provide its tablet PC called "VPAD" in the second quarter of 2011. Sales of VPADs amounted to EUR 14,451 thousand in 2011.

Since Vtion's former business club had discontinued its current form in 2011, Vtion Group recognized EUR 551 thousand revenue from Data Solution Service decreased by EUR 2,091 thousand or 79% from EUR 2,642 thousand in 2010, which was a deferred sales generated from the service offered to the members of business club in the last fiscal year 2010. All the deferred sales had been recognized in 2011 and no further revenue will be generated from Data Solution Service.

Other sales increased from EUR 15 thousand in 2010 by EUR 97 thousand, or 647%, to EUR 112 thousand in 2011, mainly resulted from a new service provided by Vtion Anzhuo to Android application developers and mobile application stores in 2011 and the sales of accessories in connection with mobile phones. Revenue generated from the service by Vtion Anzhuo amounted to EUR 30 thousand, and the sales of accessories amounted to EUR 78 thousand in 2011.

COST OF SALES

Due to the business development in 2011, cost of sales was extended to constitute costs for raw materials, packaging costs, materials and overhead costs and the costs for service business to Android application. The vast majority of costs of sales were composed of costs of raw materials. Costs of raw materials included almost entirely the direct costs of wireless data terminals (including primarily the costs of purchase of wireless data terminals), the costs of purchase of e-books, pads, IPhones, IP servers, other intelligent mobile phones purchased from original equipment manufacturers and telecommunications equipment resold by Vtion Group. Packaging costs and materials mainly comprised the cost of packaging wireless terminals at Vtion Group's warehouse, including labor costs. Overhead costs include utility costs and rental costs for property. Service costs included revenue sharing to software suppliers and amortization of intangible assets for service business to Android application.

Cost of sales decreased from EUR 64,394 thousand in fiscal year 2010 by EUR 1,605 thousand, or 3%, to EUR 62,789 thousand in fiscal year 2011. This decrease was primarily due to a decrease in the costs of raw materials of wireless data cards purchased from original equipment manufacturers and original design manufacturers as a result of a decrease of sales volumes of wireless data cards. Cost of sales of wireless data cards decreased from EUR 61,986 thousand in 2010 by EUR 27,188 thousand, or 44%, to EUR 34,798 thousand in 2011. The cost of data service solutions decreased to EUR 95 thousand in 2011, due to the end of the business in 2011.

Due to business development and the increase of sales of new products, there was an increase in the cost of sales of e-books, wireless routers, wireless high definition sharers, intelligent mobile phones and VPADs in 2011. Especially the cost of sales of VPADs amounted to EUR 12,012 thousand in 2011, and the cost of sales of wireless router increased from EUR 416 thousand in 2010 by EUR 6,804 thousand to EUR 7,220 thousand in 2011, which partly offset the decrease of cost of sales of wireless data cards.

Since Vtion Anzhuo officially started to provide services to Android application developers and mobile application stores in September 2011, the cost of sales for the service amounted to EUR 50 thousand in 2011.

GROSS PROFIT

The overall gross profit margin decreased from 37% in 2010 to 19% in 2011. Firstly the decrease was mainly due to the severe falling of unit price of 3G wireless data cards resulted from the fierce price competition. The percent decrease of the average unit revenue was more than that of the average unit cost in 2011. Although the ratio of sales generated from the new product and business increased in 2011, the gross profit margin of the new product and business was lower than that of 3G wireless data cards in 2010, which was the other reason of the decrease of the overall gross profit margin in 2011. The gross margin level in 2011 remained quite stable from 19% in the first three quarters of 2011.

OTHER OPERATING INCOME

Other operating income mainly included subsidies from the PRC government, maintenance and repair income and other miscellaneous income. The PRC government subsidies were monetary rewards granted to entities with excellent technical experts.

Other operating income decreased from EUR 556 thousand in fiscal year 2010 by EUR 487 thousand, or 88%, to EUR 69 thousand in fiscal year 2011. The decrease was primarily due to less special monetary reward or subsidies granted by PRC government in 2011. Vtion Group stopped to increase the membership of Data Service Club in 2010, except the deferred sales generated from the service offered in 2010. In other words, there were no more sales generated from this business in 2011, so Vtion Group hadn't been granted VAT rebates from the PRC government (EUR 288 thousand in 2010).

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses comprise salaries of the sales and customer service department, entertainment expenses, travelling expenses, advertising costs, freight charges, promotion expenses and other miscellaneous expenses.

Selling and distribution expenses decreased from EUR 4,739 thousand in fiscal year 2010 by EUR 2,778 thousand, or 59%, to EUR 1,961 thousand in fiscal year 2011. The decrease was primarily due to a decrease in royalty costs to copyright holders, commission expenses of VNO (virtual network operation) business, entertainment expenses and promotion expenses, which were partly offset by the increase in salary and welfare, carriage charges, rental expenses and travelling expenses.

The ratio of selling and distribution expenses to total sales was 2.5% in 2011 and 4.7% in 2010.

ADMINISTRATIVE EXPENSES

Administrative expenses mainly comprise salaries and travelling expenses of management, salaries of the accounting department and administrative staff, research and development expenses, costs of staff training, staff welfare, social insurance charges, depreciation and allowance for doubtful accounts, amortization of intangible assets, rental costs of Vtion Group's Fujian office and certain branches and other expenses. Other expenses include maintenance costs, audit and legal fees, transportation expenses, recruitment costs and various office expenses.

Administrative expenses increased from EUR 3,736 thousand in fiscal year 2010 by EUR 746 thousand, or 20%, to EUR 4,482 thousand in fiscal year 2011. The increase was primarily due to an increase in local staff's salary and welfare, consulting expenses, research and development expenses, rental expenses and conference expenses, partly offset by travel expenses as well as amortization of intangible assets.

Research and development expenses increased from EUR 614 thousand in 2010 by EUR 180 thousand, or 29%, to EUR 794 thousand in 2011.

The ratio of administrative expenses to sales was 6% in 2011 and 4% in 2010.

OTHER OPERATING EXPENSES

Other operating expenses were insignificant in 2011 and 2010.

PROFIT FROM OPERATIONS (EBIT)

Profit from operations decreased from EUR 29,227 thousand in fiscal year 2010 by EUR 21,304 thousand, or 73%, to EUR 7,923 thousand in fiscal year 2011. The decrease was largely due to the decrease of sales and gross profit in 2011, especially the dropping of sales and gross profit of 3G wireless data cards.

EBIT MARGIN

Vtion Group's EBIT margin (profit from operations divided by sales) decreased from 29% in 2010 to 10% in 2011. This was resulted from the decrease of gross profit margin of 3G wireless data cards.

FINANCE INCOME

Finance income comprises interest income earned from bank deposit.

Finance income decreased from EUR 685 thousand in fiscal year 2010 by EUR 24 thousand, or 4%, to EUR 661 thousand in fiscal year 2011, mainly due to the decrease of interest income.

FINANCE EXPENSES

Finance expenses comprise bank charges and interest expenses.

Finance expenses increased from EUR 42 thousand in fiscal year 2010 by EUR 11 thousand to EUR 53 thousand in fiscal year 2011, mainly due to the increase of bank charges. The Group recognized interest expenses EUR 2 thousand for discounting notes receivable in 2011 (only for fiscal year 2011).

FOREIGN EXCHANGE GAIN OR LOSS

Foreign exchange gain or loss was resulted from the exchange rate fluctuation of the functional currency again all other currencies in which the Group's financial instruments were used.

The Group recognized foreign exchange loss EUR 1,374 thousand in fiscal year 2011, which decreased from EUR 3,849 thousand in fiscal year 2010 by EUR 2,475 thousand. Since the functional currency of the Group is RMB, an exchange loss of EUR 1,374 thousand arising from revaluing liquid assets and liabilities of Vtion Group at the balance sheet date was recognized in the income statement in 2011. As of 31 December 2011, the exchange rate of RMB against EUR decreased to 8.1588 by 8% from 8.822 as at 31 December 2010, which had a negative impact on the valuation of assets denominated in Euros.

INCOME TAX

Income tax only comprises taxation actually payable. Under the same rule, Vtion IT and Vtion Software benefited from a 50% tax exemption in 2011. Vtion Communication was exempted from the corporate income tax because of cumulative tax losses carried forward from the establishment. Vtion Service and Vtion Anzhuo were exempted from the corporate income tax due to an accounting loss resulting from the first-year operation in 2011. The Chinese companies of Vtion Group recorded an income tax charge of EUR 1,515 thousand in 2011 based on an effective tax rate of 12.5% in China. Vtion Wireless Technology AG accumulated a net tax loss under German GAAP. Based on the estimate of net taxable income of the next five years, Vtion AG recalculated and recognized deferred tax asset amounting to EUR 633 thousand as of 31 December 2011, which would decrease by EUR 362 thousand recognized as income tax expense under IFRS If excluding the impact of exchange differences arising from currency translation. So altogether Vtion Group recorded a net income tax expense of EUR 1,877 thousand in 2011.

NET PROFIT AND EPS

Net profit in 2011 amounted to EUR 5,280 thousand, a decrease of 76% year-on-year. The earnings per share in 2011 were EUR 0.34, a decrease of 75% year-on-year.[19]

NET PROFIT MARGIN

The net profit margin decreased from 22% to 7%. This decrease was mainly due to the decrease of gross profit margin in 2011.

[19] Computed on the basis of weighted average 15,693,714 shares for 2011 , and respectivelly weighted average 15,980,000 shares for 2010.

Balance Sheet Structure

The following table presents balance sheet data under IFRS as of ended December 31, 2011 and December 31, 2010

	Dec. 31, 2011	Dec. 31, 2010
	kEUR	kEUR
ASSETS		
Current assets		
Inventories	2,360	3,608
Trade receivables	22,741	32,556
Other receivables	5,072	5,987
Amounts due from related parties	1,062	1,000
Cash and cash equivalents	124,516	98,961
	155,751	**142,112**
Non-current assets		
Property, plant and equipment	1,122	1,250
Land use rights	592	559
Intangible assets	924	754
Deferred tax assets	668	975
	3,306	**3,538**
Total assets	**159,057**	**145,650**
LIABILITIES		
Current liabilities		
Short-term loans		
Trade payables	13,937	11,164
Other payables	5,056	4,325
Provisions	391	371
Amounts due to related parties	12	1
Income tax payable	450	352
Non-current liabilities		
Deferred tax liability	234	50
Total liabilities	**20,080**	**16,263**
CAPITAL AND RESERVES		
Share capital	15,980	15,980
Treasury stock	-748	0
Capital reserves	46,231	48,163
Retained earnings	53,679	51,705
Foreign exchange differences	23,835	13,539
Total equity	**138,977**	**129,387**
Total liabilities and equity	**159,057**	**145,650**
Equity to total assets ratio	87%	89%

Current Assets

INVENTORIES

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

	Dec. 31, 2011	Dec. 31, 2010
	kEUR	kEUR
Goods and material	1,600	875
Advances to suppliers	760	2,733
	2,360	**3,608**

Inventories decreased from EUR 3,608 thousand as at 31 December 2010 by EUR 1,248 thousand, or 35%, to EUR 2,360 thousand as at 31 December 2011. There was an increase in goods and materials, but a decrease in advances to suppliers. The increase of goods and materials was mainly due to safe stock for the sales during spring festival holidays in January 2012, and merchandise of wireless intelligent segment. The decrease of advances to suppliers was mainly due to the decrease of advances to suppliers for 3G wireless data cards resulted from the decrease of sales volumes.

TRADE RECEIVABLES

Trade receivables decreased from EUR 32,556 thousand as at 31 December 2010 by EUR 9,815 thousand, or 30%, to EUR 22,741 thousand as at 31 December 2011. The decrease was mainly due to the decrease of sales. Accelerated collection of receivables in 2011 was the other reason for the decrease. The amount of trade receivable with a maturity of less than 90 days as at 31 December 2011 represented 72% of total trade receivable as at 31 December 2011, an increase of 23 percentage points compared to that of 31 December 2010. Meanwhile the part with a maturity of more than 90 days but below 180 days was 28% of the total trade receivable as at 31 December 2011, representing a decrease of 23 percentage points compared to that of 31 December 2010.

OTHER RECEIVABLES AND PREPAYMENTS

Other receivables and prepayments mainly comprise loans granted to suppliers, deferred costs for wireless data service solutions (only for fiscal year 2010).

Other receivables and prepayments decreased from EUR 5,987 thousand as at 31 December 2010 by EUR 915 thousand, or 15%, to EUR 5,072 thousand as at 31 December 2011. If excluding the impact of exchange differences arising from currency translation, other receivables and prepayments actually decreased by 22% to RMB 41.4 million as at 31 December 2011. The decrease was mainly resulted from the receiving of rebates on chipsets in connection with the sales volume of wireless data cards and the receiving of the commission receivables of VNO business occurred in 2010, partly offset by the increase of prepayments to suppliers.

AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties increased from EUR 1,000 thousand as at 31 December 2010 by EUR 62 thousand or 6%, to EUR 1,062 thousand as at 31 December 2011. If excluding the impact of exchange differences arising from currency translation, the amounts due from related parties actually decreased by 2%.

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 124,516 thousand as at 31 December 2011. For a description of the changes in cash at the end of 2011, see “Cash Flow Statement” in this section.

	Dec. 31, 2011	Dec. 31, 2010
	kEUR	kEUR
Cash on hand	32	4
Cash in banks	121,358	95,953
Deposit on bank's acceptance bill	3,126	3,004
	124,516	**98,961**

Non-current assets

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment mainly comprise office equipment, electronic equipment, machinery, vehicle, leasehold improvement and construction in progress. Property, plant and equipment decreased from EUR 1,250 thousand as at 31 December 2010 by EUR 128 thousand, or 10%, to EUR 1,122 thousand as at 31 December 2011. This was mainly resulted from the depreciation charges, partly offset by the purchase of electronic equipment and the increase of leasehold improvement.

LAND USE RIGHTS

The amount of “land use rights” increased from EUR 559 thousand as at 31 December 2010 by EUR 33 thousand, or 6%, to EUR 592 thousand as at 31 December 2011. If excluding the impact of exchange differences arising from currency translation, land use rights decreased by RMB 106 thousand, or 2%, due to the amortization in 2011.

INTANGIBLE ASSETS

Intangible assets increased from EUR 754 thousand at 31 December 2010 by EUR 170 thousand, or 23%, to EUR 924 thousand at 31 December 2011. This was mainly due to the purchase of software in Vtion Anzhuo, partly offset by the amortization of intangible assets.

Liabilities

TRADE PAYABLES AND NOTES PAYABLE

Trade and notes payable increased from EUR 11,164 thousand as at 31 December 2010 by EUR 2,773 thousand, or 25% to EUR 13,937 thousand as at 31 December 2011. If excluding the impact of exchange differences arising from currency translation, the trade and notes payable in term of RMB increased by 15%, mainly resulted from the purchase increase of wireless intelligent terminals in 2011.

OTHER PAYABLES

Other payables mainly comprise payables for the acquisition of intangible assets, VAT payables, other tax payables and deferred income related to the membership of Vtion Group's business club (only for fiscal year 2010).

Other payables increased from EUR 4,325 thousand as at 31 December 2010 by EUR 731 thousand, or 17% to EUR 5,056 thousand as at 31 December 2011. If excluding the impact of exchange differences arising from currency translation, other payables increased by 8% mainly resulted from the increase of rebates payable to copyright holders, VAT payable, partly offset by the decrease of deferred income.

PROVISIONS

Provisions mainly comprise accrued payroll and accrued expenses.

Provisions increased from EUR 371 thousand as at 31 December 2010 by EUR 20 thousand, or 5% to EUR 391 thousand as at 31 December 2011. If excluding the impact of exchange differences arising from currency translation, the increase of provisions in 2011 was insignificant.

AMOUNTS DUE TO RELATED PARTIES

The increase of amounts due to related parties in 2011 was insignificant.

EQUITY TO TOTAL ASSETS RATIO

The equity to total assets ratio decreased from 89% in 2010 to 87% in 2011. The decrease was mainly resulted from a comparatively higher increase of total assets compared to the increase of total equity in 2011. The dividend distribution and share buy-back program in financial year reduced the increase of total equity. Retained earnings decreased by EUR 3,306,828 due to the dividend distribution in June 2011. Capital reserve decreased by 1,931,581 resulted from the cumulative share premium of repurchasing 747,602 ordinary shares of no par value in 2011.

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 2011 and 2010.

	2011	2010
	kEUR	kEUR
Operating cash flow before working capital changes	8,410	29,633
Cash generated from/(used in) operations	23,960	34,075
Net cash generated from operating activities	23,100	30,582
Cash flow used in investing activities	-399	-835
Cash flow from financing activities	-5,986	0
Net increase in cash and cash equivalents	**16,716**	**29,747**
Cash at the beginning of the reporting period	98,961	**61,482**
Foreign exchange differences	8,839	7,732
Cash at the end of the reporting period	**124,516**	**98,961**

Net Cash Generated from Operating Activities

The net cash position as at 31 December 2011 had strongly improved. The Company generated a positive net cash flow amounting to EUR 23.1 million from operation as at 31 December 2011, representing a decrease by EUR 7.5 million compared with the net cash of EUR 30.6 million generated from operating activities in 2010. This decrease was mainly due to a decrease of profit before income tax. This effect was partly offset by the decrease in inventory, trade receivables, other receivable and prepayment, actual income tax paid and the increase in other payable and accrual.

Cash Flow Used in Investing Activities

Cash flow used in investing activities decreased from EUR 835 thousand in 2010 by EUR 436 thousand, or 52%, to EUR 399 thousand in 2011. This was mainly attributable to a decrease of purchase of property, plant and equipment, partly offset by an increase in investments in purchase of software for Android application.

Cash Flow from Financing Activities

The net cash outflow in financing activities in 2011 amounted to EUR 5,986 thousand, among which EUR 2,679 thousand were used in share buy-back program and EUR 3,307 thousand were used in dividend payment.

Cash at the End of the Period

Cash at the end of the period amounted to EUR 124,516 thousand as at 31 December 2011, representing an increase of EUR 25,555 thousand compared with that of 2010. The significant increase completely resulted from the significant cash inflow from operating activities.

Report on Post-Balance Sheet Date Events

TREASURY STOCK

On Feb 15, 2012, Vtion Wireless Technology AG, Frankfurt, Deutschland informed according to Article 26, Section 1 and Sentence 2 of the WpHG that its Voting Rights in own shares (Treasury stock) exceeded the 5% limit of the Voting Rights on February 13, 2012 and on that day amounted to 5.002% (this corresponds to 799441 Voting Rights). According to the German stock corporation act section 71b AktG treasury share cannot exercise voting rights.

ADDITIONAL INVESTMENT TO VTION ANZHUO

Per the agreement signed on March 20, 2012, Vtion Software (Fujian) Co., Ltd increased the investment to Vtion Anzhuo (Beijing) Technology Co., Ltd by RMB 10 million. After the additional investment, the registered capital of Vtion Anzhuo will increase from RMB 10 million to RMB 20 million and Vtion Software still hold 100% of shares of Vtion Anzhuo.

BUSINESS DEVELOPMENT

Vtion experienced a somewhat slow start to the first quarter of 2012, typical for the first quarter given that there is over a week of time lost due to the Chinese New Year Holiday, which in 2012 was earlier than in most years, taking place during the final week of January. Results thus far have been driven primarily by wireless data terminals and consumer sales of the company’s V7 tablet PC, and have been largely in line with the company’s expectations for the opening of the year.

At the time of publication there were no other significant post-balance sheet date events to report.

Risk Report

RISK AND OPPORTUNITY MANAGEMENT

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

The 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 receivable. Monthly and quarterly financial reporting processes are 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 budget figures are identified and analyzed which is served as the basis of developing corrective measures.

An internal audit department has already been set up and is working to support the necessary processes to create and safeguard shareholder values. Vtion is making efforts to implement improvements on internal control systems. Following the IPO, the Vtion Group has a 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 day-to-day 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 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.

SINGLE RISK FACTORS

The Company believes that the following factors have had and/or will continue to have a material effect on results of operations and financial conditions:

- **The success of Vtion Group's business depends directly on its business relationship with and the future success of mobile network operators in China.**

China Mobile, China Telecom and China Unicom are currently the only three licensed mobile network operators in China. A large portion of Vtion Group's products are sold to China Mobile, China Telecom and China Unicom, which in turn resell the products at their outlets covering all of China's provinces. Such dependence on three primary customers carries an inherent amount of risk for Vtion, as it results in a lack of diversification in the company's sales channels, and changes in the relationship with one of the three telecom operators could have significant influence on Viton's business.

However, Vtion is protected by the fact that the three operators have an oligopoly in their industry, and there is virtually no risk of a fourth operator with whom Vtion does not have a business relationship coming in and taking market share from Vtion's three main customers, thus reducing their demand. Vtion also controls this risk by placing a strong emphasis on the maintenance of its relationships with all three of the telecom operators and protecting its status as a top-tier qualified supplier of both China Telecom and China Unicom (China Mobile does not have a policy of naming top-tier qualified suppliers, but Vtion enjoys a strong relationship with China Mobile as well). The company also seeks to position itself as a strategic partner working to develop the 3G market together with the telecom operators, as opposed to simply a hardware supplier, in order to secure its status vis-à-vis the three telecom operators and to expand into all aspects of the 3G business as a manner of diversification within a business model centered around three main clients.

By the end of 2011 trade receivables of Vtion Group comprise mainly receivables from the three Chinese mobile network operators from sales transactions. Due to their status as stated owned enterprises, management of Vtion Group estimates that the credit risk of receivables to the Chinese mobile network operators is on a low level.

- **Changes in technology may render Vtion Group's current technologies and/or its entire wireless data card business obsolete.**

The telecommunications industry depends upon rapidly changing and increasingly complex technologies. Accordingly, the technologies that Vtion Group currently employs may become obsolete or subject to competition from new technologies in the future. For example, Vtion Group currently generates lots of its revenues from the sale of wireless data cards. If the technology on which wireless data cards are based becomes obsolete, Vtion Group's business could suffer significantly. As a result, Vtion Group's future success will depend in largely on its ability to anticipate changing service-provider requirements and technological developments, enhance existing or develop new technologies and develop and introduce new products and product enhancements, and bring these products to market in a timely manner. Vtion Group may need to incur significant costs to develop and introduce new products and enhancements. It may encounter unexpected technological difficulties in implementing new technologies and as a result, may incur substantial costs or business disruptions.

Vtion Group continues to introduce new products and to upgrade its existing products, diversify into new products and technologies besides its wireless data cards business. If such products become outdated, the company is able to identify and develop corresponding technologies and products and bring these new products to the market. The company has already started a process diversification of its product portfolio and service offerings over the course of 2011.

- **Vtion Group's profitability may decline as a result of a systematic decline in prices or an increase in costs.**

The average unit prices of wireless data cards have declined over the past years because of technological and market developments. In addition, revenues from sales might decline if Vtion Group is forced to cut its prices or to give rebates to customers, for example, due to increasing competitive pressure or falling demand for its products.

Product Innovation and portfolio diversification could partly offset the adverse effect from unit price drop of its traditional products. Furthermore Vtion Group makes continuous efforts to compensate for declines in prices by reducing its procurement costs and launching new and more advanced products. Vtion Group also makes continuous efforts to achieve sufficient cost reductions and process-related improvements of an adequate scale to compensate for future decline in prices.

- **The PRC market is highly competitive and competition may further intensify as Vtion enters new product and market spaces.**

The market for electronics products in China is highly competitive. Though Vtion enjoys a strong relationship with its three main customers in an oligopolistic market environment, the company will be exposed to increased competition from a greater number of sources as it transforms into a more diversified business model. Vtion has a short track record as a seller of e-readers and 3G wireless routers, and very short track record in the tablet PC and application industries. As such, there exists the risk that Vtion will be unsuccessful in these endeavors, particularly when exposed to a greater number of competitors in these highly competitive product spheres. Vtion has not previously served as a content provider, and does not have its own direct sales channels, selling instead through the telecom operators and third-party retailers and distributors. Each product space is exposed to different competitors, meaning that Vtion will face intensifying competition the further the company progresses in its transition into new product spaces.

Vtion is very well capitalized and able to fund new product ventures. The company will look to leverage its status as a major supplier of the telecom operators in order to secure sales volumes through these channels. Despite the highly competitive nature of the new product markets that Vtion is entering, the company has identified key niches, such as targeting business users in the tablet PC space, in which it believes it has competitive advantages that will allow it to succeed. Through this approach, Vtion will avoid direct competition with ingrained players and look to establish a stronghold in certain key niche markets. Regarding the Anzhuo business, which is quite different from traditional business, Vtion leverages its reputation as a listed company to attract management and technician, positions the android business in three main areas, and grows the business further relying on its established relationship with three main telecom operators. Due to the fact that current android markets is highly dynamic and turbulent, Vtion has monitored closely the progress of projecting business and market situation, and accordingly continuously updated its strategy plan and adjusted its organizational structure to accommodate the reflected changes. The differentiated operational modes of Anzhuo business, right positioning, and dynamic adjusting could largely reduce the risks to be a new entrant in the software business.

- **Vtion Group’s future performance depends on retaining and recruiting key personnel.**

The future performance of Vtion Group will depend largely on its ability to retain its key management and technical personnel, in particular Vtion Group’s CEO, Mr. Chen Guoping, whose business network and industry experience are of particular importance to Vtion Group. Vtion Group’s future success will also depend upon its ability to recruit qualified personnel, in particular for its research and development department.

The employee turnover rate among sales, low-level administrative and management is consistent with industry norm; the company seeks to minimize the adverse effect resulted from employee turnover by providing motivation and promoting an attractive work environment. Turnover rate is lower among key technician in R&D Department and middle-level management. Vtion has been using its newly acquired status as a listed company to attract and retain talents across China to strengthen its R&D capabilities. Regarding the management board, most of the management board members have been with the company since its inception, providing a strong level of stability in the strategic decision level, which also helps retain people under their supervision.

- **Regulatory environment.**

Vtion Group supplies telecommunications equipment to the telecommunications industry, which is heavily regulated in China. As the regulatory body, the MIIT has broad discretion and authority to regulate all aspects of the telecommunications and information technology industry in China, including the setting of network equipment specifications and standards, the approval of equipment for access to telecommunications networks, and the formulation of policies and regulations related to the telecommunications industry. The introduction of new requirements or restrictions could affect the Vtion Group's ability to market certain products and services or lead to the Vtion Group incurring significant additional costs to comply with these new requirements or restrictions. By contrast, deregulation of the telecommunications industry could provide Vtion Group with additional business opportunities or reduce its costs for compliance.

- **Vtion Group is exposed to fluctuations in foreign exchange rates.**

The company's consolidated financial statements for the periods under review were prepared in EUR and its future consolidated financial statements will be prepared in EUR, while Vtion Group's operating currency is RMB, which is currently not a freely convertible currency. A devaluation of RMB versus EUR would therefore have an adverse currency translation effect on the Company's consolidated financial statements. Currently the Exchange rate mechanism of RMB is controlled by PRC authorities. It is possible that changes of RMB exchange rate mechanism might have a significant impact on RMB/EUR exchange rate.

Translation exposure arises when translating of financial statements of Vtion Group from RMB to EUR. However, Vtion Group faces little operational exposure as the main operational activities of Vtion are conducted in RMB and not influenced by the fluctuations of foreign exchange rates.

- **Vtion Group may not be able to secure adequate financing to fund its growth strategy.**

In order to finance its growth strategy, Vtion Group may have to raise additional capital in the future through debt or equity offerings. While as at 31 Dec 2011 the company is very well-capitalized with Euro 125 million in net cash, the risk remains that the company could encounter difficulty securing further capital should current resources prove insufficient. It could be uncertain for Vtion Group to secure the required amount of finance with favorable terms. If additional equity or equity-linked securities are issued, this may result in the dilution of existing shareholders' holdings. If additional debt is incurred, this would introduce debt service obligations which could increase the financial risks and vulnerability especially under depressed macroeconomic circumstances. In addition, the terms of any financing agreement could limit Vtion Group's ability to pay dividends or restrict Vtion Group's flexibility in planning for, or reacting to, changes of its business objectives. In addition, Vtion Group's subsidiaries in China are subject to foreign exchange regulation and approval if they intend to borrow funds from entities outside of China. In the event that it cannot obtain necessary financing on reasonable terms, or at all, it may be forced to scale back its plans for future business expansion. Furthermore, the Vtion Group's subsidiaries in China are subject to certain restrictions on the amount of foreign debt they can borrow.

Under current circumstances, cash flow projection is not difficult to make as Vtion Group still gets most of its revenue and cash flow from the traditional wireless data terminal business and other hardware business (wireless intelligent terminal business). Hence, Vtion Group could predict its finance requirements accurately in advance and correspondingly make external financing arrangement with relevant favorable terms if internally generated cash flow could not meet the funds requirements. Furthermore, the strong cash flow situation of Vtion and its capacity to create stable positive cash flow could largely guarantee that the retained earnings could meet almost all of its finance requirements. Due to the fact that Vtion Group does not have the debt obligation and it does not have the obligation to meet the predefined principal and interest payment, the financial and bankruptcy risk is actually minimal. Therefor the capacity to take an additional debt to secure enough financial resources is quite strong, even in a worst-case scenario.

- **The tax status of Vtion Group or tax legislation or its interpretation might change.**

The PRC Enterprise Income Tax ("EIT") Law was passed in March 2007 and took effect on 1 January 2008, introducing a uniform income tax rate of 25% for all enterprises (including foreign-invested enterprises such as Vtion IT and Vtion Software). The EIT Law revoked tax exemptions, reductions and other preferential treatment applicable to foreign-invested enterprises prior to 1 January 2008. However, there will be a transition period for enterprises that received such preferential tax treatment prior to the publication of the EIT Law. Unused tax holidays of FIEs approved before the publication of the EIT Law will continue to be effective until they expire. If the tax holidays have not started due to losses, they shall be deemed to commence from the beginning of 2008, i. e. tax holidays can only be utilized until 2012. Vtion Group benefited from such tax holidays as it was exempt from any PRC income tax for fiscal years 2007 and 2008 and will only have to pay half of the ordinary income tax rate in fiscal years 2009-2011. The EIT Law has introduced the concept of tax resident enterprise ("TRE") defined as an enterprise which is established in the PRC under the PRC laws and regulations, or which has its de facto management body in the PRC. TREs will be subject to PRC EIT for their worldwide income, including income received from its subsidiaries. According to Article 4 of the Implementing Rules of the EIT Law ("Implementing Rules"), "de facto management body" refers to the management body that exercises essential management and control over the enterprise. As a result, if a holding company located outside the PRC was actually managed by a management body in China, the overseas company would be regarded as a TRE and subject to EIT for its worldwide income. If Vtion BVI Holding's de facto management body was located in China, it would be subject to EIT in the PRC at a rate of 25%. According to the interpretation of Article 4 of the Implementing Rules given by the Chinese State Administration of Taxation on its website, the location of the de facto management body shall be determined by a substance-over-form method. In particular, mere off-shore board meetings shall not be sufficient for the de facto management body being located outside of China. The Company cannot rule out that Vtion BVI Holding will be regarded a TRE.

If Vtion BVI Holding is regarded as a TRE, the following applies: According to Article 26 of the EIT Lawand Article 83 of the Implementing Rules, dividend distribution to TREs due to direct investments shall be exempted from EIT. Dividends distributed by Vtion IT and Vtion Software to Vtion BVI Holding would therefore be exempted from EIT. However, dividends distributed by BVI Holding to the company would be subject to a withholding tax of 10 % according to the EIT Law, unless the Company is also regarded as a TRE. If Vtion BVI Holding and the company are both regarded as TREs, dividends received by the Company from Vtion BVI Holding are also exempted from enterprise income tax in China. The PRC withholding tax on dividends will then only be levied if a TRE distributes dividends to non-TRE shareholders.

If Vtion BVI Holding is not regarded as a TRE, the following applies: According to the EIT Law, the exemption of withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the current tax laws is no longer available, which will subject any dividends distributed by Vtion IT and Vtion Software to such withholding tax at a rate of 10 %.

Vtion BVI Holding and the company are holding companies without any significant operations of their own, and much of their income depends on dividends from their operating subsidiaries in China. If either Vtion IT or Vtion Software, the operating subsidiaries, or Vtion BVI Holding, were required to withhold PRC income tax on dividends paid to Vtion Group, this would have a material adverse effect on the profitability of the Company.

The current tax rules and their interpretation relating to an investment in Vtion Group may be subject to further adverse changes in the future. The applicable tax rates and exemptions may change in the future. Any change in the Vtion Group's tax status or in taxation legislation or its interpretation could affect the value of the investments held by the company, its ability to provide returns to shareholders and/or alter the post-tax returns to shareholders.

Statements in this report concerning the taxation of Vtion Group and the Company's investors are based on current tax laws and practices which are subject to change. In addition, the taxation regime applicable in China may change again and could have an adverse impact on the after-tax profits of Vtion IT and Vtion Software.

As almost all operating profits are generated by Vtion IT and Vtion Software, which are subject to the tax legislation of China, the materialization of the above risks could have a material adverse effect on the business, financial condition and results of operations of Vtion Group.

OVERALL STATEMENT TO THE RISK SITUATION

Neither in the fiscal year 2011 nor at the time of writing has the Management Board identified any risks that could jeopardize the company's continued existence.

Risk and opportunity management

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE FINANCIAL REPORTING PROCESS PURSUANT TO SEC 289 PARA. 5 HGB

The internal control and risk management system with regard to the accounting process has the goal of ensuring the correctness and effectiveness of accounting and financial reporting of Vtion Group. It is continually monitored and developed to guarantee the effectiveness of policies and compliances of procedures of business operations to ensure that validity of information input to the accounting and financial system in all relevant legal entities and central functions. The main features of the internal control and risk management system of Vtion Group relating to the financial reporting process can be described as follows:

- There is a distinct division between the responsibilities of the main areas concerning the financial reporting process. The areas of responsibility are clearly assigned. The integrity and responsibility regarding finance and financial reporting are secured by an independent accounting department. In the case of Vtion AG, these services are also assigned by an external tax consultation and auditing company.
- Segregation of duties exists not only in the accounting department regarding authorization, record keeping, supervisory review, custody and reconciliation, but also across all the departments of the whole group, which largely reduce the risk of human errors and deliberate collusion.
- All agreements and contracts are reviewed for their accounting relevance in order to ensure timely recognition and appropriate presentation. The departments and areas involved in the financial reporting system are appropriately equipped in both qualitative and quantitative aspects.
- Accounting data received or passed on is continuously checked with regard to completeness and correctness. Processes exist to guarantee the completeness of financial reporting
- Processes exist for the segregation of duties and for the “four-eyes principle” in the context of preparing financial statements, as well as for authorization and access rules for relevant IT accounting systems. Provisions made for the Company’s IT-system ensure that the financial systems used are tamper-proof.
- The existence of an IT System and the clear-setting authorization and evaluation procedures largely improve the operational efficiency and ensure that the revenue and expenses are recognized and recorded properly.
- Accounting-relevant processes are regularly and independently reviewed by an internal department. This department sets an annual inspection plan specifying the scope, areas and timing of performing internal audit at the beginning of the year. According to requirements, this plan will be dynamically updated. The work scope of this department not only includes financial statements auditing, but also involves the effectiveness of operations and efficiency of procedures of key business departments. This department is an important component of the Internal Control system.
- Transactions within the Group are fully accounted for and recorded on separate accounts to insure proper elimination during the consolidation process.

The main features of the internal control and risk management system described above ensure that corporate measures and transactions are correctly and timely validated, processed, and recorded for the financial reporting in accordance with the legal provisions, the Articles of Association and the internal guidelines. A correct, unified, continuous financial reporting system is guaranteed by input of adequate and various resources. The distinct segregation of responsibilities, and control and review processes as described above ensure a correct and responsible accounting system. The system also ensures that the assets and liabilities are determined, declared and valued correctly in the financial statements and the consolidated financial statements. It is also ensured that relevant information is provided completely, promptly and reliably.

Compensation Report

For the fiscal year 2011, the members of the management board received the following fixed remuneration in excess of which they are not entitled to receive any further, particularly performance-based remuneration. On 21 October 2011 Vtion Wireless Technology AG announced that Mr. Zheng Hongbo succeeded as the company's Chief Financial Officer (CFO). Mr. Zheng Hongbo was appointed by a unanimous vote of the Supervisory Board and took up his new post on 24 October 2011.

Name	2011	2010
	in kEUR	in kEUR
Chen, Guoping	46.0	46.1
Chen, Huan	27.8	33.4
Zheng, Hongbo	6.7	0
He, Zhihong	40.0	40.1
Ding, Chaojie	53.4	53.5
Fei, Ping	40.0	40.1
Total	**213.9**	**213.2**

The Chairman of the Supervisory Board receives the basic remuneration of EUR 50,000 per calendar year and the Deputy Chairman of the Supervisory Board receives a basic remuneration of EUR 35,000 per calendar year. Each further member of the Supervisory Board receives a basic remuneration of EUR 25,000 per calendar year. The members of the Supervisory Board receive reimbursements for expenses with regards to their office as member of the Supervisory Board as well as VAT, if applicable.

In 2011, the supervisory board members received the following fixed remuneration:

Name	2011	2010
	in kEUR	in kEUR
Qian, Yingyi	50.0	50.0
Nobert, Quinkert	41.7	41.7
Volker, Potthoff	25.0	25.0
Liu, Yangsheng	25.0	25.0
Wang, Ning	25.0	25.0
Yang, Hua	25.0	25.0
Total	**191.7**	**191.7**

Report by the Management Board regarding dealings among group companies

According to sec.312 AktG (German Stock Corporations Act) the Management Board compiled a Dependence Report, Which includes all transactions between Vtion Wireless Technology AG and related parties and declared the following:

“According to the circumstances known to us at the time the transactions were executed, or measures were implemented or omitted, Vtion Wireless Technology AG received appropriate consideration for every transaction and has not been disadvantaged by the implementation or omission of any measures.”

Statements and report pursuant to Sec. 289 para 4, sec 315 para 4 HGB (German Commercial Code)

1. SUBSCRIBED CAPITAL

The share capital of Vtion Wireless Technology AG amounts to EUR 15,980,000.00 and is divided into 15,980,000 no par value bearer shares with a notional amount of EUR 1.00 each.

2. RESTRICTIONS REGARDING VOTING RIGHTS AND THE RIGHT TO TRANSFER SHARES

The Management Board is not aware of restrictions regarding voting rights and the right to transfer shares.

3. DIRECT OR INDIRECT PARTICIPATION IN SHARES

At the time of the issue of the Management Report the Chairman of the Management Board of Vtion Wireless Technology AG, Mr. Chen Guoping, held 49.9% of the shares of Vtion Wireless Technology AG through Awill Holdings Ltd., and Sunshine Century Investment Ltd., of which Awill Holdings Ltd. held 46.8% of the shares of Vtion Wireless Technology AG and Sunshine Century Investment Ltd. held 3.1% of the shares of Vtion Wireless Technology AG. Awill Holdings Ltd. and Sunshine Century Investment Ltd. are two entities wholly owned by Mr. Chen Guoping. SCGC Capital Holding Ltd. held at the time of the issue of the management report 9.91% of the shares of Vtion Wireless Technology AG. Axxion held 3.12% of the shares of Vtion Wireless Technology AG.

4. SHARES WITH EXCLUSIVE RIGHTS

There are no shares with exclusive rights which grant control rights.

5. EXERCISE OF VOTING RIGHTS OF EMPLOYEES

Employees, who are shareholders in Vtion Wireless Technology AG, exercise their voting rights on their own discretion or by an authorized person.

6. APPOINTMENT AND DISMISSAL OF MANAGEMENT BOARD MEMBERS

The Management Board of Vtion Wireless Technology AG currently comprises five members appointed by the Supervisory Board pursuant to sec 84 German Stock Corporation Act (AktG) for a period not exceeding five years in each case. Any extension of the term of office requires a Supervisory Board resolution and may be adopted no earlier than one year prior to expiry of the current term of office. In urgent cases, the local court (Amtsgericht) may appoint a missing and required management board member upon application by any person with interests meriting protection (e.g. other management board members) (sec 85 AktG).

This office would, however, then be terminated as soon as the deficiency could be rectified, e.g. as soon as the supervisory board has appointed a missing management board member. Dismissal of a management board member is permissible only with good cause (sec 84 section 3 sentences 1 and 3 AktG). Good cause includes gross negligence of duties, inability to duly perform duties or revocation of confidence by the Annual General Shareholders' Meeting, unless confidence was revoked for obvious unobjective reasons. Pursuant to sec 8 para. 2 of the Articles of Association of Vtion Wireless Technology AG, the Supervisory Board may appoint a chairman as well as a deputy chairman of the management board. Vtion Wireless Technology AG currently has a chairman and a deputy chairman of the Management Board.

7. AMENDMENTS OF THE ARTICLES OF ASSOCIATION

The Articles of Association can only be amended by a resolution of the general shareholders' meeting according to sec 179 AktG (German Stock Corporation Act). Beside this the Supervisory Board is pursuant to sec 18 para. 3 of the Articles of Association entitled to make changes to the Articles of Association, provided that these changes only concern the wording or form.

8. AUTHORITY OF MANAGEMENT BOARD TO ISSUE SHARES

8.1 Authorized Capital

According to section 4 para. 4 of the articles of association, the Management Board is authorized to increase the share capital of the Company with the consent of the Supervisory Board until September, 24 2014 once or several times by up to EUR 7,990,000.00 by issue of up to 7,990,000 new bearer shares no par value in consideration of contributions in cash or in kind (Authorized Capital 2009). In each case ordinary shares and/or preference shares may be issued. The Management Board is further authorized, in each case with the consent of the Supervisory Board, to provide that the pre-emption-right of the shareholders is excluded. An exclusion of the pre-emption-right, however, is only admitted in the following cases:

- if the new shares are issued to acquire enterprises, shares in enterprises or parts of an enterprise;
- for fractional amounts;
- to list shares of the Company or certificates representing shares in the Company on domestic or foreign stock exchanges, where shares in the Company or certificates, representing such shares in the Company are not yet listed;
- for granting shares to employees and members of the management of the Company or of a connected enterprise in connection with employees' participation programs;
- if the shares are issued in consideration of contributions in cash at an issue price which is not substantially below the stock exchange price and the exclusion of the pre-emption rights is only applied to new shares that represent not more than 10 % of the share capital; for the calculation of the 10 % limitation any other exclusion of the pre-emption rights according to sect. 186 para. 3 sentence 4 Stock Cooperation Act (AktG) has to be taken into account;
- as far as necessary to grant holders of convertible bonds or participation rights granting conversion rights or option rights the pre-emption right as far as such rights are to be attributed to them as far as they would be entitled to such rights as shareholders in consequence of the realization of their respective conversion or option rights.

A capital increase where the pre-emption rights are excluded may not exceed 10 % of the share capital existing at the time when this authorization is made use of, if such capital increase serves for the realization of an employees' participation program.

8.2 Contingent Capital 2009

According to Section 4 para. 5 of the articles of association, the share capital is increased by up to EUR 500,000 and issue of 500,000 no par value bearer shares conditional on holders of Stock Options having exercised their subscription rights (Contingent Capital 2009).

The Contingent Capital 2009 serves the purpose of serving subscription rights under Stock Options that are granted to members of the Management Board and employees of the Company, as well as members of the management bodies and employees of consolidated companies. The issuance of Stock Options needs to be resolved by either the Supervisory Board, if the beneficiary is a Management Board Member, or the Management Board for all other beneficiaries. So far no such resolution has been made yet.

8.3 Contingent Capital 2010

Section 4 para. 6 of the articles of association provides for a further contingent capital increase (Contingent Capital 2010). According to the Contingent Capital 2010 as provided for in section 4 para. 6 of the articles of association the Company's share capital is increased by up to EUR 7,490,000 by issue of up to 7,490,000 new bearer shares no par value conditional on the exercise of subscription rights by holders of convertible bonds or options bonds.

By resolution of the annual general shareholders' meeting dated 22 June 2010, the Management Board is, subject to the prior approval of the Supervisory Board, authorized to issue convertible bonds or option bonds granting subscription rights for totally 7,490,000 new no par value bearer shares. This authorization is valid until 21 June 2015.

8.4 Treasury Shares

By resolution of the annual general shareholders' meeting dated 22 June 2010, the Company acting through the Management Board has been authorized to repurchase up to totally 1,598,000 treasury shares one time or several times until 21 June 2015.

By the end of 2011 the number of accumulated shares repurchased back was 747,602, representing 4.68% of shares of Vtion Wireless Technology AG.

9. No Change of control provisions

There does not exist any agreements with Vtion Wireless Technology AG, which are subject to the condition of a change of control due to a take-over offer.

10. No agreements on compensation in case of a take-over offer

There does not exist any agreements between the members of the Management Board or employees and Vtion Wireless Technology AG which provide for compensation in case of a change of control due to a take-over offer.

Corporate Governance Report

(including Corporate Governance Statement)

Vtion Wireless Technology AG is committed to the principles of good and responsible Corporate Governance and focused on responsible long-term value creation. The Management Board and Supervisory Board merit the trust of Vtion's shareholders, clients and employees by close and constructive cooperation between the Supervisory Board and the Management Board. The close cooperation between the two boards is characterized by open communication and discussion on all matters submitted to them, as well as due care in relation to accounting, audit and risk management.

The Supervisory Board and Management Board of Vtion Wireless Technology AG explicitly support the German Corporate Governance Code and the objectives purposed by the German Corporate Governance Code.

In accordance with Section 3.10 of the German Corporate Governance Code and Section 289a of the German Commercial Code, the corporate governance report of Vtion Wireless Technology AG includes the corporate governance statement (Erklärung zur Unternehmensführung) of the Company.

SHAREHOLDERS AND GENERAL MEETINGS

The shareholders exercise their rights and voting rights at the General Shareholders' Meetings. According to the statutory provisions and the Articles of Association, the Annual General Shareholders’ Meeting takes place within the first eight months of each financial year. Each share grants one vote in the General Shareholders Meeting. There are neither shares conferring multiple voting rights nor limited voting rights nor are there preference shares. The shareholders are entitled to exercise their voting rights in the General Shareholders Meetings in person or by proxy, for which they can authorize a representative of their choice or a company-nominated proxy acting on their instructions. The invitation for the Annual General Shareholders’ Meetings as well as invitations for all other General Shareholders' Meetings will include provisions on the attendance, the procedure pertaining to the exercise of voting rights (in person or by proxy) as well as the rights of the shareholders. All reports and documents which are legally required to be made available for General Shareholders' Meetings, including the annual report, will be published on the Company's website at www.vtion.de together with the agenda.

MANAGEMENT BOARD

The members of the Management Board are appointed by the Supervisory Board. The Management Board is responsible for the executive management of the Company. The Management Board sets out the strategic goals, the main business strategy and the group's policy and organization. This includes the steering of the group, the management and investment policy pertaining to the financial resources, the development of personnel strategy, the engagement of key employees and the presentation of Vtion Group to the capital market and the public domain.

The Management Board of Vtion Wireless Technology AG comprises five members. The current members of the Management Board are Mr. Chen Guoping (Chairman and Chief Executive Officer), Mr. He Zhihong, Mr. Zheng Hong Bo, Mrs. Fei Ping and Mr. Ding Chaojie.

The former CFO, Mr. Chen Huan resigned from his office for personal reasons effective as of 23 October 2011. The Supervisory Board – in line with the proposal of the Management Board – in its extraordinary meeting on 23 October 2011 appointed Mr. Zheng Hong Bo as member of the Management Board and CFO of the Company effective as of 24 October 2011 and for an initial term of three years. Mr. Chen Huan, whose work has always been appreciated by the Management Board and the Supervisory Board, has agreed to act as an external advisor to the Company for an interim period. The Supervisory Board therefore also resolved on the appointment of Mr. Chen Huan as external advisor to the Company.

The Company has entered into a D&O insurance for its members of the Management Board which is in line with the statutory requirements of Section 93 para. 2 sentence 3 of the German Stock Corporation Act.

Details pertaining to the remuneration of the members of the Management Board for the financial year 2011 can be found in the Remuneration Report in the annual report.

The members of the Management Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. The following cases of potential conflicts of interest of Management Board members persisted in the financial year 2011 due to the shareholdings of Management Board Members:

- Such potential conflicts of interest may arise from the indirect shareholdings of Mr. Chen Guoping and Mr. He Zhihong in Vtion Wireless Technology AG as set out in the section "Information on the Corporate Governance Practice - Directors' Dealings".

SUPERVISORY BOARD

The task of the Supervisory Board is above all to control and advise the Management Board. The Supervisory Board is furthermore responsible for the appointment of the members of the Management Board, the determination of their remuneration as well as the review and approval of the annual financial statements of the Company. In addition, the Supervisory Board is responsible to decide on granting the approval to business transactions which require the prior consent of the Supervisory Board.

The Supervisory Board is composed in accordance with Sections 95 and 96 of the German Stock Corporation Act (Aktiengesetz/AktG) and consists of six members. The current members of the Supervisory Board are Yingyi Qian (Chairman), Norbert Quinkert (Deputy Chairman), Hua Yang, Yangsheng Liu, Ning Wang and Volker Potthoff.

In the financial year 2010, the Supervisory Board introduced a Strategy Committee to further discuss and enhance the Company's business strategy together with the Management Board. The Strategy Committee consists of the three Supervisory Board members Mr. Volker Potthoff(Chairman), Mr. Norbert Quinkert and Mr. Yang Hua. Its main tasks are to advise the Management Board in all matters pertaining to Vtion's business and operational strategy as well as the strategy for the capital markets. It further closely monitors the Company's product development and the implementation of new product strategies. The Strategy Committee regularly reports to the Supervisory Board for further discussion and approval, particularly the substantial strategic policies relating to the business model. The preparation of important topics in the Strategy Committee contributes to more efficiency in the Supervisory Board meetings.

For other matters, Vtion Wireless Technology has not established any committees. This is due to the rather small size of Vtion's Supervisory Board, which consists of six members only. The Supervisory Board believes that its comparably small size allows for adequate discussions and that, in general, it is advantageous for the Company and the Supervisory Board to include the know-how of all Supervisory Board members.

The Company has entered into a D&O insurance for its members of the Supervisory Board. The D&O insurance for Supervisory Board members does not contain a deductible (Selbstbehalt) for the Supervisory Board members.

Details pertaining to the remuneration of the members of the Supervisory Board for the financial year 2011 can be found in the Remuneration Report in the annual report.

The members of the Supervisory Board are obliged to disclose conflicts of interest to the Supervisory Board. The Supervisory Board has to report on any conflicts of interest to the shareholders. The only potential conflict of interest of Supervisory Board members in the financial year 2011 is that Mr. Volker Potthoff, next to his office as member of Vtion's Supervisory Board, is also Of Counsel with the law firm CMS Hasche Sigle, which is the German legal advisor of the Company. In order to account for this potential conflict of interest, Mr. Volker Potthoff usually abstains from voting in all matters pertaining to the approval of services of CMS Hasche Sigle. In the financial year 2011, Mr. Potthoff therefore abstained from voting in the vote of the Supervisory Board on the approval of the engagement letters between Vtion and CMS Hasche Sigle in the Supervisory Board meeting on 20 April 2011.

Corporate Governance Statement

The corporate governance statement in accordance with Section 289a of the German Commercial Code includes the (1) declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz/AktG), (2) relevant disclosures relating to corporate governance practices, (3) a description of the workings of the Management Board and Supervisory Board, including, (4) the composition and workings of their committees.

COMPLIANCE STATEMENT

The Compliance Statement (Entsprechenserklärung) in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz/AktG) which was jointly issued by the Management Board and the Supervisory Board has been made permanently available on the Company's website:

http://www.ir-de.vtion.de/corporate-governance.html.

CORPORATE GOVERNANCE PRACTICES

- Corporate Compliance: At Vtion Wireless Technology AG compliance, i.e. measures to ensure adherence to statutory provisions, internal statues and Company policies and observance of these measures and rules by affiliated companies, is a key management duty. The Company has developed internal rules as well as a code of conduct through which any employee of the Company itself and/or its affiliated entities is obliged to comply with all statutory provisions and the rules set forth in these internal guidelines. The Company puts great emphasis to fully comply with both German and Chinese statutory legal provisions and conventions.
- Risk Management: Good corporate governance includes dealing responsibly with risks. The Management Board keeps the Supervisory Board timely and duly informed about existing risks and their development. The Supervisory Board regularly deals with monitoring of the accounting process, the effectiveness of internal control, risk management and internal auditing systems as well as monitoring the auditing of the financial statements. The internal control, risk management and internal auditing systems are continuously evolved and adapted to changing conditions.

Availability of Documents on Corporate Governance Practices: The Articles of Association (Satzung) of Vtion Wireless AG as well as the Compliance Statement in accordance with section 161 of the German Stock Corporation Act are available on its website (www.vtion.de).

COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

In accordance with statutory requirements, Vtion Wireless Technology AG has a so-called two-tier governance system which is characterized by the Management Board and the Supervisory Board being two separate and independent corporate bodies. The Management Board is responsible for managing the Company, developing the Company's strategy, agreeing this strategy with the Supervisory Board and implementing it. The Supervisory Board supervises and advises the Management Board and is directly involved in decisions which are of fundamental importance for the Company and, therefore, require the prior approval of the Supervisory Board.

The Management Board and the Supervisory Board work closely together in the interest of the Company. Their common goal is to ensure the continued existence of the Company the sustainable creation of value. The internal rules of procedure within the Management Board and Supervisory Board, as well as the cooperation between the two boards, are laid out in detail in the Company's by-laws for the Supervisory Board and by-laws for the Management Board.

The Management Board provides the Supervisory Board and/or the Strategy Committee with regular detailed reports and updates on business policy and all issues of relevance for the Company relating to regarding the planning, business development, the risk situation and the risk management system. The Management Board also reports about compliance, i.e. the implemented means through which adherence to statutory provisions and Vtion's internal statutes is ensured.

The Management Board is obliged to continuously, timely and comprehensively inform the Supervisory Board on all matters which are relevant for Vtion Group. This information includes the intended business policy, the group's profitability, recent developments of the business activities and the financial and economic status of the Company, the business planning, the actual risk situation, the risk management and the compliance. The Management Board must immediately inform the Chairman of the Supervisory Board on matters of major importance.

For certain business transactions and measures as more specifically set forth in the rules of procedure (Geschäftsordnung) for the Management Board, the Management Board must obtain the Supervisory Board's prior approval.

STRATEGY COMMITTEE

In its meeting on 13 December 2010, the Supervisory Board resolved to establish a "Strategy Committee" which together with the Management Board closely monitored the Company's product and business development and implementation of new product strategies. The Strategy Committee consists of Mr. Volker Potthoff (Chairman), Mr. Norbert Quinkert, and Mr. Yang Hua. The Supervisory Board believes that the Strategy Committee enables the Supervisory Board to follow the entering of the Company into a new phase of the wireless data industry more closely. The Strategy Committee will have meetings usually in connection with regular meetings of the full Supervisory Board, and, if required, in addition to that will convene or discuss on ad-hoc basis. The Strategy Committee will prepare specific topics for discussion in the plenary sessions. The Supervisory Board has not delegated decision-making authority to the Strategy Committee.

For other matters, Vtion Wireless Technology has not established any committees due to the rather small size of Vtion's Supervisory Board, which consists of six members only. The Supervisory Board believes that its comparably small size allows for adequate discussions and that, in general, it is advantageous for the Company and the Supervisory Board to include the know-how of all Supervisory Board members.

Directors' Dealings and directors' shareholdings

According to Section 15a of the Securities' Trading Act (Wertpapierhandelsgesetz/WpHG), the members of the Management Board and the Supervisory Board and/or persons close to them are obliged to disclose the purchase and sale of Vtion Wireless Technology AG shares and related financial instruments whenever the value of such transaction amounts to EUR 5,000 or more within a calendar year. For the financial year 2011 Vtion Wireless Technology AG has not been notified of any such transactions.

On 31 December 2011, the total volume of shares in Vtion Wireless Technology AG directly or indirectly held by all members of the Management Board amounted to 51.6% of the aggregate amount of issued shares. This was comprised of 46.8% of the shares held by Awill Holdings Limited, Hong Kong, and 3.1% of the shares held by Sunshine Century Investment Limited, Hong Kong, both companies are wholly owned by the Company's Chief Executive Officer (Vorstandsvorsitzender), Mr. Chen Guoping. In addition, 6.3% of the Company's shares are held by Hong Kong Vtion Wireless Technology Company Limited, British Virgin Islands, which is held by Mr. He Zhihong, the Company's Chief Technical Officer (Technischer Vorstand) (27%), and two brothers of Mr. Chen Guoping being Mr. Chen Guohe (51%), and Mr. Chen Guoshun (22%). The members of the Supervisory Board do not hold any shares in the Company.

Accounting and Audit

Vtion Wireless Technology AG prepares its annual consolidated financial statements as well as all quarterly financial statements in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU. The individual annual financial statements are prepared in accordance with the German generally accepted accounting principles and the statutory provisions of the German Commercial Code (Handelsgesetzbuch/HGB). The sole basis for the profit distribution is the individual annual financial statements prepared under HGB.

The individual and consolidated financial statements are prepared by the Management Board. The audit of the individual and consolidated annual financial statements is devoted to the auditor appointed by the Annual General Meeting. For the financial year 2011, BDO AG Wirtschaftsprüfungsgesellschaft, Hamburg, has been appointed as auditor by the Annual General Meeting on 22 June 2011. The individual and consolidated financial statements as prepared by the Management Board and audited by the Company's auditor are reviewed and approved by the Supervisory Board.

Transparency

Our investors and shareholders as well as the interested public domain are provided with information on Vtion Wireless Technology AG and Vtion Group as well as on major business events particularly through financial reports (annual reports and quarterly reports), analyst meetings and conferences, balance sheet conferences, press releases, ad hoc notifications as well as other notifications required by law. All this information is published in German and English. In addition, our shareholders are provided with respective information at the Annual General Meeting and all other General Shareholders Meetings. The financial statements, ad hoc releases and notifications on directors' dealings as well as press releases can also be viewed on the Company's website at www.vtion.de. All shareholders and interested parties can subscribe to an electronic e-mail alert on our website or directly get in touch with us.

Outlook

Vtion reached guidance for the full year 2011; the company originally guided for revenues of Euro 75 million to EUR 100 million and an EBIT margin of 10%-12% and eventually achieved a sales revenue figure of Euro 77 million and an EBIT margin of 10.3%. While these numbers represent a decline from those in 2010, Vtion expects to resume growth in 2012, albeit at a modest rate. For the year 2012, the company expects sales revenues of between Euro 80 million and 100 million, with the EBIT margin remaining consistent with that of 2011. Vtion believes a minimum of 5% revenue growth is sustainable for the next two years at a minimum, relying only on organic growth of the company businesses. Vtion's expectation for its operating margin (EBIT) is that it will remain consistent for the next two years as well, which implies a margin of approximately 10%.

Vtion expects that its revenue growth in 2012 will be driven primarily by its two newest business areas: mobile intelligent terminals, especially tablet pc and mobile applications. In the wireless data terminal business segment, the company anticipates that sales volumes will remain consistent with 2011, while there will be a slight sequential decrease in the company's average selling prices. These two factors should be mitigated somewhat by the fact that 3.5G technology will continue to spread over the course of 2012, and the 4G technology TD-LTE should be introduced over the course of the year by China Mobile. Newer technology should provide support to sales prices and the introduction of new network technology historically tends to boost demand for wireless terminals. Even if there is a decrease in Vtion's average selling prices, the company anticipates being able to make corresponding cost reductions and remain profitable in the wireless data terminal business segment.

In the mobile intelligent terminal segment, Vtion expects to be able to build on its strong initial results in the consumer space through increased sales via its retail and distribution partners. The strong competition dictates that there will likely be selling price pressure in this business segment as well, but the company expects to also control costs in this area and maintain a higher gross margin in this segment compared to that in the wireless data terminal segment. Vtion will also gradually increase its sales to its insurance industry clients over the course of the year, thus diversifying its sales channels in the mobile intelligent terminal business segment. Currently Vtion has two major product releases planned for 2012 in the mobile intelligent terminal segment. The first, a 10-inch tablet PC, was originally planned for release in 2011, but will instead be released in 2012. Later in the year, the company will also release its smallest tablet PC, a VPad featuring a 5-inch screen.

Vtion expects to see an EBIT margin above 10% in its mobile intelligent terminal business segment, a segment that could grow to account for over 50% of total revenues within the next three years. Though there is strong competition in the consumer space for these products, Vtion expects both higher margins and stable sales by selling mobile computing hardware and imbedded application solutions to insurance industry clients.

Vtion Anzhuo, Vtion's wholly owned subsidiary operating in the mobile applications space, is expected to make its first significant revenue contributions over the course of the second half of 2012. The company has a strong foundation in its three sales channels: device manufacturers, network operators and its own mobile applications online store. Vtion expects the number of Android-based devices in the Chinese market to greatly increase over the course of the next five years, presenting great market potential to a company centered in this industry.

Vtion Anzhuo is expected to contribute 15%-20% of total company revenue by 2015. Though its contribution in 2012 will be minimal, this is the highest-margin business for the company and one that management looks upon most favorably as a future growth driver, given the massive potential of the market. Vtion will continue to operate a business model divided into the aforementioned three major segments, and expects to maintain steady revenue growth through organic development at approximately a 10% EBIT margin for the next two years at minimum.

Frankfurt/Main, April 18, 2012

Management Board

Chen Gouping　　Zheng Hongbo　　Ding Chaojie　　Fei Ping　　He Zhihong

Financial Statements

Financial Statements Vtion Wireless Technology AG

Consolidated Statement of Comprehensive Income

for the period from January 1 to December 31, 2011

	Notes	2011	2010
		EUR	EUR
Sales	*2.14, 4.1,4.3*	77,088,386	101,661,267
Cost of sales	*4.2*	-62,788,819	-64,394,102
Gross Profit		**14,299,567**	**37,267,165**
Other operating income	*2.14, 2.15, 4.1*	69,107	555,846
Selling and distribution expenses	*4.4*	-1,960,999	-4,738,798
Administrative expenses	*4.5*	-4,481,842	-3,735,808
Other operating expenses		-2,374	-121,444
Profit from operations		**7,923,459**	**29,226,961**
Finance income	*2.14, 6.3*	660,700	685,088
Finance expenses	*4.9, 6.3*	-53,042	-41,752
Foreign exchange loss	*4.10*	-1,374,350	-3,848,805
Profit before income tax		**7,156,767**	**26,021,492**
Income tax	*2.20, 4.11*	-1,876,766	-4,036,612
Profit for the period		**5,280,001**	**21,984,880**
Other comprehensive income:			
Exchange differences on translating foreign operations	*2.3*	10,295,359	11,395,874
Other comprehensive income for the period		**10,295,359**	**11,395,874**
Total comprehensive income for the period		**15,575,360**	**33,380,754**
Earnings per share (basic and diluted)*		0.34	1.38

*Computed on the basis of weighted average 15,693,714 shares for 2011, and weighted average 15,980,000 shares for 2010, 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 December 31, 2011

	Notes	Dec. 31, 2011	Dec. 31, 2010
		EUR	EUR
ASSETS			
Current assets			
Inventories	*2.10, 5.1*	2,360,143	3,608,745
Trade receivables	*2.2, 2.9, 5.2, 6.3*	22,741,227	32,556,456
Other receivables	*2.9, 5.2, 6.3*	5,071,780	5,986,565
Amounts due from related parties	*2.17, 5.3, 6.2*	1,061,555	999,727
Cash and cash equivalents	*2.8, 5.4, 6.3*	124,515,642	98,961,058
		155,750,347	**142,112,551**
Non-current assets			
Property, plant and equipment	*2.2, 2.4, 2.7, 4.8, 5.5*	1,121,595	1,249,667
Land use rights	*2.5, 4.8, 5.6*	591,706	559,273
Intangible assets	*2.6, 2.7, 4.8, 5.7*	924,384	754,132
Deferred tax assets	*5.8*	668,291	974,726
		3,305,976	**3,537,798**
Total assets		**159,056,323**	**145,650,349**
LIABILITIES			
Current liabilities			
Trade payables	*2.11, 6.3*	13,936,526	11,163,962
Other payables	*2.11, 5.9, 6.3*	5,056,168	4,408,409
Provisions	*2.12, 5.9, 6.3*	391,040	287,944
Amounts due to related parties	*2.17, 6.2, 6.3*	12,257	729
Income tax payable		450,445	352,443
Non-current liabilities			
Deferred tax liabilities	*5.11*	233,611	49,935
Total liabilities		**20,080,047**	**16,263,422**
CAPITAL AND RESERVES			
Share capital	*1.1, 2.11, 5.12.1*	15,980,000	15,980,000
Treasury stock	*5.12.1*	-747,602	0
Capital reserves	*5.12.2*	46,231,087	48,162,668
Retained earnings	*5.12.2*	53,678,437	51,705,264
Foreign exchange differences	*2.3*	23,834,354	13,538,995
Total equity		138,976,276	129,386,927
Total liabilities and equity		**159,056,323**	**145,650,349**

Consolidated Statement of Changes in Equity

for the period from January 1 to December 31, 2011

in EUR	Share capital Vtion AG	Treasury stocks	Capital reserves	Retained earnings	Foreign exchange differences	Total equity
Notes	*1.1, 2.11, 5.12.1*	*5.12.1*	*5.12.2*	*5.12.2*	*2.3*	
Balance as at December 31, 2009	15,980,000	-	48,162,668	29,720,384	2,143,121	96,006,173
Total comprehensive income for the period	-		-	21,984,880	11,395,874	33,380,754
Balance as at December 31, 2010	15,980,000	-	48,162,668	51,705,264	13,538,995	129,386,927
Balance as at December 31, 2010	15,980,000	-	48,162,668	51,705,264	13,538,995	129,386,927
Buy-back ordinary share		-747,602	-1,931,581		-	-2,679,183
Dividend distribution	-		-	-3,306,828	-	-3,306,828
Total comprehensive income for the period	-		-	5,280,001	10,295,359	15,575,360
Balance as at December 31, 2011	15,980,000	-747,602	46,231,087	53,678,437	23,834,354	138,976,276

Total comprehensive income for the period comprises the other comprehensive income of EUR 10,295,359 (2010: EUR 11,395,874) due to the foreign exchange differences. The foreign exchange difference is a technical effect that does not affect the cash position of Vtion.

Consolidated Cash Flow Statement

for the period from January 1 to December 31, 2011

	Notes	2011	2010
		EUR	EUR
Profit before income tax		**7,156,767**	**26,021,492**
Adjustments for:			
Amortization of intangible assets and land use rights		173,182	178,584
Allowance for doubtful trade debts		4,335	-24,253
Depreciation of property, plant and equipment		308,019	248,463
Loss on disposal of property, plant and equipment		1,135	3,048
Interest income		-660,700	-685,088
Interest expense		2,128	0
Bank charges		50,915	41,752
Foreign exchange loss		1,374,350	3,848,805
Operating cash flow before working capital changes		**8,410,131**	**29,632,803**
Working capital changes:			
(Increase)/decrease in:			
Inventories		1,248,602	159,526
Trade receivables		9,815,229	2,233,147
Other receivables and prepayments		914,785	-691,488
Amounts due from related parties		-61,828	390,845
Increase/(decrease) in:			
Trade payables		2,772,564	2,938,972
Other payables and accruals		750,855	-257,784
Amounts due to related parties		11,528	729
Income tax payable		98,002	-332,099
Cash generated from/(used in) operations		**23,959,866**	**34,074,653**
Interest received		539,905	673,732
Interest expense		-2,128	0
Income tax paid		-1,397,526	-4,166,372
Net cash generated from operating activities		**23,100,117**	**30,582,011**
Cash flow from investing activities			
Purchase of intangible assets		-286,876	-38,302
Purchase of land, property, plant and equipment		-111,703	-797,092
Disposal of land, property, plant and equipment		0	113
Cash flow from investing activities		**-398,579**	**-835,281**
Cash flow from financing activities			
Payment in connection with share buy-back		-2,679,183	0
Dividend paid to shareholders		-3,306,828	0
Cash flow from financing activities		**-5,986,011**	**0**
Net increase in cash and cash equivalents		**16,715,527**	**29,746,730**
Cash at the beginning of the period	*5.4*	98,961,058	61,482,107
Foreign exchange differences		8,839,057	7,732,221
Cash at the end of the period	*5.4*	**124,515,642**	**98,961,058**

Notes to the Consolidated Financial Statements

for the Financial Year Ended December 31, 2011

1. Background and Basis of Preparation

1.1 THE COMPANY FORMATION, BUSINESS NAME, REGISTERED OFFICE, FINANCIAL YEAR AND TERM OF THE COMPANY

Vtion Wireless Technology AG has been formed by means of a notarial deed of incorporation (Gründungsurkunde), dated October 1, 2007. The business name (Firma) of the Company is "Vtion Wireless Technology AG". The formation of the Company became legally effective by registration in the commercial register (Handelsregister) with the local court (Amtsgericht) of Frankfurt am Main on November 12, 2007, where the Company is registered under the registration number HRB 81718. The legal domicile (Sitz) of the Company is Frankfurt am Main, Germany, and the Company has its current business address at 11-12,11F Westhafen Tower, Westhafenplatz 1, D-60327 Frankfurt/M. Germany. The Company's financial year (Geschäftsjahr) is the calendar year (i. e. January 1 through December 31). The duration of the Company (Dauer der Gesellschaft) is unlimited.

BUSINESS PURPOSE OF THE COMPANY

The Company's business purpose (Unternehmensgegenstand) is the holding and administration and the disposal of direct and indirect participations and investments in the area of Wireless Technology and the providing of services for affiliated entities. According to section 2, para. 2 of the Articles of Association, the Company is entitled to conduct all measures and business transactions, which it deems necessary and useful for the implementation of the purpose of the Company. In particular, it may for this purpose establish branches in the country, where it has its seat. Abroad, it may establish or acquire companies of the same or similar type, or acquire an interest in such companies, demerge parts of its business to subsidiaries and associated companies, including joint ventures with third parties, sell interests in other companies, conclude enterprise agreements, or limit itself to the management of shareholdings.

GROUP STRUCTURE AND RECENT CORPORATE RESTRUCTURING OF THE VTION GROUP

Compared to last fiscal year 2010, two new subsidiaries were established in 2011:

Vtion Anzhuo (Beijing) Technology Co., Ltd, PRC (Vtion Anzhuo) was founded on January 14, 2011 with RMB 10 million of capital. Vtion Software holds 100% of the shares in this subsidiary and fully paid in the registered capital in January 2011.

Vtion Communication Technology Service (Fuzhou) Co., Ltd, PRC (Vtion Service) was founded on March 1, 2011 with RMB 1 million of capital. Vtion IT holds 100% of the shares in this subsidiary and fully paid in the registered capital in February 2011.

The operational business of Vtion Group in 2011 was carried out by Vtion Information Technology (Fujian) Co. Ltd. ("Vtion IT"), Fuzhou, Vtion Software (Fujian) Co. Ltd. ("Vtion Software"), Fuzhou, Vtion Communication (Fujian) Co., Ltd. ("Vtion Communication") and Vtion Anzhuo (Beijing) Technology Co., Ltd.("Vtion Anzhuo"). All of which are limited liability companies formed under the laws of the PRC.

The sole shareholder of Vtion Communication and Vtion Service is Vtion IT. The sole shareholder of Vtion Anzhuo is Vtion Software. The sole shareholder of Vtion IT and Vtion Software is Vtion Technology (China) Co. Ltd. ("Vtion BVI Holding"), a limited liability company formed under the laws of British Virgin Islands, which is a wholly-owned subsidiary of Vtion Wireless Technology AG (the "Company").

The following subsidiaries of Vtion Wireless Technology AG are consolidated. In summary:

in kEUR	Share	Equity Dec. 31, 2011	Results from January 1 to December 31, 2011
Vtion Technology (China) Co. Ltd., Tortola, British Virgin Island	100%	2,072	5,308
Vtion Information Technology (Fujian) Co. Ltd., Fuzhou, PRC	100%	92,700	8,781
Vtion Software (Fujian) Co. Ltd., Fuzhou, PRC	100%	18,614	-229
Vtion Communication (Fujian) Co. Ltd., Fuzhou, PRC	100%	879	46
Vtion Anzhuo (Beijing) Technology Co., Ltd, PRC	100%	482	-674
Vtion Communication Technology Service (Fuzhou) Co., Ltd, PRC	100%	121	-2

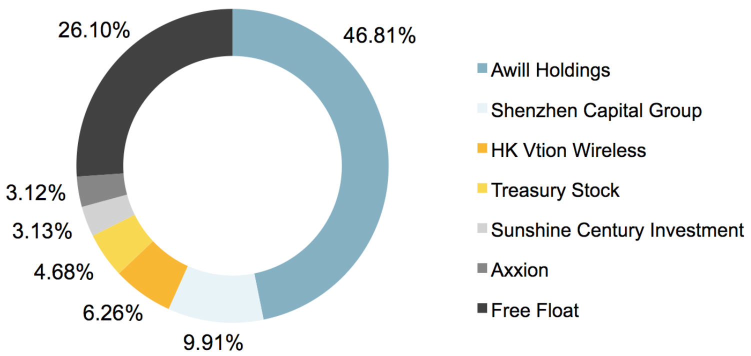
Vtion Wireless Technology AG does not own directly or indirectly any shares of the Fujian Vtion Telecom Information Service, Co., Ltd., but had the power to control this company in 2011. Control is exercised by contractual agreements. This subsidiary is not consolidated because of the lack of economic substance.

Vtion paid a dividend of 21 cents per share in June 2011, representing 15% of the company's net profit after tax for the full year 2010.

Cash transfers from China to countries outside China require a formal approval form the State Administration of Foreign Exchange ("SAFE").

THE SHAREHOLDER STRUCTURE OF VTION WIRELESS TECHNOLOGY AG

AS OF 31 DECEMBER 2011



Vtion CEO Chen Guoping remains the largest single shareholder in Vtion Wireless Technology AG, with a total of 49.9% of the total shares, held in two holding companies, Awill Holdings, Ltd. and Sunshine Century Investment, Ltd. Shenzhen Capital, which became a shareholder through a round of private equity financing in April 2008 currently holds 9.91% of the company's shares, and Hong Kong Vtion Wireless Technology Company, Ltd., which is held jointly by the company's CTO, He Zhihong and the CEO's younger brothers Chen Guohe and Chen Guoshun, holds 6.3% of the Vtion shares. At the time of publication, all post-IPO lock-ups have expired.

1.2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) and/or International Accounting Standards (IAS) as adopted by the EU along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) under consideration of aforementioned scope of consolidated financial statements. Regulations under commercial law pursuant to Section 315a of the German Commercial Code (HGB) were complementarily taken into account. The financial statements have been prepared under the going concern assumption.

The consolidated financial statements were generally prepared using the historical cost convention. The consolidated statement of comprehensive income was prepared using the cost of sales method. Individual line items have been summarized in the consolidated statement of comprehensive income and the consolidated statement of financial position to clarify the presentation. These items are disclosed and explained separately in the notes. The financial statements are presented in EUR, and all monetary amounts are rounded to full EUR except when otherwise stated.

In accordance with the Second Annual Improvements Project (AIP 2009), the classification regulation of leases of land was extended from 2010. The transition provision stipulates that (new) classification of leasing agreements of land shall be applied retrospectively. For this reason, the “land use rights” will no longer be presented as an “intangible asset”, but as “land use rights”.

The amount of “land use rights” increased to EUR 592 thousand as at 31 December 2011, respectively EUR 559 thousand as at 31 December 2010 and EUR 523 thousand as at 31 December 2009. The amount of amortization (depreciation) in the statement of comprehensive income will not be influenced.

Except the above mentioned, the accounting policies correspond generally to those applied in the previous year:

New standards and interpretations and amendments to existing standards and interpretations applicable for the financial year ending 31 December 2011 are:

IFRS 1 Amendment- Limited Exemption from Comparative IFRS 7 Disclosures for First-time: This amendment had no material impact on the consolidated financial statements

IAS 24 (rev. 2009) - Related Party disclosures: This amendment had no material impact on the consolidated financial statements

IAS 32 Amendments-Financial Instruments-Presentation-Classification of Rights Issues: This amendment had no material impact on the consolidated financial statements

IFRIC 14 Amendment-Prepayments of a Minimum Funding Requirement: This amendment had no material impact on the consolidated financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: This interpretation had no material impact on the consolidated financial statements

Improvements to IFRSs (issued by the IASB in May 2010) (AIP 2010): The improvements had an impact on the consolidated financial statements.

The following new or revised Standards and Interpretations relevant for the Vtion Group´s business operations are published as of December 31, 2011, but not yet required to be applied for this financial year then ended:

IFRS 1 Amendment-Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

IFRS 7 Amendment-Financial Instruments-Disclosures

IFRS 7 Amendments-Disclosures-Offsetting Financial Assets and Financial Liabilities

IFRS 9 Financial Instruments

Mandatory Effective Date of IFRS 9 and Transition Disclosures

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosures of Interests in Other Entities

IFRS 13 Fair Value Measurement

IAS 1 Amendments-Presentation of Items of Other Comprehensive Income

IAS 12 Amendments-Deferred tax: Recovery of Underlying Assets

IAS 19 Amendments-Employee Benefits

IAS 27 Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures

IAS 32 Amendments-Offsetting Financial Assets and Financial Liabilities

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The Group did not exercise any options to apply Standards and Interpretations prior to their effective date. Apart from additional or modified disclosure requirements, no significant effects are expected on the consolidated financial statements.

2. Significant accounting policies

2.1 BASIS OF CONSOLIDATION

A subsidiary is a company controlled by the Company. Control is obtained when the Company has the power, directly or indirectly, to govern its financial and operating policies of the company so as to acquire benefit from its activities. Investment in subsidiary, if any, is stated in the Company's balance sheet at cost less any impairment losses.

The financial statements of the subsidiaries are prepared for the same reporting date as the parent Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All inter-group balances, transactions, income, expenses, profits and losses resulting from inter-group transactions are fully eliminated.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Acquisitions of subsidiaries, if any, are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identified assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination, is recognized in the income statement on the date of acquisition after reassessment.

2.2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying the Group's accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amount of revenue and expenses during the reporting period.

The following estimates, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are disclosed below:

A) ALLOWANCE FOR TRADE RECEIVABLES

Trade receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful receivables is the Group's best estimate of the amount of probable credit losses in the Group's existing accounts receivables.

Management uses judgment to determine the allowance for doubtful receivables which are supported by historical write-off credit history of the customers and repayment records. The Group reviews its allowance for doubtful receivables regularly. Accounts balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Actual results could differ from estimates.

Regarding the detailed allowance method, please refer to sector 5.2 in notes.

B) Depreciation of Property, Plant and Equipment

The cost of property, plant and equipment used for the manufacturing process is depreciated on a straight-line basis over its estimated useful life. The management estimates the useful life of these property, plant and equipment to be within 5 years. These are common life expectancies applied in machine manufacturing industry. The net carrying amount of the Group's plant and equipment as at December 31 2011 were EUR 1,121,595. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual value of these assets, therefore future depreciation charge could be revised.

Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates.

2.3. Functional and Presentation Currency

A) Functional Currency

The directors have determined the currency of the primary economic environment, in which the Group operates, to be Renminbi ("RMB"). Sales and major costs of the providing goods and services, including major operating expenses are primarily influenced by fluctuations in RMB.

B) Foreign Currency Transactions

Transactions in foreign currencies are measured in the respective functional currencies of the combined entities and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing exchange rate ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values are determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognized in the income statement except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognized initially in a separate component of equity as foreign exchange differences in the consolidated balance sheet and recognized in the consolidated income statement on disposal of the subsidiary. Exchange differences arising on the translate of transactions in EUR to the group functional currency RMB, which occurred in the German holding company, are recognized in the consolidated statements of comprehensive income as profit or loss of the period.

C) Foreign Currency Translation

The presentation currency of the Group is EUR. The results and financial position of the combined entities which are measured in a currency other than EUR are translated from RMB into EUR as follows:

	RMB	
EUR	**2011**	**2010**
year end	8.1588	8.8220
average	8.9960	8.9712

Assets and liabilities for each balance sheet are presented at the closing rate ruling at the balance sheet date, and income and expenses for income statements are translated at average exchange rates for the year, which approximates the exchange rates at the date of transactions.

All resulting exchange differences are recognized in the currency translation reserve, a separate component of equity.

2.4 Property, Plant and Equipment

Property, plant and equipment are recorded at historic cost less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Property, plant and equipment in the course of construction for production or administrative purposes are carried at cost, less any recognized impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to amortize the costs of the assets over their estimated useful life, using the straight-line method, as follows:

Office equipment	5 years
Machinery	5 years
Motor vehicle	5 – 10 years
Electronic equipment	5 years
Leasehold improvement	5 years

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.5 Land Use Rights

The subsidiary Vtion IT in Fuzhou, China, acquired land use rights in connection with the construction of a new Research & Development building and facilities in 2007. The land use rights are amortized over a period of 50 years.

2.6 Intangible Assets

Software and licenses

Acquired software and licenses are capitalized on the basis of cost incurred to acquire and bring it to the intended use condition. Direct expenditure, which can enhance or extend the performance of the software or licenses and which can be measured reliably, is recognized as a capital improvement and added to the original cost of the software or licenses. Costs associated with maintaining the software or licenses are recognized as expense as incurred.

Software and licenses are stated at cost less accumulated amortization and any impairment losses. The costs are amortized using a straight-line method over its estimated useful life, as follows:

Software	3 – 5 years
Licenses	3 – 10 years

The amortization expense on software and licenses is recognized in profit or loss and is included within the cost of sales and administrative expenses line items.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

2.7 Impairment of Non-financial Assets, if any

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or an annual impairment test for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses recognized for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss has been recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

The reversal of an impairment loss is recognized in the income statement. After such a reversal, the depreciation charge is adjusted for future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic base over its remaining useful life.

In 2011 and 2010 no non-financial asset has been impaired, except as mentioned in note 5.1. For inventory a provision of EUR 20 thousand has been recorded as of December 31, 2011 (EUR 45 thousand as of December 31, 2010).

2.8 Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand, bank deposits and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant rise of changes in value.

2.9 Trade and Other Receivables

Trade and other receivables are recognized and carried at original amount less an allowance for any uncollectible amounts. Bad debts are written off when identified.

2.10 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing the inventories to their present location and condition is accounted for as follows:

Raw materials:	Purchase cost on a weighted average basis
Finished goods and work-in-process:	Costs of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2.11 Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include interest-bearing short-term bank loans, trade and other payables.

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and service received. Gains are recognized in the income statement when the payment of the liabilities is identified to be needless.

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issuance costs associated with the borrowing.

2.12 Provisions

If necessary provisions are recognized when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

If the discounting effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance expenses.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the obligation. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.13 Operating Lease

When the Group is the lessee:

Leases of assets, under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged as an expense on a straight-line basis over the period of the respective leases.

When the Group has the use of assets under operating leases, payments made under the leases are recognized in the income statement on a straight-line basis over the term of the lease.

2.14 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

a) Sales of Goods

Revenue is recognized upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

b) Rendering Service

Revenue from rendering service is recognized when the services are rendered and relating revenue can be measured reliably.

c) Interest Income

Interest income is accrued on a time-proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective-yield basis.

2.15 Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all conditions attached will be complied with. When the grant relates to an expense item, it is recognized in the income statement over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognized as deferred capital grant on the balance sheet and is amortized to the income statement over the expected useful life of the relevant asset by equal annual installments.

2.16 Employee Benefits

The Group participates in national pension schemes as defined by the laws of the country in which it has operations. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

2.17 Related parties

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2.18 Interest-Bearing Loans

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issuance costs associated with the borrowing.

All borrowing costs are expensed and not capitalized.

2.19 Derecognition of Financial Assets and Liabilities

a) Financial Assets

A financial asset is derecognized where:

- The contractual rights to receive cash flows from the assets have expired;
- The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

2.20 Taxation

Income tax for the financial year comprises current tax as well as deferred tax. Income tax is recognized in the income statement except for the extent that relates to items recognized directly in equity.

Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

2.21 Earnings per Share

Calculation of earnings per share is based on the profit of the period (after taxes, attributable to the parent company) and weighted average shares. The calculation has been computed on the basis of an average of 15,693,714 (2011) and 15,980,000 (2010) respectively. In 2011, no shareholders’ equity instruments diluted the earnings per share on the basis of the respective shares issued. The earnings per share in 2011 are EUR 0.34.

3. Segment Analysis

The primary segment reporting format is determined to be business segment as Vtion Group's risks and rates of return are affected predominantly by differences in the products and service. The operating business is reported separately according to the nature of the products and services, with each representing a strategic business.

A) BUSINESS SEGMENT

Vtion Group's operating businesses are organized in three business segments, namely "Wireless Data Terminals and others", "Wireless Intelligent Terminals" and "Data Solution Services".

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 tables (3.1–3.3) present the adoption of IFRS 8, revenue and results information regarding Vtion Group's business segments for the financial year ended December 31, 2011

3.1 PRODUCTS AND SERVICES FROM WHICH REPORTABLE SEGMENTS DERIVE THEIR REVENUES

Compared to the fiscal year 2010, there was no change on the analytic basis of segment information reported in 2011.The Group's reportable segments in 2011 under IFRS 8 were therefore as follows:

- Wireless Data Terminals and others
- Wireless Intelligent Terminals
- Data Solution Services

Wireless Data Terminals was extended to comprise the sales of wireless data cards, wireless modem, wireless router and wireless high definition sharer. Others in "Wireless Data Terminals and others" include software service in connection with Android application, accessories and service in connection with wireless modem sales. Compared to the fiscal year 2010, Vtion discontinued the sales of virtual network operation (VNO) in 2011, so Wireless Data Terminals did not include the commission for virtual network operation (VNO) packages in 2011.

Wireless Intelligent Terminals included the sales of e-book, pad and intelligent mobile phone such as IPhone,

Data Solution Services included the commission from the membership of business club in 2011. From September 2010, the company has no longer increased the new member of business club, the Data Solution Service is continuously provided to the members registered before September 2010 until the expiration date of the membership.

Information regarding the Group's reportable segments is presented below:

3.2 Segment revenues and results

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

	Segment revenue		Segment profit	
	Year ended 31/12/11	Year ended 31/12/10	Year ended 31/12/11	Year ended 31/12/10
	kEUR	kEUR	kEUR	kEUR
Wireless Data Terminal and Others	54,335	97,459	6,339	28,147
Wireless Intelligent Terminal	22,202	1,560	2,163	-51
Data Solution Service	551	2,642	411	2,335
Total for continuing operations	77,088	101,661	8,913	30,431
Central administration costs			-990	-1,204
Finance result			-766	-3,206
Profit before Tax (continuing operations)			**7,157**	**26,021**

Revenue reported above represents revenue generated from external customers. The inter-segment sales in the year 2011 and year 2010 were eliminated. Segment profit is based on the results of the operating entities in China.

Reconciliation of the revenue

	Segment revenue	
	Year ended 31/12/2011	Year ended 31/12/2010
	kEUR	kEUR
Wireless Data Terminal and Others	54,350	97,487
Inter-segment sales elimination	-15	-28
Wireless Intelligent Terminal	22,307	1,560
Inter-segment sales elimination	-105	0
Data Solution Service	551	2,642
Total for continuing operations	77,088	**101,661**

In 2011, Sales from the first major customer were EUR 17 million (EUR 35 million in 2010), 22% of the overall sales. Sales from the second major customers were EUR 13 million (EUR 36 million in 2010), 17% of the overall sales. These sales were generated in the segment "Wireless Data Terminal and Others" in 2011 and 2010.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, profits of associates, investment revenue, finance expenses and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

3.3 Segment assets and liabilities

	Dec 31, 2011	Dec 31, 2010
	kEUR	kEUR
Segment assets		
Wireless Data Terminal and Others	25,839	42,184
Wireless Intelligent Terminal	5,994	1,603
Data Solution Service	2,177	1,021
Total segment assets	34,010	44,807
Unallocated	125,047	100,843
Consolidated assets	159,056	145,650
Segment liabilities		
Wireless Data Terminal and Others	17,717	15,018
Wireless Intelligent Terminal	1,863	195
Data Solution Service	258	622
Total segment liabilities	19,838	15,834
Unallocated	242	429
Consolidated liabilities	20,080	16,263

Unallocated assets mainly represented cash EUR 124,516 thousand in as of 31 December, 2011.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than investments in associates. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.
- All liabilities are allocated to reportable segments other than 'other financial liabilities', current and deferred tax liabilities, and 'other' liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

	Depreciation and amortization		Additions to non-current assets	
	Year ended 31/12/11	Year ended 31/12/10	Year ended 31/12/11	Year ended 31/12/10
	kEUR	kEUR	kEUR	kEUR
Wireless Data Terminal and Others	339	365	348	620
Wireless Intelligent Terminal	101	19	27	140
Data Solution Service	21	20	17	1
Unallocated	20	23	7	75
	481	427	399	835

4. Notes to the Consolidated Statement of Comprehensive Income

4.1 Total income

	2011	2010
	EUR	EUR
Sale of goods	77,088,386	101,661,267
Other operating income		
Government grant	68,517	553,795
Service income	511	1,557
Others	79	494
	69,107	**555,846**
Finance income		
Interest income	660,700	685,088
	660,700	**685,088**
Total income	**77,818,193**	**102,902,201**

Sale of goods represents 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 grants represent the subsidies from the PRC government. In 2011, the government grants included social security rebates (EUR 2 thousand), the special monetary rewards granted to entities with excellent technical experts by the government of Fujian province in 2011 (EUR 67 thousand).

4.2 Cost of Sales

The cost of sales mainly include the cost of materials consisting of expenses for raw materials and supplies as well as for purchased goods and services totaling EUR 62,270,084 (prior year: EUR 63,792,051).

4.3 Split-up of Sales

	2011	2010
Split-up of sales	EUR	EUR
Sales to external customers		
Wireless Data Terminals	54,222,402	97,445,049
Wireless Intelligent Terminals	22,202,479	1,559,943
Data Solution Service	551,184	2,641,833
Others	112,321	14,442
	77,088,386	**101,661,267**

The Group is principally engaged as manufacturing entity of computer accessories, broadband servers, and wireless communication products in People´s Republic of China (“PRC”). The majority of its customers are based in PRC.

4.4 Selling and Distribution Expenses

	2011	2010
	kEUR	kEUR
Payroll costs	537	406
Transportation expenses	279	251
Royalties	619	1,945
Commission costs	-	1,538
Others	527	600
	1,961	4,739

4.5 Administrative Expenses

Administrative expenses	2011	2010
	kEUR	kEUR
Payroll costs	1,040	776
Research & development costs	794	614
Depreciation of property, plant and equipment	233	189
Amortization of intangible assets and land use rights	147	179
Others	2,269	1,978
	4,482	3,736

4.6 Average number of employees/Payroll costs

	2011	2010
Average number of employees		
Management and administration	92	78
Research and development	29	26
Sales	110	82
	231	186

	2011	2010
	EUR	EUR
Payroll costs		
Wages and salaries	1,667,438	1,315,341
Social security costs	349,974	266,481
Welfare	34,912	33,488
	2,052,324	1,615,311

Defined contribution plan

Vtion Group participated in national pension schemes as defined by the PRC laws. In 2011, the total cost from payments made under national pension schemes amounted to EUR 60.9 thousand (2010: EUR 43.6 thousand).

4.7 Research and Development expenditure

The research and development expenditure is included in Administrative expenses

	2011	2010
	EUR	EUR
Research and development expenditure	793,749	614,355

The company does not capitalize research and development expenditures as the company is mainly involved in the research and the early stages of the development of product ideas.

4.8 Amortization of Intangible Assets and Land use rights and Depreciation of Property, Plant and Equipment

	2011	2010
	EUR	EUR
Amortization of intangible assets and land use rights		
Software	45,775	39,063
Licenses	115,591	127,672
Land use rights	11,816	11,849
	173,182	178,584
Depreciation of property, plant and equipment	308,019	248,463
Total of amortization and depreciation	481,201	427,047

Except about EUR 26,464 of amortization of intangible assets was booked as part of “cost of sales” for new software business operated by Vtion Anzhuo in 2011, the amortization of intangible assets was booked in “Administrative expenses” in 2011.

4.9 Finance Expenses

	2011	2010
	EUR	EUR
Finance Expense		
Interest expense	2,128	0
Bank charges	50,914	41,752
	53,042	41,752

4.10 Foreign exchange loss

The Group recognized EUR 1,374,350 foreign exchange loss (EUR 3,848,805 in 2010) arising from revaluing liquidity assets and liabilities of Vtion Group at the balance sheet date. This mainly relates to EUR-balances of cash and cash equivalents held by Vtion Group and the devaluation of the EUR/RMB exchange rate in 2011.

The EUR devalued by 0.6632 or 7.5% from 8.8220 RMB (December 31, 2010) to 8.1588 RMB (December 31, 2011).

4.11 Income Tax

4.11.1 Major Components of Income Tax Expense

	2011	2010
	EUR	EUR
Current income tax (ordinary activities)	1,330,366	3,758,269
Deferred income tax induced by:		
-tax rate change	41,446	-
-temporary differences	119,265	60,102
-tax loss carry forward	385,689	218,241
Income tax recognized in profit and loss	1,876,766	4,036,612

Deferred income tax relates to the followings:

	31 Dec.2011		31 Dec.2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Inventories	5,124	-	1,265	-
Trade receivable	5,586	233,328	6,405	107,894
Other receivable and other asset	-	283	-	-57,960
Tax losses carried forward	657,581	-	967,056	-
Total	668,291	233,611	974,727	49,934

4.11.2 Applicable Tax Rate

The applicable group tax rate is based on the German Tax Laws for a corporate entity. The tax rate amounts to 31.925%. Vtion IT and Vtion Software continued to benefit from a 50% tax exemption in 2011 with the effective tax rate of 12.5% in accordance with the Income Tax Law of the People's Republic of China for Enterprises with foreign Investment and foreign Enterprises. Due to the 50% tax exemption time expired at December 31, 2011, both Vtion IT and Vtion Software will begin to apply an effective tax rate of 25% since year 2012.

The applicable tax rate for Vtion Communication, Vtion Service and Vtion Anzhuo, established under the laws of the PRC, is based on the Income Tax Law of the People's Republic of China for a corporate entity. The tax rate amounts to 25%. Vtion communication accumulated a net loss as of December 31, 2011. Vtion Service and Vtion Anzhuo, established in 2011 had a net loss in the first operating year.

4.11.3 Relationship Between Tax Expense and Accounting Profit

Reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate is as follows:

	2011 kEUR	2010 kEUR
Accounting (loss)/profit before income tax	7,157	26,021
Applicable tax rate	32%	32%
Tax at respective companies income tax rate	2,285	8,307
Tax differences on Chinese companies	(2,034)	(4, 955)
Thereof effect from tax exemption	(1, 309)	(3, 068)
Thereof effect from lower local tax rate	(725)	(1,887)
Tax effect of expenses not deductible for tax purpose	21	13
Tax effect of loss not taxable for tax purpose	1,059	394
Recognition and measurement of deferred tax assets and liabilities	546	278
Income tax expense recognized in profit and loss	1,877	4,037
Group tax rate	26.2%	15.5%

5. Notes to the Consolidated Statement of Financial Position

5.1 Inventories

	Dec. 31, 2011	Dec. 31, 2010
	EUR	**EUR**
Inventory-advances to supplier	760,602	2,733,449
Goods and material	1,620,035	920,414
Less: stock provision	-20,494	-45,118
	2,360,143	3,608,745

As of 31 December, 2011, inventory amounted to EUR 2,360 thousand, which included EUR 181 thousand of goods and material recognized in fair value less costs to sell in accordance with IAS 2.36

5.2 Trade and other Receivables

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
Trade receivables		
Trade receivables	22,763,571	32,572,699
Allowance for trade receivables	(22,344)	(16,243)
	22,741,227	32,556,456

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
Other receivables		
Other receivables	4,963,417	5,871,926
Prepaid expenses	108,363	114,639
	5,071,780	5,986,565

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

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
Within 30 days	8,358,276	4,051,474
31-90 days	8,111,318	11,988,126
91-180 days	6,270,162	16,511,075
181-360 days	0	3,401
361-1.080 days	3,677	18,624
More than 1.080 days	20,138	0
	22,763,571	32,572,699

ALLOWANCE FOR DOUBTFUL RECEIVABLES

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
Provision for trade receivables	22,344	16,243
Exchange differences	(0)	(0)
	22,344	16,243

The Group establishes allowances through profit and loss to account for doubtful receivables. An allowance for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The aging of receivables is used in applying the allowance method. The percentage of allowance applied to each age classification group is as follows:

Aging	% of allowance for bad debt
0 –180 days	0%
180–360 days	5%
1–2 years	30%
2–3 years	60%
>3 years	100%

5.3 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.

	Dec. 31, 2011	Dec. 31, 2010
Related parties	EUR	EUR
Amount due from related parties - trade	933,313	863,151
Amount due from related parties - non-trade	128,242	136,577
Allowance for amount due from related parties	0	0
	1,061,555	999,727

5.4 Cash and Cash Equivalents

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
Cash on hand	32,282	4,570
Cash in banks	121,357,809	95,952,629
of Mainland China	109,243,597	78,040,601
of Germany and offshore	12,114,212	17,912,028
Deposit on bank's acceptance bill (in China)	3,125,552	3,003,859
	124,515,642	98,961,058

The deposit on bank's acceptance bill is pledged.

Among the balance of cash and cash equivalents in 2011, EUR 112,401 thousand are 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.

5.5 PROPERTY, PLANT AND Equipment

	Office equipment	Electronic equipment	Machinery	Motor vehicle	Leasehold improvement	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Acquisition Costs							
At 31 December 2009	84,151	248,092	109,679	360,843	0	65,781	868,546
Additions	86,891	35,700	0	554,979	119,523	0	797,092
Disposal	1,695	18,957	0	0	0	0	20,652
Exchange differences	9,642	28,487	12,594	41,435	0	7,553	99,711
At 31 December 2010	**178,989**	**293,321**	**122,273**	**957,258**	**119,523**	**73,334**	**1,744,698**
Accumulated depreciation and impairment							
At 31 December 2009	37,280	109,190	41,065	45,513	0	0	233,047
Charged for the FY	26,187	46,243	22,901	136,105	17,027	0	248,463
Disposal	1,340	16,098	0	0	0	0	17,438
Exchange differences	4,722	13,320	5,103	7,527	288	0	30,959
At 31 December 2010	**66,849**	**152,654**	**69,068**	**189,145**	**17,315**	**0**	**495,031**
Net carrying amount							
At 31 December 2009	46,871	138,902	68,614	315,330	0	65,781	635,499
At 31 December 2010	**112,140**	**140,667**	**53,205**	**768,113**	**102,208**	**73,334**	**1,249,667**

	Office equipment	Electronic equipment	Machinery	Motor vehicle	Leasehold improvement	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Acquisition Costs							
At 31 December 2010	178,989	293,321	122,273	957,258	119,523	73,334	1,744,698
Additions	2,361	76,764	335	0	31,606	638	111,703
Reclassification	-26,577	26,577	0	0	0	0	0
Disposal	2,500	10,945	1,593	4,756	0	0	19,795
Exchange differences	14,536	23,843	9,939	77,812	9,716	5,961	141,807
At 31 December 2011	166,808	409,560	130,954	1,030,314	160,844	79,933	1,978,414
Accumulated depreciation and impairment							
At 31 December 2010	66,849	152,654	69,068	189,145	17,315	0	495,031
Charged for the FY	25,839	59,312	21,644	166,294	34,930	0	308,019
Reclassification	-3,638	3,638	0	0	0	0	0
Disposal	2,375	9,658	1,514	4,518	0	0	18,065
Exchange differences	8,072	18,495	7,835	32,439	4,992	0	71,833
At 31 December 2011	94,747	224,441	97,034	383,360	57,237	0	856,819
Net carrying amount							
At 31 December 2010	112,140	140,667	53,205	768,113	102,208	73,334	1,249,667
At 31 December 2011	72,062	185,119	33,920	646,954	103,608	79,933	1,121,595

5.6 Land Use Rights

	2011	2010
	EUR	EUR
Acquisition Costs		
Balance at the beginning of financial year	602,448	554,397
Additions		
Exchange differences	48,971	48,052
Balance at the end of financial year	651,419	602,448
Accumulated amortization		
Balance at the beginning of financial year	43,175	31,326
Amortization for the FY	11,816	11,849
Exchange differences	4,722	1
Balance at the end of financial year	59,713	43,175
Net carrying amount		
Balance at the beginning of financial year	559,273	523,071
Balance at the end of financial year	591,706	559,273

5.7 Intangible Assets

	Licenses	Office Software	Total
	EUR	EUR	EUR
Acquisition Costs			
At 31 December 2009	833,155	208,047	1,041,201
Additions	0	38,302	38,302
Disposal	0	0	-
Exchange difference	98,200	14,971	113,171
At 31 December 2010	**931,355**	**261,319**	**1,192,674**
Accumulated amortization			
At 31 December 2009	111,592	145,414	257,006
Amortization for the FY	127,672	39,063	166,735
Disposal for the FY	0	0	-
Exchange difference	-831	15,633	14,802
At 31 December 2010	**238,432**	**200,110**	**438,543**
Net carrying amount			
At 31 December 2009	721,563	62,632	784,196
At 31 December 2010	**692,923**	**61,209**	**754,132**

	Licenses	Office Software	Total
	EUR	EUR	EUR
Acquisition Costs			
At 31 December 2010	931,355	261,319	1,192,674
Additions	0	286,876	286,876
Disposal	0	0	0
Exchange differences	75,707	28,074	103,781
At 31 December 2011	1,007,062	576,270	1,583,331
Accumulated amortization			
At 31 December 2010	238,432	200,110	438,543
Amortization for the FY	115,591	45,775	161,366
Disposal for the FY	0	0	0
Exchange differences	-44,336	103,374	59,039
At 31 December 2011	309,687	349,260	658,947
Net carrying amount			
At 31 December 2010	692,923	61,209	754,132
At 31 December 2011	697,375	227,010	924,384

The intangible assets do not comprise any internally generated intangible assets.

As of December 31, 2011 there was no binding agreement about the purchase of intangible assets.

5.8 DEFERRED TAX ASSETS

In 2011 Vtion IT, Vtion Software and Vtion Communication 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 Communication generated a net taxable income from IPhone business in 2011, but Vtion Communication accumulated a net loss since the establishment of the company. Therefore Vtion Communication recognized at December 31, 2011 a deferred tax asset (EUR 24,026) on the tax losses carried forward from the first time recognition.

Vtion Wireless Technology AG ("Vtion AG") accumulated retained earnings of EUR 3.4 million (EUR 3.9 million in previous year) under German GAAP since the establishment of the company, which include a net profit amounting to EUR 4.7 million generated in 2011. The decline of retained earnings mainly resulted from the dividend distribution (EUR 3,3 million) to the shareholders and the cumulative share premium of repurchasing 747,602 ordinary shares of no par value in 2011 (EUR 1.9 million) under German GAAP. Under German Corporation Income Tax regulations, deducted 95% of dividend income which is untaxable, Vtion AG accumulated a tax loss at December 31, 2011. Vtion AG expects a net taxable income of the holding company by lending parts of the proceeds raised during the IPO to its subsidiaries. Therefore Vtion AG recalculated at December 31, 2011 a deferred tax asset on the tax losses carried forward from first time recognition. The amount recognized as deferred tax asset (kEUR 633) has been calculated based on the estimation of net taxable income of the next five years. As a result, the deferred tax assets are not recognized for the unused tax losses of kEUR 1,087.

	Dec. 31, 2011	Dec. 31, 2010
	kEUR	kEUR
Deferred tax asset of Vtion AG	633	921
Deferred tax asset of Vtion IT, Vtion Com and Vtion Software	35	54

5.9 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 51 million and decreased by RMB 2 million as compared to that of December 31, 2010. 50% of the funds received (kEUR 3,126) are kept as a cash deposit on bank acceptance bills. Please see "cash and cash equivalents".

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
Other payables		
Deferred revenues	0	562,056
VAT payable	2,056,301	1,463,332
Other payable	2,786,526	2,234,536
Advances from customers	88,290	29,748
Other tax payables	125,051	118,737
	5,056,168	4,408,409

Other payable included the cumulative rebates payable to copyright holder amounting to EUR 2,645 thousand.

5.10 Provisions

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
Provisions		
Accrued payroll	267,996	210,553
Other accruals	123,044	77,391
	391,040	287,944

Other accruals included the accrued expenses for annual audit charge, service charges for external consultant agencies, and lawyer fees.

Provisions of EUR 288 thousand as at 31 December, 2010 were totally utilized after payment in 2011. Vtion recognized EUR 391 thousand on the accrual basis for payable payroll and expenses as at 31 December, 2011.

5.11 Deferred tax liabilities

The amount is primarily based on different trade receivables recognized and different revenue recognized in connection with data solution service.

5.12 Equity

5.12.1 Share Capital and treasury stock

The share capital of the Parent Company as at December 31, 2011 amounts to EUR 15,980 thousand and is divided into 15,980,000 shares of a par value of EUR1.00 each. On 21 April, 2011, Vtion released the share buy-back program on the Company's website. The Management Board of Vtion Wireless Technology AG has resolved to repurchase up to 1,000,000 ordinary shares of no par value each having a notional amount of the share capital of EUR 1.00 of the Company. As of December 31, 2011, Vtion had repurchased 747,602 ordinary shares of no par value as treasury stock, which decreased circulation stock to 15,232,398 shares.

number of shares	Dec. 31, 2011	Dec. 31, 2010
Share capital	15,980,000	15,980,000
Treasury stocks	-747,602	0
Circulation stocks	15,232,398	15,980,000

Free float shares	Number of shares
At 31 December, 2010	5,416,673
effect of acquisition by shareholders	-498,158
effect of share buy-back	-747,602
At 31 December, 2011	4,170,913

5.12.2 Reserves and retained earnings

a) Reserves

The changes of the reserves presented in the statement of changes of equity as of January 1, 2011 and December 31, 2011 relates to share buy-back program in 2011. As of December 31, 2011, capital reserve decreased by 1,931,581 to EUR 46,231,087, resulting from the cumulative share premium of repurchasing 747,602 ordinary shares of no par value in 2011.

b) Retained earnings

The retained earnings comprise the cumulative changes resulted from net gains or losses recognized in the consolidated income statement and the changes due to the dividend distribution. In June 2011, Vtion paid a dividend of 21 cents per share, representing 15% of the company's net profit after tax for the full year 2010, which decreased the retained earnings by EUR 3,306,828.

5.12.3 Foreign exchange differences

The foreign exchange differences mainly results from the conversion of the financial statements into the reporting currency EUR of the Group.

5.13 Current assets and liabilities

The company does not expect any assets or liabilities which are presented as current to be settled within more than twelve months after balance sheet date.

6. Notes - other

6.1 Commitments and Contingencies

Operating lease commitments

The Company leases various factory and office buildings under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The operating lease payment recognized as expense in the income statement in every financial year is as follows:

	2011	2010
	EUR	EUR
Lease payment recognized as expense	372,282	276,823

Future minimum lease payments under non-cancellable operating leases are as follows:

	Dec. 31, 2011	Dec. 31, 2010
	EUR	EUR
No later than one year	274,973	192,363
Later than one year but no later than five years	63,525	140,971
Later than five years	0	0
	338,498	333,334

Contingent Liabilities

The Company does not have any contingent liabilities as at December 31, 2011.

6.2 Related Party Disclosures

An entity or individual is considered a related party of the Company for the purposes of the financial statements if: It possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decisions of the Company or vice versa; or it is subject to common control or common significant influence.

A) RELATED PARTY INFORMATION

Name of related party	Relationship	Registered Office	Remark
Fujian Vtion Telecom Information Service, Co. Ltd.	Subsidiary, not consolidated	PRC	
Fujian Vtion Communication & Telecom Equipment Co., Ltd.	Other company controlled by shareholder's direct family member	PRC	
Mobile Multimedia Co., Ltd. (Beijing)	Other company controlled by shareholder	PRC	
DADI (China) Holding Co., Ltd.	Other equity participated company by shareholder	PRC	
Fujian DADI Concrete Pile Co., Ltd.	Subsidiary of other company wholly owned by shareholder	PRC	
Fujian CH-DIGITAL Technology Co., Ltd.	Equity participated company by shareholder	PRC	
Fujian Aiwei Garment Co., Ltd. (formerly named "Fujian FORFREE Garment Co., Ltd.")	Other company controlled by shareholder's direct family member	PRC	
Dadi Pipe and Stake (Yantai) Co., Ltd.	Subsidiary of an equity participated company by shareholder	PRC	
Fujian Bofang Science and Technology Co., Ltd.	Other company controlled by shareholder's direct family member	PRC	
Shareholders of listed company and their direct family members, director and senior management etc.			
Chen Guoping	Shareholder of listed company, CEO		
Huang Yuhua	Direct family member of shareholder on the listed company		
He Zhihong	Shareholder of the listed company, VP, CTO		
Chen Guoshun	Shareholder of the listed company, shareholder's direct family member		
Chen Guohe	Shareholder of listed company, shareholder's direct family member		

B) SALES AND PURCHASE OF GOODS AND SERVICE

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

	2011	2010
	EUR	EUR
Sales of finished goods to a related party	551,184	2,642,387
Rental fee paid to a related party	122,721	99,206

Both sales of goods and rental of plant transactions with related parties were based on market price. All of the sales transactions to related parties in 2011 took place between Vtion Software and Fujian Vtion Telecom Information Service, Co., Ltd. Rental fees paid by Vtion IT and Vtion Communication in connection with related parties were paid to Mr. Chen Guoping (EUR 93 thousand) and Fujian Aiwei Garment Co., Ltd.(EUR 30 thousand).

C) DUE FROM/TO RELATED PARTIES

	Dec 31, 2011	Dec 31, 2010
	KEUR	KEUR
Due from related parties	**1,062**	**1,000**
Trade	933	863
Non-trade	128	137
Allowance for doubtful trade debts	0	0
Due to related parties	**12**	**1**
Trade	0	0
Non-trade	12	1

As of December 31, 2011, the amount due from or to related parties resulted from trade resulted from the sales transactions between Vtion Software and Fujian Vtion Telecom Information Service, Co., Ltd. The amount due from or to related parties resulted from non-trade was in connection with Mr. Chen Guoping and Fujian Aiwei Garment Co., Ltd. The transactions with the related parties were based on market price.

D) KEY MANAGEMENT REMUNERATION

	2011	2010
	kEUR	kEUR
Key management of the Group	214	213

6.3 Disclosure of Financial Instruments

The Group's financial instruments at the closing day comprise cash and liquid resources, some short-term debtors and creditors, together with normal trade debtors and creditors, The main risks which arise from these financial instruments relate to liquidity, interest and exchange rates.

Disclosures IFRS 7:

Carrying amounts, amounts recognized and fair values by category:

	Category in accordance with IAS 39	Carrying amount 2011-12-31	Amounts recognized in balance sheet according to IAS 39 at amortized cost	Carrying amount 2010-12-31	Amounts recognized in balance sheet according to IAS 39 at amortized cost
		EUR	EUR	EUR	EUR
Trade receivables	LaR	22,741,227	22,741,227	32,556,456	32,556,456
Other receivables	LaR	5,071,780	5,071,780	5,986,565	5,986,565
Amounts due from related parties	LaR	1,061,555	1,061,555	999,727	999,727
Cash and cash equivalents	LaR	124,515,642	124,515,642	98,961,058	98,961,058
Trade payables	FLAC	13,936,526	13,936,526	11,163,962	11,163,962
Other payables and provisions	FLAC	5,447,208	5,447,208	4,696,353	4,696,353
Amounts due to related parties	FLAC	12,257	12,257	729	729
Of which: aggregated by category in accordance with IAS 39					
Cash and receivables	LaR	153,390,204	153,390,204	138,503,806	138,503,806
Financial liabilities measured at amortized cost	FLAC	19,395,991	19,395,991	15,861,045	15,861,045

(LaR = Loans and receivables; FLAC = Financial liabilities at cost)

In 2011 and 2010 there are no amounts recognized in the balance sheet according to IAS 39 at fair value.

Cash and cash equivalents, trade and other receivables as well as amounts due from related parties have a short time to maturity (within 1 year). For this reason, their carrying amounts at the reporting date approximate the fair values. (In accordance with level 1 of the fair value hierarchy pursuant to IFRS 7)

Trade and other financial liabilities generally have a short time to maturity (within 1 year); the values approximate the fair values. (In accordance with level 1 of the fair value hierarchy pursuant to IFRS 7)

Net gain/loss by category:

	from Interest	2011	2010
	EUR	EUR	EUR
Cash and receivables	660,700	660,700	685,088
Financial liabilities measured at amortized cost	-2,128	-1,427,392	-3,890,557
	658,572	-766,692	-3,205,469

Interest from financial instruments is recognized in finance expenses.

The loss of 2011 is mainly attributable to the translation of the holding company into the functional currency RMB.

6.4 Financial Risks Management Objectives and Policies

IFRS 7 requires the disclosure of sensitivity analysis which shows the effects of hypothetical changes in relevant risk variables on profit or loss and equity, to be used in presenting market risk. For the Group, this mainly relates to currency rate risks. The effects are ascertained by applying the hypothetical changes in risk variables to the portfolio of financial instruments at the balance sheet date. It is assumed that the balance at the reporting date is representative for the year as a whole.

As outlined, the Group is in general only exposed to interest rate and other market risks arising in the normal course of business. The Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations in interest rates and foreign exchange rates as there is no real requirement to do so from today's point of view considering that the main assets of the company are liquidity assets (long term assets).

a) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a loss to the Group. The Group has adopted the policy of only dealing with creditworthy counter parties and monitors their balances. The Group's credit risk is primarily attributable to its trade and other receivables. Cash is placed with creditworthy financial institutions. The trade and other receivables presented in the balance sheet are net of an allowance for doubtful receivables, estimated by management based on current economic conditions. The carrying amount of financial assets recorded in the financial statements net of any allowance for doubtful receivables, represents the Group's maximum exposure to credit risk. The carrying amount of financial assets as of December 31, 2011 is EUR 153,390 thousand (previous year: EUR 138,504 thousand)

b) Interest Rate Risk

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group in the current reporting period and in future years. Other than the bank deposits and borrowings, the Group has no other significant interest-bearing assets and liabilities. Its interest-bearing assets are mainly current bank deposits. The majority of the Group's income and operating cash flows is independent of changes in market interest rates. The Group's policy is to secure all of its borrowings at fixed borrowing rates.

If interest rate had been 50 basis points higher or lower, the financial result on the basis of the Group's investment strategy would have been around EUR 622 thousand (previous year: EUR 495 thousand) higher or lower.

c) Foreign Currency Risk

Foreign exchange risk refers to the risk that movement in foreign currency exchange rates against the Group's functional or reporting currency will affect the Group's financial results and cash flows.

Relevant risk variables are, in principle, all other currencies in which the Groups financial instruments are used. The Group holds EUR bank deposits in the holding company in Germany and subsidiaries in China and Hong Kong. The term deposit in EUR at the holding company is EUR 11,500,000.00; possible exchange rate fluctuations of the RMB against the EUR can affect the Group's financial results. Similarly, the group is due to be exposed to USD assets and liabilities which will be impacted by the exchange rate fluctuations of the RMB against the USD.

The following exposure is the overall foreign currency of the Group:

	Assets		Liabilities	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	kEUR	kEUR	kEUR	kEUR
EUR	18,276	24,082	228	311
USD	3,517	5,447	4,813	889
Other	2	2	-	-
	21,795	29,531	5,041	1,200

The USD assets and liabilities mainly relate to the transaction with the suppliers and copyright holder.

The following table illustrates the effect on the consolidated net income if the exchange rate would be 5% higher/lower and all other variables were held constant:

	5% increase			
	2011	2011	2010	2010
	EUR/RMB	USD/RMB	EUR/RMB	USD/RMB
Foreign exchange gain/loss	859	-62	1,132	217

	5% decrease			
	2011	2011	2010	2010
	EUR/RMB	USD/RMB	EUR/RMB	USD/RMB
Foreign exchange gain/loss	-950	68	-1,251	-240

The Management Board observes the Company's exposure to foreign currencies and carefully considers necessary hedging transactions.

d) Liquidity Risk

Liquidity risk arises from the possibility that the Group is unable to meet its obligations towards other counter parties. The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Considering the Group's overall solid cash flows situation and the fact that Vtion has no interest-bearing liabilities, there is no real liquidity risk.

in kEUR	Less than 3 months	3-6 months	6-12 months	More than one year	Cash outflows	Book value
As of 31 December 2011						
Trade payable	5,397	7,730	78	731	13,937	13,937
Other	2,804	72	2,572	-	5,447	5,447
Total	8,201	7,802	2,650	731	19,384	19,384
As of 31 December 2010						
Trade payable	6,062	2,734	2,364	5	11,164	11,164
Other	2,701	1,995	-	-	4,696	4,696
Total	8,763	4,729	2,364	5	15,860	15,860

e) Fair Values

The carrying amounts of the financial assets and financial liabilities in the financial statements approximate their fair values.

6.5 Management Stock Option Plan ("SOP")

Since the average stock price of the Company's shares was lower than the IPO price, in 2011, the Company didn't execute the Management Stock Option Plan. As of December 31, 2011, there has been no formal agreement on the stock option plan.

7. Additional Comments on Capital Management

The capital management of Vtion Group is based on monitoring equity and liabilities and investment based on its current high liquidity.

The Company's target of the investment policy is to maintain the strong and profitable growth path in the business in order to create shareholder value. Surplus cash will generate interest rate income while being deposited at reputable financial institutions. As of 31 December 2011, the shareholders' equity rate of the company was 87% (previous year: 89%). The return on shareholders' equity – the ratio of the share of consolidated income of the Group's shareholders and the shareholders' equity on the report date – amounted to 4% and 17% in financial year 2011 and 2010, respectively, which was mainly due to the decrease of sales and gross profit margin in 2011.

8. Members of the Management and Supervisory Board

MANAGEMENT BOARD OF THE PARENT COMPANY

Chen Guoping, merchant, CEO, Fujian, PRC, Chairman

He Zhihong, merchant, CTO, Fujian, PRC

Chen Huan, merchant, CFO, Beijing PRC (until 23 October 2011)

Zheng Hongbo, merchant, CFO, Beijing, PRC (from 24 October 2011)

Fei Ping, procurist, Beijing, PRC

Ding Chaojie, sales and marketing, Beijing, PRC

SUPERVISORY BOARD OF THE PARENT COMPANY

Qian Yingyi, professor of economics and management, Beijing, PRC (Chairman)

Norbert Quinkert, merchant, Frankfurt, Germany (Vice Chairman)

Yang Hua, merchant, Beijing, PRC (Member)

Liu Yangsheng, telecommunication engineer, Beijing, PRC (Member)

Wang Ning, vice president of China Electronic Chamber of Commerce, Beijing, PRC (Member)

Volker Potthoff, capital market expert, Frankfurt, (Member)

9. Remuneration of the Management Board and Supervisory Board

For the fiscal year 2011 and 2010, the members of the management board received the following fixed remuneration in excess of which they are not entitled to receive any further, particularly performance-based remuneration; furthermore the management board is not entitled to receive a specific remuneration if contracts would be terminated prematurely or regularly. On 21 October 2011, Vtion Wireless Technology AG announced that Mr. Hongbo Zheng succeeded as the company's Chief Financial Officer (CFO). Mr. Hongbo Zheng was appointed by a unanimous vote of the Supervisory Board and took up his new post on 24 October 2011.

Name	2011	2010
	in kEUR	in kEUR
Chen, Guoping	46.0	46.1
Chen, Huan (until 23 October 2011)	27.8	33.4
Zheng, Hongbo (from 24 October 2011)	6.7	0
He, Zhihong	40.0	40.1
Ding, Chaojie	53.4	53.5
Fei, Ping	40.0	40.1
Total	213.9	213.2

The Chairman of the Supervisory Board receives the basic remuneration of EUR 50,000 per calendar year and the Deputy Chairman of the Supervisory Board receives a basic remuneration of EUR 35,000 per calendar year. Each further member of the Supervisory Board receives a basic remuneration of EUR 25,000 per calendar year. The members of the Supervisory Board receive reimbursements for expenses with regards to their office as member of the Supervisory Board as well as VAT, if applicable.

In 2011 and 2010, the supervisory board members received the following fixed remuneration:

Name	2011	2010
	in kEUR	in kEUR
Qian, Yingyi	50.0	50.0
Nobert Quinkert	41.7	41.7
Volker Potthoff	25.0	25.0
Liu, Yangsheng	25.0	25.0
Wang, Ning	25.0	25.0
Yang, Hua	25.0	25.0
Total	191.7	191.7

10. Notes to the cash flow statement

The cash flow statement has been prepared in accordance with IAS 7 and is classified by net cash flows from operating, investing and financing activities. Net cash flow from operating activities is presented using the indirect method, while net cash flows from investing and financing activities are presented using the direct method. Cash funds are composed of cash and cash equivalents such as short-term deposits. We refer also to Section 5.4.

11. Audit

BDO AG ("BDO") has been appointed as auditor of the individual and consolidated financial statements of the company for fiscal year 2011. The following table gives an overview about the fees of BDO recognized (including out of pocket expenses and VAT, if any) in the business year.

	2011	2010
	kEUR	kEUR
Audit of financial statements	192	176
Other assurance services	98	80
	290	256

12. Events after Balance Sheet Date

Treasury stock

On Feb 15, 2012, Vtion Wireless Technology AG, Frankfurt, Deutschland informed according to Article 26, Section 1 and Sentence 2 of the WpHG that its Voting Rights in own shares(Treasury stock) exceeded the 5% limit of the Voting Rights on February 13, 2012 and on that day amounted to 5.002% (this corresponds to 799441 Voting Rights).

Additional Investment to Vtion Anzhuo

Per the agreement signed on March 20, 2012, Vtion Software (Fujian) Co., Ltd increased the investment to Vtion Anzhuo (Beijing) Technology Co., Ltd by RMB 10 million. After the additional investment, the registered capital of Vtion Anzhuo will increase from RMB 10 million to RMB 20 million and Vtion Software still hold 100% of shares of Vtion Anzhuo.

Business Development

Vtion experienced a somewhat slow start to the first quarter of 2012, typical for the first quarter given that there is over a week of time lost due to the Chinese New Year Holiday, which in 2012 was earlier than in most years, taking place during the final week of January. Results thus far have been driven primarily by wireless data terminals and consumer sales of the company's V7 tablet PC, and have been largely In line with the company's expectations for the opening of the year.

Other Developments

At the time of publication there were no other significant post-balance sheet date events to report.

13. Proposal on the utilization of net retained profits

The Individual financial statements of Vtion Wireless Technology AG prepared according to German GAAP as of December 31, 2011 reflect net accumulated profit of EUR 3,378 thousand. At the Annual General Meeting, the Executive Board and the supervisory Board will propose that the net accumulated profit will be carried forward to 2012.

14. Declaration of Compliance with the German Corporate Governance Code

On March 29, 2012, the Management Board and Supervisory Board jointly issued an updated Compliance Statement in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz/AktG) and made it permanently available to the public on the Company's website (www.vtion.de).

15. Approval of the Financial Statements

The financial statements were approved and authorized for issuance by the Board of Directors on April 18, 2012.

Frankfurt, April 18, 2012

Chen Guoping Zheng Hongbo Ding Chaojie Fei Ping He Zhihong

Auditor's Report

We have audited the consolidated financial statements prepared by the Vtion Wireless Technology AG, Frankfurt am Main, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from **Fehler! Verweisquelle konnte nicht gefunden werden.** to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to sec. 315a para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development."

We issued this report on the audit of the consolidated financial statements and the group management report of Vtion Wireless Technology AG, Frankfurt am Main, for the business year year from January 1, 2011 to December 31, 2011 in accordance with the legal requirements and German generally accepted standards for reporting in the scope of audits of consolidated financial statements.

Hamburg, April 18, 2012

BDO Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Flach	ppa. Sichting
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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, April 18, 2012

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

PUBLICATION OF ANNUAL REPORT 2011

Thursday, April 19, 2012

PUBLICATION OF

INTERIM REPORT 1ST QUARTER 2012

Thursday, May 14, 2012

ANNUAL GENERAL MEETING, FRANKFURT

Tuesday, June 26, 2012

PUBLICATION OF

INTERIM REPORT 2ND QUARTER 2012

Thursday, August 13, 2012

PUBLICATION OF

INTERIM REPORT 3RD QUARTER 2012

Monday, November 15, 2012

VTION WIRELESS TECHNOLOGY AG

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