比亞迪電子(國際)有限公司
BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED

(Stock Code 股份代號: 285)

The Globe of Communication

annual report 2007 年年報

BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company"; together with its subsidiaries known as the "Group"; stock code: 285) was spun off from BYD Company Limited ("BYD", stock code: 1211) and listed on the Main Board of the Stock Exchange Hong Kong Limited on 20 December 2007. It is a world-leading vertically integrated provider of handset components and modules manufacturing as well as assembly services. The Company provides services to brand name vendors of handsets as original equipment manufacturers ("OEMs"). Its highly vertically integrated production process enhances its ability to provide customers with a full range of services, broaden product portfolio, quick and efficient respond to changing demands.

比亞迪電子(國際)有限公司(「比亞迪電子」或「本公司」，連同其附屬公司統稱「本集團」；股份代號：0285) 成功於二零零七年十二月二十日由分拆比亞迪股份有限公司「比亞迪」；股份代號 ：1211)於香港聯交所主板獨立上市。比亞迪電子是一家國際領先的垂直整合手機零部件及模組製造、手機組裝服務供應商。公司為知名手機供應商(即原設備製造商或OEM)提供服務。公司的高度垂直整合生產過程為客戶提供全面的服務，擴大產品組合，更快和更有效率地迎合市場不斷變化的需求。

Contents

FINANCIAL HIGHLIGHTS

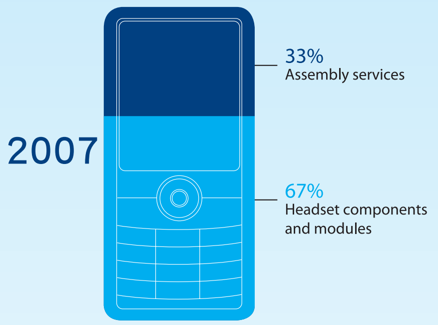
Four-year Comparison of Key Financial Figures

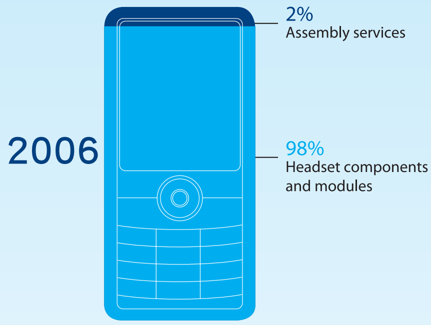
	For the year ended 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**5,767,256**	3,043,966	600,813	362,605
Gross profit	**1,527,925**	952,496	140,391	93,973
Gross profit margin (%)	**26**	31	23	26
Profit attributable to equity holders of the Company	**1,093,289**	731,089	45,468	43,777
Net profit margin (%)	**19**	24	8	12

	For the year ended 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Net assets less minority interests	**4,891,788**	860,611	229,122	164,149
Total assets	**8,237,272**	3,200,659	858,497	394,573
Gearing ratio (%) (Note)	**-39**	-44	11	-1
Current ratio (times)	**1.89**	0.91	0.89	0.88
Account receivable turnover (days)	**77**	60	140	75
Inventory turnover (days)	**66**	54	82	64

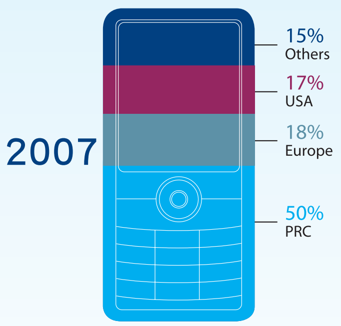
Note: Gearing ratio = Total borrowings net of cash and cash equivalents/net assets

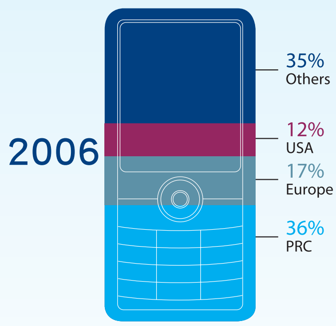
Turnover Breakdown by Products





Turnover Breakdown by Geographical Segments





CORPORATE INFORMATION

Executive Directors
Li Ke
Sun Yi-zao

Non-executive Directors
Wang Chuan-fu
Wu Jing-sheng

Independent non-executive Directors
Chan Yuk-tong
Feng Xu-chu
Antony Francis Mampilly

Company secretaries
Cheung Hon-wan (Associate member of the Hong Kong Institute of Certificated Public Accountants)
Li Qian

Audit committee
Chan Yuk-tong (Chairman)
Feng Xu-chu
Antony Francis Mampilly
Wang Chuan-fu
Wu Jing-sheng

Remuneration committee
Chan Yuk-tong
Feng Xu-chu
Antony Francis Mampilly
Li Ke
Wang Chuan-fu (Chairman)

Nomination committee
Chan Yuk-tong
Feng Xu-chu
Antony Francis Mampilly
Sun Yi-zao
Wang Chuan-fu (Chairman)

Authorized representatives
Li Ke
Wu Jing-sheng

Compliance advisers
China Merchants Securities (HK) Co., Ltd.
48th Floor
One Exchange Square
Central
Hong Kong

Evolution Watterson Securities Limited
5th Floor
8 Queen's Road Central
Hong Kong

Registered office
Part of Unit 1712, 17th Floor, Tower 2
Grand Central Plaza
No. 138 Shatin Rural Committee Road
Shatin
New Territories
Hong Kong

Head office and principal place of business in the PRC
No. 3001, Bao He Road
Baolong, Longgang
Shenzhen, 518116
The PRC

Share register and transfer office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Investor and media relations consultant
iPR Ogilvy Ltd.
Tel: (852) 2136 6185
Fax: (852) 3170 6606

Website
www.byd-electronic.com

Stock code
285

A Power of World-Class Products

One-stop

handset component supplier in the world

CHAIRMAN'S STATEMENT

The Globe Communica

Dear shareholders,

On behalf of the Board of Directors (the "Board") of BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company") and its subsidiaries (collectively the "Group"), I hereby present the annual report for the year ended 31 December 2007.

2007 marked a key milestone in the Group's development. Since December 2002, the handset component and module manufacturing business of BYD Electronic has been growing rapidly. Considering the prospects of the handset precision component business and assembly services in handset components, the Company successfully spun off from its controlling shareholder, BYD Company Limited ("BYD Holding"), and listed independently on the Main Board of Hong Kong Stock Exchange on 20 December 2007. The spin-off better reflected the true value of the Company, providing adequate capital and establishing a financing platform for BYD Electronic, which enhances the Company to better capture opportunities in the expected rapid growth of the handset industry.

During the year, both turnover and profit attributable to equity holders recorded strong growth. The Group's two major business, including the handset component and module business, achieved satisfactory results, bringing good profit contributions to the Group, while handset assembly services newly provided to customers also achieved impressive growth. In 2007, the Group's turnover was approximately RMB5,767million, representing a growth of 89% over the previous year. Profit attributable to equity holders surged significantly by 50% to over RMB1,093 million. The Board of Directors recommended the payment of RMB0.15 per share as the final dividand for the year ended 31 December 2007.

In 2007, the global handset market recorded vigorous growth driven by demand from engineering marktes, such as China and India, which had remarkable growth potentials. Increasing industrial integration further strengthened market shares of leading international handset brands, while enhanced industrial concentration intensified market competition. Meanwhile, with the global trend of outsourcing, leading international OEM vendors tend to outsource their production processes to enjoy cost advantages. In the face of changing business environments in comparison with suppliers who were limited to handset manufacturing supply chain of specific market sectors, vertically integrated suppliers were able to provide more cost efficient services and rapidly respond to changing market demands.

During the year under review, leveraging on the Group's competitive advantages, handset component and module business recorded remarkable growth. The Group's production facilities

In the 2007 the Group's turnover was approximately RMB5,767 million, representing a growth of 89% over the previous year. Profit attributable to equity holders grew significantly by 50% to over RMB1,093 million.

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established in Shenzhen and Tianjin enabled the Group to obtain substantial cheap labour force in China. The Group also has established new production facilities in Huizhou in Guangdong province, the PRC, Chennai in India, Komarno in Hungary and Cluj in Romania to establish a global production platform. In addition, the Company commenced the provision of handset assembly services for customers since the second half of 2006, which was well received by the market. The upgraded highly vertical integrated production process further consolidated the Group's market position as a "One-stop handset component supplier" of international famous handset brands.

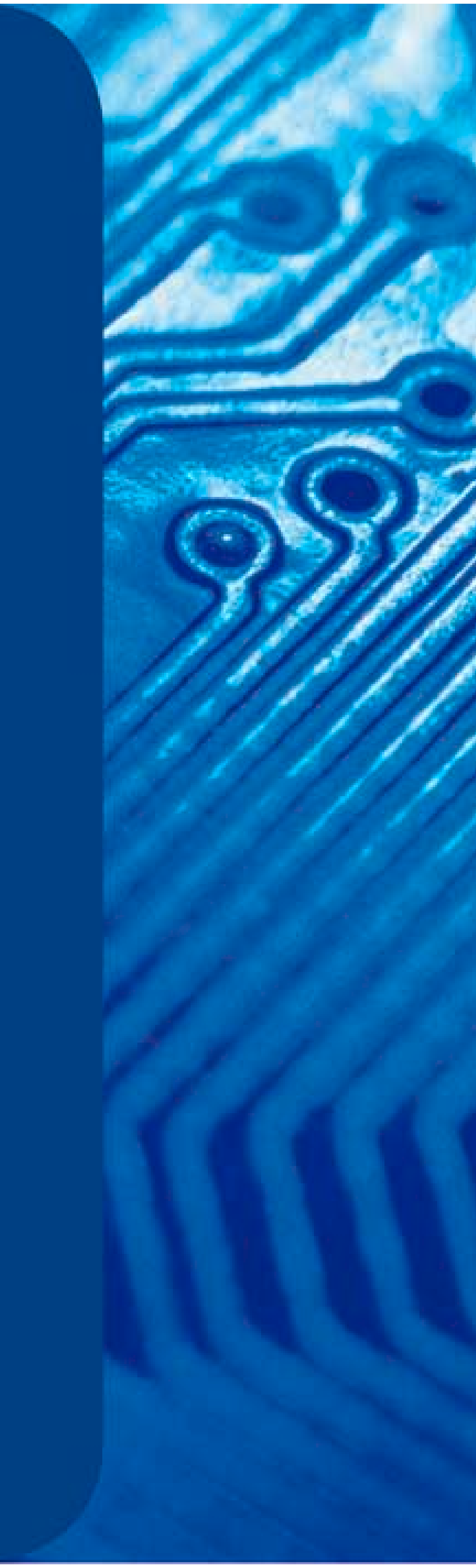
The Group adhered to its business strategies of expanding its product and service profolio and further strengthening its vertical integration. Facing with increasing global demands for handsets, the Group has been striving to enchance its R&D, creativity and management capability of products. While strengthening its strategic relationship with the existing customers, the Group actively established cooperation opportunities with new customers. Our target is to establish and maintain an integrated global production and servicing platform, strengthen our R&D capability, and improve our cost structure, so as to further strengthen the Group's price competition advantageand enhance the Group's profitability.

Looking forward, the Group is confident that the handset component and module manufacturing business as well as the handset assembly service have remarkable room to grow. The shifting of handset production base to the Asian regions and the changing outsourcing strategies of famous international handset brands, such as the dedication of OEM manufacturers in seeking for a balanced supplier portfolio, have supported the growth of BYD Electronic. The Group will further enhance its product designs and production capacity, so as to fully capture future business opportunities and meet the need for sustainable growth.

Finally, on behalf of BYD Electronic, I would like to express my sincere gratitude for the support and confidence of our loyal customers, business partners, investors and shareholders. Meanwhile, I would like to thank all our staff members for their dedications over the past years. We are confident that the Group will continue to achieve strong business growth and become an international leading manufacturer of handset component and module with highly vertical integrated capability as well as supplier of handset assembly services, hence sharing the results with our shareholders.

Wang Chuan-fu
Chairman
Hong Kong, 20 March 2008

A Power of R&D



MANAGEMENT DISCUSSION AND ANALYSIS

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Operating environment review

With the fast growing global handset market in 2007, coupled with evolving handset technology, and the acceleration of obsolete handsets by new functions, it is expected that the industry will continue to grow. According to the survey report released by Gartner, a market research institution, sales in the global handset market is expected to grow from approximately 990 million units in 2006 to approximately 1,563 million units in 2011, representing a CAGR of approximately 10%. In 2007 the global handset market recorded an output of approximately 1,120 million units, up approximately 14% from approximately 980 million units in the same period last year.

As living standards in the emerging markets, such as China and India, continue to improve, people have greater purchasing power for handsets and stronger demand for external designs. More affordable handsets not only attract more new users, but also boost greater desire for replacement of handset from existing users. In order to secure market share, in particular to penetrate into new regional and population markets, handset dealers started to request for more personalised handsets with new technologies and designs, and to produce and launch new models of handsets in according to market demand. This has created demand for multi-model customised handset assembly products.

General speaking, although global sales of handsets was growing steadily, the growth was slowing down compared with the previous years. Increasing market integration has further strengthened the market share of international leading brands, while increased industrial concentration caused more intensified market competition. With changing operation environment, the market positions of some famous handset brands were replaced by new Asian brands and their manufacturers encountered difficulties in operation. Therefore, many reputable international handset suppliers relocated their production, procurement and logistic bases to Asia and other regions of the emerging market to reduce costs and satisfy the need for low price, short product life cycle and more diversified product portfolio. Meanwhile, OEM manufacturers of handsets are inclined to select suppliers with global manufacturing and servicing platform of high capabilities vertical integration as partners. Riding on the

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In 2007, the handset component and module business of the Company recorded a sales of approximately RMB3,869,150,000, representing an increase of approximately 29% over the previous year. Handset component and module business represented approximately 67% of the Company total sales.

expertise and techniques of such suppliers in production and supply chain operations, OEM manufacturers could shorten the time for launching new products, achieve better flexibility, lower costs and faster capital turnover, and concentrate on the product development with high profit margin and the enhancement of brand value.

In the face of changing handset market, vertically integrated suppliers were able to provide more effective and low cost services than suppliers who were limited on handset supply chains of specific market sectors because their production bases were in close proximity to those markets that enable them to further cut cost. This provided favorable development opportunities for BYD Electronic and enabled the faster growth of the Company.

Business Review

The two principal businesses of BYD Electronic are handset component and module business and the provision of handset assembly services. The Company commenced operation as a division under BYD Group in December 2002. It experienced rapid business development and gradually consolidated its market position. Considering the prospects of handset precision component segment in handset components and the assembly business, BYD Electronic successfully completed its spin-off from BYD Company Limited ("BYD Holding"), its controlling shareholder, on 20 December 2007 and independently listed on the Main Board of Hong Kong Stock Exchange, and successfully raised approximately HK$6.69 billion of gross proceeds (after

The Group's assembly business recorded satisfactory growth with a turnover of approximately RMB1,898,106,000, an increase of approximately 3,409% over the previous year, representing approximately 33% of the Company's total sales.

partial exercise of the over-allotment option and before deduction of any listing related expenses). The spin-off can reflect the true value of the Company, providing sufficient capital and establishing a financing platform for BYD Electronic, which is helpful for the Company to better capture the opportunities in the expected rapid growth of the handset industry.

For the year ended 31 December 2007, the Company recorded consolidated sales of approximately RMB5,767,256,000, representing an increase of approximately 89% over the previous year. Profit attributable to shareholders amounted to approximately RMB1,093,289,000, a signifant increase of approximately 50% over the previous year.

Handset Component and Module Business

The Company's handset component and module business include the manufacture and sale of handset casings, handset keypads and handset modules. Handset modules are semi-finished handsets equipped with various complements such as handset casings, microphones and connectors.

During the year under review, the highly vertical integrated production process drove the growth of the handset component and module business of BYD Electronic, which satisfactory growth in results. In 2007, the handset component and module business of the Company recorded a sales of approximately RMB3,869,150,000, representing an increase of approximately 29% over the previous year. Handset component and module business represented approximately 67% of the Company's total sales.

BYD Electronic is one of the manufacturers in the industry with the most competitive cost structure. The Company is benefited from its highly vertically integrated business which ensure the manufacture of quality handset components at low costs and with stable supply. Large scale production also enables the Group to further benefit from the effect of scale of economies, enhancing the Group's cost control capability and bargaining power with raw material suppliers. The Group's cost advantage is the key factor in maintaining business relationship with handset OEM manufacturers of leading international brands.

The Group is confident that the operation model of BYD Electronic will facilitate the Company to speed up production with low cost.

With continued growth in the global handset demand, production bases of handsets are gradually moving to Asia and other regions of emerging markets, while manufacturers of famous international handset brands changed their outsourcing strategies. They are now inclined to select suppliers having high level vertical integration capability and global manufacturing and servicing platforms as their cooperation partners, which support the rapid growth of BYD Electronic. During the year, the Group enhanced its product design and production capabilities and started to supply medium to high end products. It also established new production facilities in Huizhou of Guangdong Province in China, Chennai in India, Komaron in Hungary and Cluj in Romania for the construction of global production platforms, providing customers with more tailor-made services and capturing business opportunities to satisfy the needs of persistent growth.

Assembly Services

The Company provides two types of assembly services including high level assembly and printed circuit board assembly. BYD Electronic adopts the operation strategy of one-stop vertical integration supply services to customers. The Company commenced provision of handset assembly services to customers since the second half of 2006, improved the Group's highly vertical integrated production process, further strengthening the Group's market position as a "one-stop handset component supplier" to international famous handset brands. In 2007, the Group's assembly business recorded satisfactory growth with a turnover of approximately RMB1,898,106,000, an increase of approximately 3,409% over the previous year, representing approximately 33% of the Company's total sales.

As high level assembly requires more components than handset module assembly process, the Company's end products manufactured through high level assembly are multi-functional basic finished products. The unique advantages of BYD Electronic lies in its software and hardware engineering capabilities, which is helpful for developing more efficient and high level assembly lines. Emphasis on quality and reliability is part of the elements of the Company's after-sale customer support services. The Company participates in the final stage of handset assembly process of our customers, providing on-site quality control support and collecting customers' opinions regarding quality problems. The strict quality assurance process of the Company enabled it to maintain good relationship with existing customers and attract more new customers.

Future Strategy

The Company was able to benefit from the extensive experience and excellent R&D capabilities, good reputation and management skills of BYD Holding in the manufacturing service industry. The independent listing also enabled the Company to build up its own investor base and have access to with international capital markets, enhancing the Company's fund raising capability.

Looking forward, the Company will strive to promote further vertical integration of production process by combining its expertise in raw material R&D, industrial and mechanical designs, product and module development, component and module manufacturing, and high level assembly and printed circuit board assembly. Facing with the ever changing technology of the handset industry, the Company will continue to improve its own R&D capabilities through introducing more new materials, developing and adopting advanced production and processing techniques, and further enhancing its capabilities in the production of moulds. Meanwhile, the Company will also improve its cost structure and reduce the cost in each stage of the product life cycle, strengthen optimization of internally developed production equipment and production lines so as to enhance cost efficiency. The Company also hopes to benefit from scale of economies so as to increase the Group's bargaining power with raw material suppliers, thereby further reducing product costs. The Company will continue to strengthen the strategic cooperation relationship with our customers, and grow together with our customers who have difficulty in operation in times of intensified handset market competition.

The Company's development strategies and objectives are to develop an integrated global manufacture and service platform. We will on one hand focus on the expansion of manufacturing facilities, and an the other hand plan to cautiously and selectively seek acquisition or investment opportunities, with an aim to expand customer network, increase service categories, and to enter into new regional or product markets. Meanwhile, the Company will establish or enhance customer relationships, strengthen its market position and expand existing technical capabilities, process and core technologies.

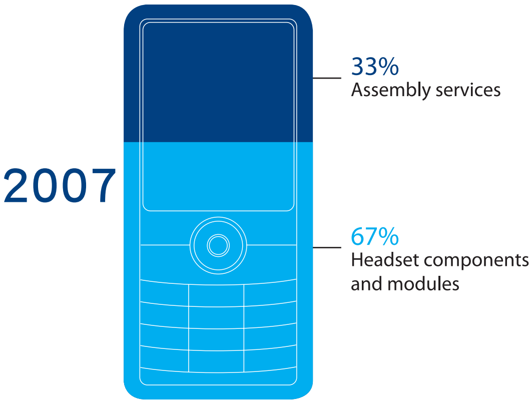
Financial Review

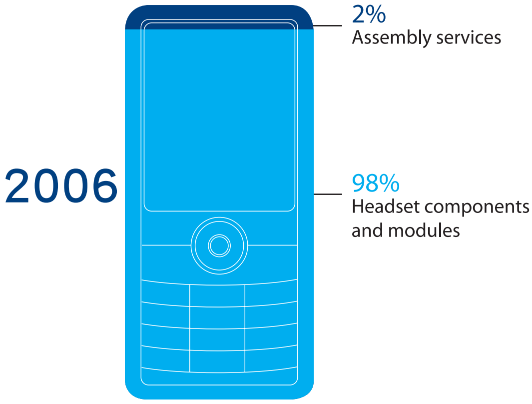
Turnover and Profit Attributable to Equity Holders of the Company

Benefiting from the favourable growth recorded in the two major business segments during the period, turnover grew substantially during the year. The Company's handset component and module business, which included the sales of handset casings, handset keypads and handset modules, recorded an increase of approximately 29% during the year. The assembly business, which included the provision of printed circuit board assembly services and high level assembly services, recorded a significant growth of approximately 3,409% during the year due to its commencement of operation in the second half of 2006 and the relatively low figures recorded in 2006. The strong performance of the two businesses was the driving force for the significant growth in net profits.

Segmental Information

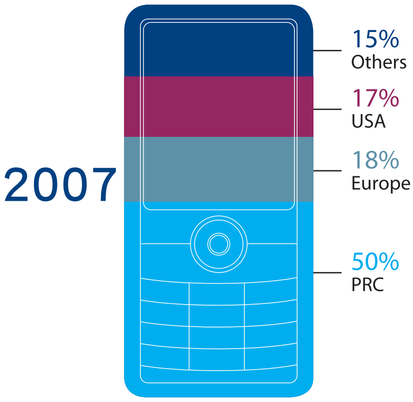
Set out below are the Group's turnover in terms of business segments and their respective proportions in aggregated revenue for the years ended 31 December 2006 and 2007:

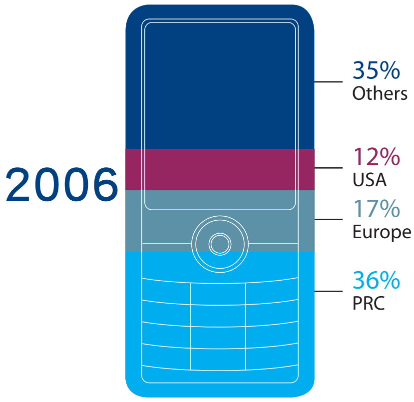




During the Year, the proportions of overall turnover accounted by the two business segments changed significantly compared with the corresponding period of the previous year. Since the Company's commencement of provision of handset assembly services from the second half of 2006, revenue derived from such services increased significantly by approximately 3,409% in 2007, which in turn led to the significant growth in the proportion of this business in the overall turnover.

Set out below are the Group's turnover in terms of geographical segments, as determined by location of customers for the years ended 31 December 2006 and 2007:





Gross Profit and Margin

The Group's gross profit for the year ended 31 December 2007 increased by 60% to RMB1,527,925,000. Gross profit margin declined from approximately 31% in 2006 to approximately 26% in 2007. The decrease in gross margin was mainly due to the significant increase in proportion of the revenue of the lower margined assembly service of the Company to the overall revenue during the year ended 31 December 2007.

Liquidity and Financial Resources

For the year ended 31 December 2007, BYD Electronic recorded cash inflow from operations of approximately RMB240,063,000, compared with RMB611,023,000 recorded in the same period of last year. During the period under review, funds were obtained from the net cash derived from the Company's operations and bank loans. Bank loans mainly included short-term secured and unsecured bank loans. Total borrowings as at 31 December 2007, which included all the bank loans, were approximately RMB1,296,983,000, compared with RMB233,195,000 as at 31 December 2006, all were repayable within one year. The increase in the total borrowings was attributable to increased number of new projects, increased R&D expenses and strengthened production capacity. The Group maintained sufficient daily liquidity management and capital expenditure requirements, so as to control internal operation cashflow.

For the year ended 31 December 2007, the number of turnover days of accounts receivables was approximately 77 days, while for the year ended 31 December 2006 the number was 60 days. The increase in the number of turnover days of accounts receivables was attributable to the significant increase in sales of the Group during the fourth quarter over the same period of last year, resulting in a stronger growth in the balance of accounts receivables at 31 December 2007 as compared with the same period of last year. Inventory turnover increased from 54 days for the year ended 31 December 2006 to 66 days for the year ended 31 December 2007. The increase in inventory turnover was attributable to the significant increase in size of the assembly service business at the end of the year compared with the corresponding period of last year resulting in a stronger growth in the inventory balance at 31 December 2007 as compared with the same period of last year.

Capital Structure

The duties of the Group's financial division is to oversee the Group's financial risk management, and to operate in accordance with the policies approved by the senior management. As at 31 December 2007, loans were mainly denominated in RMB and USD, while its cash and cash equivalents were mainly denominated in RMB and USD. The Group planned to maintain appropriate combination of share capital and indebtedness, so as to ensure an effective capital structure. Outstanding loans as at 31 December 2007 is set out in note 25 to the consolided accounts. The outstanding RMB loans as at 31 December 2007 were either fixed interest rate loans or floating interest rate loans, while loans in foreign currencies were floating interest rate loans.

The Group's net proceeds from the global offering, together with the Company's current bank deposits and cash balances and fixed deposits as well as the Company's bank facilities and net cash derived from operation activities will be sufficient to satisfy the Company's material commitments and working capital, capital expenditures, business expansions, investments and expected debt repayment requirements for at least the next 12 months. After that, funds are expected to be obtained from net cash derived from operations, and if neccesary, from additional debts or share capital financing.

Exposure to Foreign Exchange Risk

Most of the Group's income and expenditure are denominated in RMB and USD. During the Year, the Group did not experience any significant difficulties in its operations or liquidity due to fluctuations in currency exchange rates. The directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements.

Employment, Training and Development

As at 31 December 2007, the Group had over 34,000 employees, representing an addition of approximately 18,000 employees when compared with 31 December 2006. During the Year, total staff cost accounted for approximately 11% of the Group's turnover. Employee remuneration was determined based on performance, experience and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission were also awarded to employees based on their annual performance evaluation. In addition, incentives and encouragement were offered for personal and career development.

Closure of Register of Members

The register of members of the Company will be closed from 3 June, 2008 (Tuesday) to 10 June, 2008 (Tuesday), both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the proposed final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 2 June, 2008 (Monday). The final dividends will be paid on or before 8 July 2008 to those shareholders on the register of members on 10 June 2008.

Share Capital

As at 31 December 2007, the share capital of the Company was as follows:

Number of shares issued: 2,200,000,000 shares

As at 20 March 2008, the share capital of the Company was as follows:

Number of shares issued: 2,272,246,000 shares (pursuant to the partial exercise of over-allotment option)

Purchase, Sale or Redemption of Shares

From the date of listing on 20 December 2007 up to 31 December 2007, the Company has not redeemed any of its shares, and the Company or any of its subsidiaries has not purchased or sold any shares of the Company.

Capital Commitments

As at 31 December 2007, the Group had capital commitment of approximately RMB421,612,000 (31 December 2006: approximately RMB280,319,000)

Contingent Liabilities

Please refer to note 30 to the consolidated financial statements for details of contingent liabilities.

Post Balance Sheet Events

Please refer to note 34 to the consolidated financial statements for details of post balance sheet date events.

Litigation

The holding company, the intermediate holding company and certain subsidiaries of the Company are involved in a legal action commenced by certain affiliates of Foxconn International Holdings Limited as plaintiffs in the Hong Kong High Court regarding alleged unauthorised use of confidential information. As of 20th March 2008, the relevant subsidiaries of the Company have not been served with the writ of the said legal action. In the event that the Group is served with the writ, the Group will defend the case vigorously. To the knowledge of the directors of the Company, the holding company and the intermediate holding company of the Company are handling the legal action with the intention to defend the case vigorously.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

LI, Ke

Ms. Li, aged 38, was appointed as an executive Director and the Chief Executive Officer of our Company. Ms. Li joined our Group in January 2003 and is responsible for the overall strategic planning and business management. She has also been actively participating in the marketing, human resources and general administration of our Group's business. Ms. Li joined the BYD Group in September 1996 as a manager in the marketing division. From June 2002 to December 2006, Ms. Li was the general manager responsible for marketing and sale of handset components and modules at the BYD Group. Prior to joining the BYD Group, Ms. Li worked at Global Resources (亞洲資源), a business-to-business, or B2B, media company which facilitates two-way trade between the PRC and other parts of the world by providing sourcing information to large volume purchasers and integrated marketing services to suppliers, for the period from June 1994 to August 1996 and was primarily responsible for market research and analysis. Ms. Li received her Bachelor's Degree in Statistics from Fudan University (復旦大學), the PRC, in 1992. Ms. Li officially terminated her employment with the BYD Group in April 2007.

SUN, Yi-zao

Mr. Sun, aged 44, was appointed as an executive Director and the Chief Operation Officer of our Company. Mr. Sun joined our Group in December 2002 and is responsible for various aspects of our operations such as production, procurement and quality control. Mr. Sun served as the general manager of the third division (Precision Manufacturing Department) of the BYD Group from December 2002 to December 2006. From November 1994 to December 2002, Mr. Sun served several positions in the BYD Group, including the manager of the design department, the engineering department and the spare parts sub-plant. Mr. Sun was responsible for equipment purchase, maintenance, engineering and component procurement. Mr. Sun graduated with a Diploma in Mechanics from Jiangxi Radio and TV University (江西廣播電視大學), the PRC, in 1990. Mr. Sun officially terminated his employment with the BYD Group in April 2007.

Non-executive Directors

WANG, Chuan-fu

Mr. Wang, aged 42, was appointed as a non-executive Director and the Chairman of our Company. Mr. Wang co-founded the BYD Group with Mr. Xia Zuo-quan and Mr. Lu Xiang-yang in February 1995. Mr. Wang is and will continue to be the chairman and an executive director of BYD Company Limited, shares of which are listed on the Main Board. He is responsible for the overall direction and business strategies for the BYD Group. Mr. Wang was appointed as a director of BYD Precision in January 2003. Prior to joining the BYD Group, Mr. Wang worked as a deputy supervisor in the Beijing General Research Institute for Non-ferrous Metals (中國北京有色金屬研究總院), the PRC from September 1990 to January 1995 and worked as the general manager of Shenzhen Bi Ge Battery Company Limited (深圳市比格電池有限公司) from June 1993 to November 1994. Mr. Wang received the "Shenzhen Mayor's Award of the Year" in 2004 and was selected as the "Stars of Asia" by Business Week magazine in 2003. In 2002, Mr. Wang was awarded the "Bauhinia Cup Outstanding Entrepreneur Award" (紫荊花杯傑出企業家獎) by the Hong Kong Polytechnic University to recognize his outstanding entrepreneurship and contributions to the society. In recognition of the achievements of BYD Company Limited and Shenzhen BYD Lithium Batteries Company Limited, the two entities in the BYD Group which engage in manufacture of batteries, Mr. Wang was also granted several awards, including the "Young Technology Expert in Shenzhen Award" by the Bank of China, the first prize of "Pengnian Technology Medal" and the "Pengcheng Young Creative Medal". Mr. Wang received his Master's Degree in Metallurgical Physical Chemistry from the Beijing General Research Institute for Non-ferrous Metals (中國北京有色金屬研究總院), the PRC, in 1990 and his Bachelor's Degree in Metallurgical Physical Chemistry from Central South University of Technology (中南工業大學) (currently known as the Central South University), the PRC, in 1987.

WU, Jing-sheng

Mr. Wu, aged 45, was appointed as a non-executive Director of our Company in March 2007. Mr. Wu is also the vice-president, chief financial officer and company secretary of BYD, and oversees the BYD Group's supervisory, financial and administration divisions. Mr. Wu joined the BYD Group in September 1995 and served as the financial manager. He has been the chief financial officer and vice president of the BYD Group since June 2002. In January 2005, Mr. Wu was appointed as the qualified accountant for BYD. Prior to joining the BYD Group, Mr. Wu worked at Guangzhou Youngy Management & Investment Group Co., Ltd. (廣州融捷投資管理集團有限公司) from July 1994 to August 1995, where he was primarily responsible for financial and accounting matters. Mr. Wu graduated from the Executive MBA Program of Peking University (北京大學), PRC in July 2006, and received his Certificate of Graduation from Anhui Normal University (安徽師範大學), the PRC, in 1992. Mr. Wu obtained his qualification to practice law from the Judicial Department of Anhui Province in 1992 and was qualified as a PRC Certified Accountant in May 1995.

Independent Non-executive Directors

CHAN, Yuk-tong

Mr. Chan, aged 46, joined as an independent non-executive Director of our Company in November 2007 and also serves as chairman of our Audit Committee. Mr. Chan has over 20 years of experience acting as an auditor, management consultant, financial adviser and reporting accountant for a variety of clients. Mr. Chan worked at Ernst & Young from November 1988 to July 1999 and became an audit principal in July 1994. He is currently the practicing director of Cachet Certified Public Accountants Limited, a company which provides a range of professional accounting services, including auditing, tax advisory and ensuring compliance with Hong Kong accounting standards and listing rules. Mr. Chan is also the president of China Excel Professional Advisors Limited, a business and finance consulting firm which assists clients in a number of areas, including bank lending, private equity investments and initial public offerings. Currently, he is the deputy general manager of the Finance and Accounting Department at Dongfeng Motor Group Limited (which is listed on the Stock Exchange, stock code: 489). Mr. Chan currently also acts as independent non-executive director in Anhui Conch Cement Company Limited, Carico Holdings Limited, Daisho Microline Holdings Limited, Kam Hing International Holdings Limited and Sichuan Xinhua Winshare Chainstore Co., Ltd., and acts as non-executive director in Vitop Bioenergy Holdings Limited.

In addition, from February 1999 to September 2000, Mr. Chan was an executive director of Tak Sing Alliance Holdings Limited (which is listed on the Stock Exchange, stock code: 126). Mr. Chan was also an independent non-executive director of Luks Industrial (Group) Limited (which is listed on the Stock Exchange, stock code: 366) from September 30, 2004 to December 1, 2005 and of World Trade Bun Kee Limited (which is listed on the Stock Exchange, stock code: 380) from January 2007 to July 2007.

Mr. Chan received a Bachelor of Commerce Degree from the University of Newcastle, Australia in 1985, as well as a Master of Business Administration from the Chinese University of Hong Kong in 2005. He is also a qualified Fellow Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of CPA Australia.

FENG, Xu-chu

Mr. Feng, aged 65, joined as an independent non-executive Director of our Company in November 2007. Mr. Feng worked as an engineering technician during the period from December 1968 to January 1978. He joined the Road Management Station in Shangluo area in Shanxi Province and has served as a technician, vice section chief and vice station manager during his employment from January 1978 to September 1983. Mr. Feng was the director of the Transportation Administration of Shangluo in Shanxi Province from September 1983 to November 1985. Mr. Feng acted as the Chairman and legal person of Shaanxi Investment Group (Limited) Company (陝西省投資集團（有限）公司) from February 2002. Mr. Feng was responsible for the supervision and management of daily business operation, and was the main decision maker of the Company. Accordingly, Mr. Feng possesses sufficient expertise and knowledge in corporate management and governance, which shall be of value to the Group. Mr. Feng was a mayor of Xi'an from January 1995 to April 2002. Mr. Feng is also the Deputy to the Ninth and Tenth National People's Congress. Mr. Feng graduated from City Construction Faculty of the China Tongji University (中國同濟大學) studying engineering survey profession.

MAMPILLY, Antony Francis

Mr. Mampilly, aged 58, joined as an independent non-executive Director of our Company in November 2007. Mr. Mampilly worked at Motorola, Inc., a company listed on the New York Stock Exchange and the shares of which are components of S&P 500 index in the United States, from May 1976 to June 2006 and has 30 years of general management experience in telecommunications industry. Motorola, Inc. principally engages in, among others, segment designs, manufacturing and sales of wireless handsets with integrated software and accessory products. During his years at Motorola, Inc., Mr. Mampilly served as the company's corporate vice president and chief procurement officer and was responsible for materials procurement, establishing relationships with suppliers of such materials and components. Prior to becoming Motorola, Inc.'s corporate vice president, Mr. Mampilly also served in the same company as the general manager of its automotive electronics business and as the general manager of its Energy Systems Group. Throughout his career, Mr. Mampilly has established long-term working relationships with many reputable handset components suppliers and modules manufacturers. Accordingly, Mr. Mampilly has the appropriate experience and knowledge in the Group's handset components and modules manufacturing industry and is also equipped with the relevant management expertise. Mr. Mampilly holds both Bachelor's and Master's Degrees in Physics from Kerala University, India in 1970.

Senior Management

DONG, Ge-ning

Mr. Dong, aged 36, joined the Group in March 2003 and is responsible for the day-to-day management of the research and development, manufacturing of molds, and purchasing of materials of our business. Mr. Dong joined the BYD Group in March 2003 and held various responsibilities, including management of manufacturing and planning from June 2003 to April 2007. Prior to joining the BYD Group, Mr. Dong worked as a product development engineer and a supervisor of the product development department for Foxconn International Holdings Limited from 1997 to 2003. Mr. Dong received his Bachelor's Degree in Engineering, specializing in Agricultural Mechanization, from Southwest Agricultural University (presently known as Southwest University) (西南農業大學) in 1993.

LI, Qian

Mr. Li, aged 35, joined the Group in August 2005 and was appointed as one of our joint company secretaries in November 2007. Mr. Li served as the head of the investor relations department of the BYD Group from August 2005 to April 2007. Mr. Li was responsible for dealing with relationships with investors of the BYD Group and assisting the company secretary of the BYD Group. Prior to joining the BYD Group, Mr. Li worked as an auditor and business consultant at PricewaterhouseCoopers and Arthur Andersen from July 1998 to August 2001. From August 2001 to September 2005, Mr. Li served as the manager of securities affairs in ZTE Corporation, which is publicly listed on the Main Board in December 2004. Mr. Li has over ten years of experience in investment, finance and information technology. Mr. Li received his Bachelor's Degree in Real Property Management from Jiangxi University of Finance and Economics, China, in 1997. Mr. Li officially terminated his employment with the BYD Group in April 2007.

WANG, Bo

Mr. Wang, aged 36, joined the Group in September 2001 and is one of the managers of our Company and is responsible for the day-to-day management of marketing and sales, commercial and customer service aspects of our business. Since April 2007, Mr. Wang has been specifically focusing on the marketing and sales, commercial and customer service for one of our biggest customers. Prior to joining the BYD Group, Mr. Wang was a process engineer resource development manager at Motorola (China) Ltd. from February 1995 to June 2001. Mr. Wang also worked as an assistant engineer at No. 18 Research Institute of China Electronics Technology Group Corporation (天津電源研究所) from 1993 to 1995. Mr. Wang received his Bachelor's Degree in Engineering, specializing in Electrochemical Engineering, from Harbin Institute of Technology in 1993.

WANG, Jiang

Mr. Wang, aged 37, joined the Group in July 2004 and is responsible for the day-to-day management of production, quality control, and planning of our business. Mr. Wang performed various responsibilities, including management of planning, production and quality control, of the BYD Group from July 2004 to April 2007. Prior to joining the BYD Group, Mr. Wang served several positions, including as a quality control manager and a supplier quality control certification manager, at Shenzhen Sang Fei Consumer Communications Co. Ltd., which was at that time a manufacturer of mobile phones for Philips Electronics Limited. Mr. Wang graduated from Liang Shan University with a Bachelor's Degree in Integration of Mechanical and Electrical Industry in 1992.

ZHU, Ai-yun

Ms. Zhu, aged 43, joined the Group in April 1997 and was appointed the Chief Financial Officer of our Company responsible for supervising financial and accounting, human resources and general administrative matters. Ms. Zhu joined the BYD Group in 1997 as an accountant and acted as the manager of financial department of the BYD Group from March 2002 to December 2006. Ms. Zhu served as the senior manager of financial department for the BYD Group from December 2006 to April 2007. Prior to joining the BYD Group, Ms. Zhu worked as an accountant for Yanta, Marine Salvage Bureau, under the Ministry of Communication. Ms. Zhu has over 10 years of experience in financial management. Ms. Zhu graduated from the Executive MBA Program of Peking University (北京大學), PRC in January 2008, and received her Bachelor's Degree in Engineering Financial Accounting (工程財務會計) from Changsha Communications University, the PRC, in 1988.

QUALIFIED ACCOUNTANT

Cheung Hon Wan, aged 51, is one of our joint company secretaries and our qualified accountant for the purposes of Rule 3.24 of the Listing Rules and works for the Company on a full-time basis. Mr. Cheung is an associate member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years working experience in accounting and financial matters and prior to joining the Group in June 2007, worked in various Hong Kong listed companies. Mr. Cheung received a Master's Degree in Accounting and Finance from the University of Lancaster in the United Kingdom in 1983.

A Power of Everyone

CORPORATE GOVERNANCE REPORT

The Board of Directors believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole. To this end, we strive to promote and uphold the highest standard of corporate governance.

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices (the "Code") which came into effect in January 2005. The Company has put in place corporate governance practices to comply with all the provisions and most of the recommended best practices of the Code since the shares of the Company commenced listing on the main board of The Stock Exchanges of Hong Kong Limited.

Board of Directors

Accountable to the Shareholders, the Board of Directors is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies.

The Directors

As of the date of this report, the Board comprises seven Directors. There are two Executive Directors, two Non-Executive Directors and three Independent Non-Executive Directors. Detailed biographies outlining each individual Director's range of specialist experience and suitability of the successful long-term running of the Group are set out on pages 18 to 20 of this annual report.

The Group believes that its Non-executive and Independent Directors composition are well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the Year under review.

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence as required under the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and Senior management with the extent of this insurance being reviewed each year.

The Board met four times this year to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matter is specifically addressed to the Board for its decision. Specific topics discussed at these Board meetings include overall strategy; preparation for the listing of its shares on the main board of the Stock Exchange; matters relating to share capital; recommendations on Directors' appointment(s); and other significant operational and financial matters.

The Directors decide on corporate strategies, approve overall business plans and supervise the Group's financial performance, management and organization on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management included the preparation of annual and interim accounts for the Board's approval before public reporting; implementation of strategies approved by the Board; the monitoring of operating budgets; the implementation of internal control procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

In accordance with the Company's Articles of Association (the "Articles") at each annual general meeting, one-third of the Directors, or if their number is not three (3) or a multiple of three (3), the number which is nearest to and is at least one-third, shall retire from office by rotation at least every three (3) years. A retiring director shall be eligible for re-election. In accordance with the Articles, Ms. Like, Mr. Sun Yi-zao and Mr. Wu Jing-sheng shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Board Meetings

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a board meeting. The meeting agenda is set in consultation with members of the Board. The Board held four meetings in 2007. The attendance of individual Director at the Board meetings is set out below:

Member of the Board	No. of Board meetings attended	Attendance rate
LI Ke	2	50%
SUN Yi-zao	4	100%
WANG Chuan-fu	2	50%
WU Jing-sheng	2	50%
CHAN Yuk-tong	3	75%
FENG Xu-chu	1	25%
Antony Francis MAMPILLY	1	25%

In furtherance of good corporate governance, the Board has set up a number of committees, including:

— the Audit Committee;

— the Remuneration Committee; and

— the Nomination Committee

Each Committee reports regularly to the Board of Directors, addressing major issues and findings with valuable recommendations for the decision making of the Board of Directors. The particulars of these Committees are set out hereunder.

Audit Committee

The Company has established an audit committee in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee will be to review and supervise our financial reporting process and internal control system and to provide advice and comments to the board of Directors. The audit committee consists of five members, CHAN Yuk-tong (Chairman), FENG Xu-chu, Antony Francis MAMPILLY, WANG Chuan-fu and WU Jing-sheng, of whom CHAN Yuk-tong, FENG Xu-chu and Anthony Francis MAMPILLY are independent non-executive Directors of the Company and have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants.

The Company established the Audit Committee on 29 November 2007 and has not held any meeting during the year. However, since its establishment up to the date of the annual report, one meeting of the Audit Committee was held to review the audited consolidated financial statements of the Group for the year ended 31 December 2007 and the effectiveness of the financial reporting process and internal control system of the Company; and to recommend the re-appointment of Ernst & Young as external auditors of the Group for the financial year ended 31 December 2008. All members of the Audit Committee attended such meeting.

Remuneration Committee

The Company has also set up a remuneration committee on 29 November 2007 which consists of five directors of the Company, namely CHAN Yuk-tong, FENG Xu-chu, Antony Francis MAMPILLY, WANG Chuan-fu (Chairman) and LI Ke. The appointment of Mr. Wang, a non-executive director, as chairman of the remuneration committee is in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee considers and recommends to the Board or approves (after authorization by the shareholders' meeting) the remuneration and other benefits paid by the Company to the Directors, Senior Management and Staff. The remuneration of all Directors, Senior Management and Staff is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

Remuneration Policy for Directors

The primary goal of the Group's remuneration policy for Executive Directors is to enable the Company to retain and motivate Executive Directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results and taking into accounts of the comparable market conditions. The principal elements of the remuneration package of Executive Directors include basic salary and discretionary bonus.

The Company reimburses reasonable expenses incurred by these Directors in the course of their duties as Directors.

Directors do not participate in decisions on their own remuneration.

The emoluments paid to each Director of the Company for the year ended 31 December 2007 are set out in note 8 to the financial statements.

Nomination Committee

We established our nomination committee on 29 November 2007. The primary duties of our nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The nomination committee comprises five members, namely CHAN Yuk-tong, FENG Xu-chu, Antony Francis MAMPILLY, WANG Chuan-fu (Chairman) and SUN Yi-zao.

External Auditors

For the year ended 31 December 2007, the total remuneration paid and payable to the external auditors were RMB1,580,000 for audit and non-audit services. The audit fee was approved by the Audit Committee.

During the year ended 31 December 2007, the Company appointed Ernst & Young as auditors of the Company. The re-appointment of Ernst & Young as auditors of the Company has been recommended and endorsed by the Board and is subject to approval by shareholders at the forthcoming annual general meeting.

Internal Control

Internal Control System

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness through the Audit Committee. The Company's system of internal control plays a key role in the management of risks that are significant to the fulfillment of its business objectives. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and for the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed for compliance of applicable laws, rules and regulations.

During the Year under review, the Company engaged external professional adviser and initiated a project to review and establish internal control manuals for its financial, operational and compliance controls and risk management functions with a view to further enhance the effectiveness of the Group's internal control system.

Internal Audit

The Group has an Internal Audit Department which plays an important role in the Group's internal control framework. The tasks of the Department include regular review and audit of the practices, procedures and internal control systems on those areas of the Group's activities with the greatest perceived risks. Apart from conducting special reviews of areas of concern identified by management or the Audit Committee, the Department also conducts routine examinations and reviews on the soundness and effectiveness of general business management, thus achieving effective control and driving improvement in the overall business activities of the Company to the greatest extent possible.

The Internal Audit Department is under the supervision of the Chief Financial Officer and has direct access to the Audit Committee.

With the development of the Company, the Internal Audit Department has established various internal audit standard documents such as "Regulations on Internal Audit of the Company" and "Internal Control Standard of the Company", creating and strictly implementing a standardized auditing practice flow from risk evaluation→determination of the scope of auditing →approval of the auditing plan→announcement of audit→ sufficient communication with the department to be audited prior to auditing→on-site auditing→communication and confirmation of auditing results→auditing issue improvement and feedback.

The annual work plan of internal audit is reviewed and endorsed by the Audit Committee and a summary of major audit findings is reported regularly to the Audit Committee. During the reporting year, the Internal Audit Department reviewed the key operations of the Group, identified areas of concern and held constructive communications with the Audit Committee.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by its Directors. All Directors complied with their obligations under the Model Code regarding their securities transactions during the Year.

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2007.

Shareholders' Rights

Under the Company's Articles of Association and the Companies Ordinance, the Directors shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting of the Company.

To safeguard shareholders' rights, the Company adopts the policy of voting by poll for all resolutions put forward at any shareholders' meetings.

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Other general enquiries can be directed to the Company through our Investor Relations Consultant, whose contact information is disclosed in "Corporate Information" of this annual report.

Investor Relations

The Company believes that effective communication with the investment community is essential for enhancing investors' knowledge and understanding of the Company's business performance and strategies. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

DIRECTORS' REPORT

The board of directors (the "Board") of BYD Electronic (International) Company Limited would like to present its first annual report and audited consolidated financial statements for the year ended 31 December 2007.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in Hong Kong under the Companies Ordinance on 14 June 2007. By the virtue of the reorganisation implemented in preparation for the listing of the shares of the Company on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") for the purpose of rationalising the structure of the Group, the Company became the holding company of the Group. The shares of the Company commenced listing on the main board of the Stock Exchange on 20 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are manufacture of handset components and modules. It also provides assembly services for handsets to its customers. The principal activities of its major subsidiaries are set out in note 17 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements on pages 35 to 87 to this annual report.

The Board recommended the payment of a final dividend of RMB0.15 per share for the year ended 31 December 2007. The dividend will be payable on or before 8 July 2008 to those shareholders on the register of members on 10 June 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL/PAID-IN CAPITAL

Details of the movements during the year in the share capital are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to approximately RMB340,837,000.

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors

Li Ke (Appointed on 29 June 2007)
Sun Yi-zao (Appointed on 29 June 2007)

Non-executive Directors

Wang Chuan-fu (Appointed on 29 June 2007)
Wu Jing-sheng (Appointed on 29 June 2007)

Independent non-executive Directors

Chan Yuk-tong (Appointed on 29 November 2007)
Feng Xu-chu (Appointed on 29 November 2007)
Antony Francis Mampilly (Appointed on 29 November 2007)

Pursuant to Article 106 of the Articles of Association, at each annual general meeting, one-third of the Directors, or if their number is not three (3) or a multiple of three (3), the number which is nearest to and is at least one-third, shall retire from office by rotation at least once every three (3) years. A retiring director shall be eligible for re-election. Each of the executive Directors has entered into a service contract with the Company to act as executive Directors for an initial term of three years with effect from 1 December 2007. Either party has the right to give not less than three months' written notice to terminate the agreement. The particulars of these agreements are in all material respects identical and that each of the executive Directors is entitled to a salary and, at the discretion of the Board, a bonus payment.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company. None of them has entered into any service contract with the Group. The term of office of the non-executive Director and independent non-executive Directors is for a period of three years with effect from December 1, 2007 and in each case, either the Company or the relevant Director can give three months' prior notice at any time to terminate the appointment without payment of compensation, and the appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

The terms of each of the appointment letters of each of such non-executive Directors and independent non-executive Directors are in all material respects identical. Each of the independent non-executive Directors is entitled to a director's fee whereas none of the non-executive Directors is entitled to a director's fee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 18 to 21.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2007, the relevant interests or short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or its associated corporations (with the meaning of Part XV of the Securities and Future Ordinance ("SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO)) or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

Name of Director	**Name of corporation**	**Capacity**	**Number of issued shares held**	**Approximate percentage of total issued share capital of the corporation**
Ms. LI Ke	Company	Beneficiary	8,602,000[1] (long position)	0.39%
	BYD Company Limited ("BYD")	Personal	3,127,500[2] (long position)	0.58%
Mr. SUN Yi-zao	Company	Beneficiary	5,797,000[1] (long position)	0.26%
	BYD Company Limited ("BYD")	Personal	2,848,600[2] (long position)	0.53%
Mr. WU Jing-sheng	Company	Beneficiary	8,602,000[1] (long position)	0.39%
	BYD Company Limited ("BYD")	Personal	3,072,600[2] (long position)	0.57%
Mr. WANG Chuan-fu	BYD	Personal	150,169,100[3] (long position)	27.83%
			2,941,500[4] (long position)	0.55%

Notes

1. The shares of the Company are held by Gold Dragonfly Limited, a company incorporated in the British Virgin Islands and wholly owned by HSBC Trustee (Hong Kong) Limited as trustee of BF Trust, of which Ms. LI Ke, Mr. SUN Yi-zao and Mr. WU Jing-sheng are beneficiaries.

2. These are the domestic shares of BYD held by Ms Like, Mr Sun Yi-zao and Mr Wu Jing-sheng, which represented approximately 0.80%, 0.73% and 0.79% of the total issued domestic shares of BYD as of 31 December 2007.

3. These are the domestic shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 38.5% of total issued domestic shares of BYD as of 31 December 2007.

4. These are the H shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 1.97% of total issued H shares of BYD as of 31 December 2007.

Save as disclosed above, none of the Directors or chief executive or their associates had or was deemed to have any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2007.

SHARE OPTIONS

During the year under review, the Company had not yet adopted a share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares" above, at no time during the year ended 31 December 2007 was the Company, its holding company or any of its fellow subsidiaries and subsidiaries, a party to any arrangements to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in, or convertible bonds of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as is known to the Directors and chief executive of the Company, the following persons or corporations (other than directors or chief executive of the Company) had interests or short positions in the ordinary shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of issued ordinary shares/ underlying held	Approximate percentage of the issued share capital of the Company
Golden Link Worldwide Limited ("Golden Link")	Beneficial interest	1,481,700,000 (long position)	67.35%
BYD (H.K.) Co., Limited ("BYD H.K.")	Controlled corporation[1]	1,481,700,000 (long position)	67.35%
BYD Company Limited ("BYD")	Controlled corporation[1]	1,481,700,000 (long position)	67.35%
HSBC Trustee (Hong Kong) Limited	Trustee[2]	168,300,000 (long position)	7.65%

Notes

1. BYD is the sole shareholder of BYD H.K., which in turn is the sole shareholder of Golden Link. As such, both BYD H.K. and BYD are deemed to be interested in the shares of the Company held by Golden Link.
2. The shares of the Company are held by Gold Dragonfly Limited, a company incorporated in the British Virgin Islands and wholly owned by HSBC Trustee (Hong Kong) Limited as trustee of BF Trust, the beneficiaries of which are 35 employees of BYD and its subsidiaries and the Group.

Save as disclosed above, as at 31 December 2007, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on page 24 to 27 of this annual report.

REMUNERATIONS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2007, the total remunerations of the Directors and the five highest paid employees are set out in note 8 and 9 to the consolidated financial statements. The Company has established an audit committee, a nomination committee, a remuneration committee.

PRE-EMPTIVE RIGHTS

There are no restrictions on the right of members to transfer their fully-paid shares under the Companies Ordinance and the articles of association of the Company (except where permitted by the Stock Exchange).

MAJOR CUSTOMERS AND SUPPLIERS

The top five largest customers and the largest customer of the Group, represent approximately 96% and 63% of the Group's total sales of the year respectively. The top five largest suppliers and the largest supplier of the Group represent approximately 39% and 29% of the Group's total purchases of the year respectively.

None of the Directors, any of their associates or any shareholder of the Company (which, to the knowledge of the Directors, own 5% or more of the issued share captial of the Company) had any beneficial interest in the top five largest customers and suppliers of the Group.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2007.

NON-COMPETE UNDERTAKING

BYD Company Limited declared that it has complied with the non-compete deed given by it, Mr. Wang Chuan-fu and Mr. Lu Xiang-yang in favour of the Company (for itself and as trustee for the benefit of its subsidiaries from time to time) (as described in the prospectus of the Company dated 7 December 2007) (the "Non-compete Deed").

The independent non-executive Directors have also reviewed the compliance by BYD Company Limited, Mr. Wang Chuan-fu and Mr. Lu Xiang-yang with the Non-compete Deed and the independent non-executive Directors have confirmed that, as far as they can ascertain, there is no incidence of non-compliance with the Non-compete Undertaking by any of BYD Company Limited, Mr. Wang Chuan-fu and Mr. Lu Xiang-yang.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in note 33 to the consolidated financial statements. The independent non-executive Directors are of the view that the related party transactions were carried out in the ordinary and usual course of business and on normal commercial terms.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions are as follows:

A. The following continuing connected transactions of the Company are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

(i) *Exclusive Processing services provided by the Group to the BYD Group (as defined in the prospectus of the Company dated 7 December 2007 (the "Prospectus")*

The provision of exclusive processing services by BYD Precision Manufacture Company Ltd. ("BYD Precision") to the BYD Group for the production of products such as lithium-ion batteries and FPC by using the equipment and machinery imported by BYD Precision with tax exemption or reduction under relevant PRC laws and grant of option by BYD Precision to the BYD Group to acquire all such equipment and machinery after five years from the date of customs clearance.

BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company.

Details of the above arrangements are set out in the Prospectus

The annual cap set for the exclusive processing services provided by the Group to the BYD Group for the year ending 31 December 2007 is RMB7,422,000. The actual aggregate amount (including value-added tax) of the exclusive processing services provided by the Group to the BYD Group for the year ended 31 December 2007 is RMB6,678,000.

(ii) *Leasing of factory and office premises from BYD Company Limited ("BYD")*

Pursuant to four lease agreements each dated 1 January 2007 and entered into between BYD Precision and BYD, whereby BYD has agreed to lease to BYD Precision the factory and office premises situated at Baolong Industrial Park, Longgang District, Shenzhen, the PRC from 1 January 2007 to 31 December 2009 for an aggregate annual rental of RMB24,017,000 calculated on pro rata basis. The actual aggregate annual rental for the year ended 31 December 2007 is RMB24,017,000.

BYD is the controlling shareholder of the Company, BYD is a connected person of the Company.

CB Richard Ellis, being the independent property valuer appointed by the Company, has reviewed the terms of all of the above lease agreements and has confirmed that the rent as set out in each lease agreement is, in its opinion, fair and reasonable and has reflected the then prevailing market rate.

Details of the above arrangements are set out in the Prospectus

(iii) *Sharing of ancillary services with the BYD Group*

Pursuant to a comprehensive services master agreement dated 29 November 2007 and entered into between the Company and BYD, pursuant to which BYD will provide community services (which include recreational facilities, security control and cleaning services), telecommunication and computer network services and enterprise resources planning and office automation services (the "Ancillary Services").

As BYD is the controlling shareholder of the Company, BYD is the connected person of the Company.

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total expenditure for acquiring the Ancillary Services for the year ending 31 December 2007 is RMB8,296,000. The actual aggregate amount of the expenditure for acquiring the Ancillary Services for the year ended 31 December 2007 is RMB7,831,000.

B. The following continuing connected transactions of the Company are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(i) *Supplying products to the BYD Group*

Pursuant to a supply agreement dated 29 November 2007 and entered into between the Company and BYD, the Company have agreed that, for a term ending 31 December 2009, the Group will supply products required for the production of the BYD Group's products, such as battery cases and tooling, plastic components and miscellaneous spare parts for use in the automobile production process and other plastic parts for integration into its own products, such as LCDs and FPCs, to the BYD Group at the then prevailing market prices.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) will become the connected persons of the Company.

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total purchases of products by the BYD Group for the year ending 31 December 2007 is RMB121,653,000. The actual aggregate amount (including value-added tax) of the purchases of products by the BYD Group for the year ended 31 December 2007 is RMB89,925,000.

(ii) *Purchasing products from the BYD Group*

Pursuant to a purchase agreement dated 29 November 2007 and entered into between the Company and BYD, BYD has agreed that, for a term ending 31 December 2009, the BYD Group will supply the Group with products such as FPCs and LCDs for the high-level assembly business at a price which is not less favourable than the then prevailing rates charged by members of the BYD Group against other independent third party customers.

As BYD is the controlling shareholder of the Company, the BYD Group is the connected person of the Company.

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total purchases of products from the BYD Group for the year ending 31 December 2007 is RMB308,528,000. The actual aggregate amount (including value-added tax) of the purchases of products from the BYD Group for the year ended 31 December 2007 is RMB295,294,000.

(iii) *Provision of utilities connection and/or utilities by BYD*

Pursuant to the Utility Services Master Agreement dated 29 November 2007 and entered into between the Company and BYD, BYD has agreed to provide or provide the connection of (as the case may be) water and electricity to the Group ending on 31 December 2009.

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total expenditure for receiving the water and electricity from the BYD Group for the year ending 31 December 2007 is RMB198,900,000. The actual aggregate amount (including value-added tax) of the expenditure for receiving the water and electricity from the BYD Group for the year ended 31 December 2007 is RMB164,307,000.

In respect of the above continuing connected transactions, the Stock Exchange has granted a waiver to the Company from strict compliance with the disclosure or where appropriate, the shareholders' approval requirements stipulated in Chapter 14A of the Listing Rules subject to certain conditions. Please refer to the Prospectus for such conditions.

The Directors (including the independent non-executive Directors) have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the relevant agreements entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions:

(1) have been approved by the board of the Directors;

(2) are in accordance with the pricing policies of the Group;

(3) have been entered into in accordance with the terms of the relevant agreements governing the transaction; and

(4) have not exceed the caps allowed by the Stock Exchange in the relevant waiver.

DIRECTORS' INTEREST IN CONTRACTS

No Directors has direct or indirect material interests in any material contracts entered into by the Company or any of its subsidiaries at any time during the year.

SUFFICIENT PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float during the period from 20 December 2007 (the Listing Date) to 31 December 2007.

SUBSEQUENT EVENTS

Details of subsequent event occurred after the balance sheet date are set out in note 34 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

Each Independent Non-executive Director has provided a written statement confirming his independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company assessed that each Independent Non-Executive Director continues to be independent.

AUDITORS

Since the incorporation of the Company, its financial statements have been audited by Ernst and Young. A resolution will be proposed regarding the reappointment of Ernst and Young as the auditor of the Company at the forthcoming annual general meeting.

By the order of the Board

LI KE
Director

20 March 2008

INDEPENDENT AUDITORS' REPORT

To the shareholders of BYD Electronic (International) Company Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of BYD Electronic (International) Company Limited set out on pages 35 to 87, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profits and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants
Ernst & Young, Hong Kong
18th Floor
Two International Finance Centre
8 Finance Street, Central, Hong Kong
20 March 2008

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**5,767,256**	3,043,966
Cost of sales		**(4,239,331)**	(2,091,470)
Gross profit		**1,527,925**	952,496
Other income and gains	5	**64,295**	24,640
Research and development costs		**(175,542)**	(55,873)
Selling and distribution costs		**(54,138)**	(35,939)
Administrative expenses		**(152,073)**	(80,613)
Other expenses		**(58,401)**	(43,656)
Finance costs	6	**(66,182)**	(31,566)
PROFIT BEFORE TAX	7	**1,085,884**	729,489
Tax	10	**7,405**	1,600
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**1,093,289**	731,089
DIVIDENDS	11		
Proposed final		**340,837**	300,000
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic	12	**RMB0.58**	RMB0.39

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,643,129**	931,928
Prepaid land lease payments	14	**136,661**	—
Prepayments	15	**119,208**	125,686
Intangible assets	16	**13,546**	6,028
Deferred tax assets	26	**9,706**	2,301
Total non-current assets		**1,922,250**	1,065,943
CURRENT ASSETS			
Inventories	18	**1,062,926**	481,213
Trade and bills receivables	19	**1,794,005**	636,411
Factored trade receivables	20	**—**	309,139
Prepayments, deposits and other receivables	15	**88,937**	19,847
Derivative financial instruments	24	**6,530**	4,337
Due from fellow subsidiaries	33	**92,677**	74,170
Due from the intermediate holding company	33	**14,257**	—
Due from the ultimate holding company	33	**39,000**	—
Cash and bank balances	21	**3,194,906**	607,977
Pledged bank deposit	21	**19,924**	—
Restricted bank deposit	21	**1,860**	1,622
Total current assets		**6,315,022**	2,134,716
Total assets		**8,237,272**	3,200,659
CURRENT LIABILITIES			
Trade and bills payables	22	**1,416,141**	508,949
Bank advance on factored trade receivables	20	**—**	309,139
Other payables and accruals	23	**489,689**	268,674
Tax payable	10	**—**	96
Interest-bearing bank borrowings	25	**1,296,983**	233,195
Derivative financial instruments	24	**7,280**	3,360
Due to the intermediate holding company	33	**—**	549,907
Due to the ultimate holding company	33	**—**	392,200
Due to fellow subsidiaries	33	**135,391**	74,528
Total current liabilities		**3,345,484**	2,340,048
NET CURRENT ASSETS/(LIABILITIES)		**2,969,538**	(205,332)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,891,788**	860,611

CONSOLIDATED BALANCE SHEET *(Continued)*

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
EQUITY			
Issued capital	27	**211,929**	181,036
Reserves	28(a)	**4,679,859**	679,575
Total equity		**4,891,788**	860,611

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Issued capital RMB'000 (Note 27)	Share premium account RMB'000 (Note 28)	Contributed surplus RMB'000 (Note 28(a))	Statutory surplus reserve RMB'000 (Note (a))	Exchange fluctuation reserve RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
At 31 December 2005 and at 1 January 2006	181,036	—	(181,036)	—	—	—	129,522	129,522
Transfer to statutory surplus reserve	—	—	—	72,589	—	—	(72,589)	—
Profit for the year	—	—	—	—	—	—	731,089	731,089
Proposed final 2006 dividend	—	—	—	—	—	300,000	(300,000)	—
At 31 December 2006 and at 1 January 2007	181,036	—*	(181,036)*	72,589*	—*	300,000*	488,022*	860,611
Issue of shares	30,893	3,318,312	—	—	—	—	—	3,349,205
Final 2006 dividend	—	—	—	—	—	(300,000)	—	(300,000)
Exchange realignment	—	—	—	—	(1,542)	—	—	(1,542)
Profit for the year	—	—	—	—	—	—	1,093,289	1,093,289
Proposed final 2007 dividend	—	—	—	—	—	340,837	(340,837)	—
Transfer to statutory surplus	—	—	—	28,912	—	—	(28,912)	—
Share issue expense	—	(109,775)	—	—	—	—	—	(109,775)
Transfer to contributed surplus	—	—	134,713	—	—	—	(134,713)	—
At 31 December 2007	**211,929**	**3,208,537***	**(46,323)***	**101,501***	**(1,542)***	**340,837***	**1,076,849***	**4,891,788**

Notes:

(a) In accordance with the People's Republic of China ("PRC") Company Law and the articles of association of the Company's subsidiaries, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to their respective statutory surplus reserves. When the balance of such reserve fund reaches 50% of its capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase the capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

* These reserve accounts comprise the consolidated reserves of RMB4,679,859,000 in the consolidated balance sheet as at 31 December 2007 (2006: RMB679,575,000).

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,085,884**	729,489
Adjustments for:			
Finance costs	6	**66,182**	31,566
Bank interest income	5	**(7,470)**	(827)
Loss on disposal of items of property, plant and equipment	7	**1,912**	700
Depreciation	7	**171,015**	60,761
Fair value gain on derivative instruments	7	**1,727**	(977)
Amortisation of intangible assets	7	**1,987**	586
Recognition of prepaid land lease payments	7	**831**	—
Impairment for/(write-back of) trade receivables	7	**(14,000)**	31,690
Provision against obsolete inventories	7	**24,296**	18,082
Write off of inventories	7	**—**	4,045
		1,332,364	875,115
Increase in inventories		**(606,009)**	(360,101)
Increase in trade and bills receivables		**(1,143,594)**	(311,978)
Increase in prepayments, deposits and other receivables		**(66,464)**	(5,305)
Increase in trade and bills payables		**907,192**	368,073
Increase/(decrease) in factored trade receivables		**309,139**	(309,139)
Bank advance/(repayment) on factored trade receivables		**(309,139)**	309,139
Increase in amounts due from fellow subsidiaries		**(18,507)**	(34,063)
Increase/(decrease) in balance with the intermediate holding company		**(212,237)**	99,097
Increase in other payables and accruals		**221,015**	166,028
Increase/(decrease) in an amount due to the ultimate holding company		**124,248**	(209,836)
Increase in amounts due to fellow subsidiaries		**60,863**	54,732
Cash generated from operations		**598,871**	641,762
Interest received		**7,470**	827
Interest paid		**(66,182)**	(31,566)
Dividend paid		**(300,000)**	—
PRC tax paid		**(96)**	—
Net cash inflow from operating activities		**240,063**	611,023

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Net cash inflow from operating activities		**240,063**	611,023
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(927,980)**	(743,571)
Prepaid land lease payments	14	**(140,118)**	—
Decrease in long term prepayment	15	**6,478**	(80,397)
Additions to intangible assets	16	**(9,505)**	(6,614)
Proceeds from disposal of items of property, plant and equipment		**43,852**	3,290
Increase in pledged bank deposit	21	**(19,924)**	—
Net cash outflow from investing activities		**(1,047,197)**	(827,292)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	27	**3,239,430**	—
New bank loans		**1,543,628**	233,195
Repayment of bank loans		**(479,840)**	(29,452)
Increase/(decrease) in an amount due to the ultimate holding company		**(555,448)**	265,431
Increase/(decrease) in balances with the intermediate holding company		**(351,927)**	351,927
Net cash inflow from financing activities		**3,395,843**	821,101
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,588,709**	604,832
Cash and cash equivalents at beginning of year		**609,599**	4,767
Effect of foreign exchange rate changes, net		**(1,542)**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,196,766**	609,599
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	21	**3,196,766**	609,599

BALANCE SHEET

31 December 2007

	Notes	2007 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	17	**1,926,000**
Total non-current assets		**1,926,000**
CURRENT ASSETS		
Due from a subsidiary	33	**3,263,278**
Cash and bank balances	21	**20**
Total current assets		**3,263,298**
Total assets		**5,189,298**
CURRENT LIABILITIES		
Due to the ultimate holding company	33	**22,288**
Accruals	23	**1,580**
Total current liabilities		**23,868**
NET CURRET ASSETS		**3,239,430**
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,165,430**
EQUITY		
Issued capital	27	**211,929**
Reserves	28(b)	**4,953,501**
Total equity		**5,165,430**

NOTES TO FINANCIAL STATEMENTS

31 December 2007

1. CORPORATE INFORMATION AND REORGANISATION

The company was incorporated in Hong Kong with limited liability on 14 June 2007.

Pursuant to reorganisation to rationalise the structure of the Company, its subsidiaries and a business division (the "Precision Manufacturing Division") (collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies and the Precision Manufacturing Division now comprising the Group on 27 July 2007 (the "Group Reorganisation"). Further details of the Group Reorganisation pursuant thereto are set out in the prospectus of the Company dated 7 December 2007 (the "Prospectus").

The Company's shares have been listed on the Stock Exchange since 20 December 2007 (the "Listing Date").

The registered office of the Company is located at Unit 1712, 17th Floor, Grand Central Plaza, No. 138 Shatin Rural Committee Road, Shatin, Hong Kong.

During the year, the Group was principally engaged in manufacture, assembly and sale of mobile handset components and modules.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

All significant intra-group transactions and balances have been eliminated on combination.

The consolidated financial statements have been prepared in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as a result of the Group Reorganisation. On that basis, the Company has been treated as the holding company of its subsidiaries and the Precision Manufacturing Division for the financial years presented rather than from the date of their acquisitions. Accordingly, the consolidated results of the Group for the years ended 31 December 2006 and 2007 included the results for the Company, its subsidiaries and the Precision Manufacturing Division with effect from 1 January 2006. The comparative consolidated balance sheet as at 31 December 2006 has been prepared on the basis that the existing Group had been in place at that date.

Comparative amounts have not been presented for the Company's balance sheet and the notes thereto because the Company was not in existence on 31 December 2006.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements - Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 36 to the financial statements.

(c) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions* [2]
HK(IFRIC)-Int 12	*Service Concession Arrangements* [4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 has been revised to introduce changes in presentation and disclosures of financial statements and does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statements to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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 which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

	Estimated useful lives	**Residual value**
Buildings	50 years	—
Leasehold improvements	2 years	—
Plant and machinery	5 to 10 years	5%
Furniture and fixtures	5 years	5%
Motor vehicles	5 years	5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at that balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investment held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same and a discounted cash flow analysis.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

In relation to trade and bills receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

— the rights to receive cash flows from the asset have expired;

— the Group retains the 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.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to fellow subsidiaries, and amount due to the intermediate holding company, an amount due to the ultimate holding company, bank advance on factored trade receivables and interest-bearing loans borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest changed on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

Inventories

Inventories comprise raw materials, work in progress, finished goods and moulds held for production and are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Cost of moulds is determined at the actual cost incurred in the production process. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of consolidated balance sheets, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably on the following bases:

(a) from the sale of goods and materials, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from assembly service income, when the underlying services have been rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Employees' leave entitlements

Employees' entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employees' entitlements to sick leave and maternity leave are not recognised until the time of leave.

Retirement benefit obligations

As stipulated by the rules and regulations of the PRC, the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at rates ranging from 10% to 11% of the basic salary predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The Group provides no other retirement or termination benefits other than those described above.

The costs of employee retirement benefits are recognised in the income statement in the year on an accrual basis.

Medical benefits

The Group's contributions to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC are expensed as incurred.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates 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 value was determined.

The assets and liabilities of foreign operations outside the PRC are translated to RMB at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to RMB at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences on retranslation are recognised directly in a separate component of equity.

For the purpose of the consolidated cash flow statements, the cash flows of subsidiaries outside the PRC are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries outside PRC which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Determination of functional currency

The Group has to determine the functional currency by assessing (1) the primary economic environment in which the entity operates; (2) the currencies of the operating activities and financing activities; (3) whether the activities of the foreign operation are carried out as an extension of the reporting entity; (4) whether transactions with the reporting entity represent a high proportion of the foreign operation's activities; and (5) whether cash flows from the activities of the foreign operation are sufficient to the current services and normally expected debt obligations without funds being made available by the Company.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of assets

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from changes in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

4. SEGMENT INFORMATION

The Group's primary business segment is the manufacture, assembly and sale of mobile handset components and modules. Since this is the only business segment of the Group and these activities are related and are subject to similar risks and returns, no further analysis thereof is presented.

Segment information is presented below as geographical segment, on the basis which is regarded as the secondary segment reporting basis. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of assets.

	PRC	US	Europe	India	Asia Pacific (excluding the PRC and India)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2007						
Revenue from external customers	**2,867,533**	**953,468**	**1,024,859**	**820,043**	**101,353**	**5,767,256**
Segment assets	**4,062,631**	**335,804**	**277,798**	**488,972**	**3,072,067**	**8,237,272**
Capital expenditure	**896,813**	**—**	**1,942**	**178,848**	**—**	**1,077,603**
Year ended 31 December 2006						
Revenue from external customers	1,086,331	380,053	530,695	459,844	587,043	3,043,966
Segment assets	2,829,136	45,256	155,804	139,716	30,747	3,200,659
Capital expenditure	750,185	—	—	—	—	750,185

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of assembly services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2007 RMB'000	2006 RMB'000
Revenue		
Sale of mobile handset components and modules	**3,869,150**	2,989,879
Assembly services income	**1,898,106**	54,087
	5,767,256	3,043,966
Other income and gains		
Bank interest income	**7,470**	827
Sale of scrap materials	**34,698**	16,084
Sale of materials	**883**	798
Subcontracting income	**5,708**	5,065
Others	**15,536**	1,866
	64,295	24,640

6. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank loans, wholly repayable within one year	**48,058**	4,374
Interest on bills discounted	**95**	380
Interest on trade receivables factored and other bank charges	**7,737**	779
Finance charge on an amount due to the ultimate holding company	**4,992**	26,033
Finance charge on an amount due to the intermediate holding company	**5,300**	—
	66,182	31,566

7. PROFIT BEFORE TAX

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

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold		**1,899,352**	1,142,792
Cost of services provided		**1,835,500**	60,716
Depreciation	13	**171,015**	60,761
Minimum lease payments under operating leases – buildings		**28,047**	12,579
Auditors' remuneration*		**1,580**	—
Amortisation of intangible assets#	16	**1,987**	586
Recognition of prepaid land lease payments#	14	**831**	—
Employee benefits expense			
(including directors' remuneration (note 8))			
Wages and salaries		**567,793**	298,626
Retirement benefit scheme contributions		**65,451**	20,120
		633,244	318,746
Impairment for/(write-back of) trade receivables##	19	**(14,000)**	31,690
Provision against obsolete inventories		**24,296**	18,082
Write off of inventories		**—**	4,045
Loss on disposal of items of property, plant and equipment##		**1,912**	700
Fair value gain on derivative instruments##		**1,727**	(977)
Foreign exchange differences, net##		**67,045**	11,816

* The auditors' remuneration for the year ended 31 December 2006 was borne by the ultimate holding company of the Group.

The amortisation of intangible assets and recognition of prepaid land lease payments are included in "Administrative expenses" on the face of the consolidated income statement.

Included in "Other expenses" on the face of the consolidated income statement.

8. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**4,114**	541
Performance related bonuses	**—**	—
Retirement benefit scheme contributions	**19**	3
	4,133	544

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	RMB'000	RMB'000
Mr. Mampilly, Antony Francis	**—**	—
Mr. Feng, Xu-chu	**—**	—
Mr. Chan Yuk-tong	**—**	—
	—	—

There were no other emoluments payable to the independent non-executive directors during the year.

Mr. Mampilly, Antony Francis, Mr. Feng, Xu-chu and Mr. Chan Yuk-tong were appointed as the independent non-executive directors of the Company on 29 November 2007.

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefit scheme contributions RMB'000	Total remuneration RMB'000
31 December 2007					
Executive directors:					
Ms. Li Ke*	**—**	**2,448**	**—**	**15**	**2,463**
Mr. Sun Yi-zao*	**—**	**1,666**	**—**	**4**	**1,670**
	—	**4,114**	**—**	**19**	**4,133**
Non-executive directors:					
Mr. Wang Chuan-fu#	**—**	**—**	**—**	**—**	**—**
Mr. Wu Jing-sheng#	**—**	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**	**—**
31 December 2006					
Executive directors:					
Ms. Li Ke	—	—	—	—	—
Mr. Sun Yi-zao	—	541	—	3	544
	—	541	—	3	544
Non-executive directors:					
Mr. Wang Chuan-fu	—	—	—	—	—
Mr. Wu Jing-sheng	—	—	—	—	—
	—	—	—	—	—

* Ms. Li Ke and Mr. Sun Yi-zao were appointed as the executive directors of the Company on 29 June 2007.

\# Mr. Wang Chuan-fu and Mr. Wu Jing-sheng were appointed as the non-executive directors of the Company on 29 June 2007.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2006: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**6,108**	1,289
Retirement benefit scheme contributions	**25**	17
	6,133	1,306

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2007	2006
Nil to RMB1,000,000	**3**	4

10. TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

BYD Precision, a wholly-owned subsidiary of the Company, was accredited as a high and new technology enterprise, which the accreditation will expire on 30 June 2008. Huizhou BYD Electronic Co., Limited ("Huizhou BYD") and BYD (Tianjin) Co., Limited ("BYD Tianjin"), wholly-owned subsidiaries of the Company, were located in the Economy and Technology Development Zone and were entitled to tax rates of 18% and 15%, respectively. According to the Income Tax Law of the PRC for Foreign Investment Enterprises and approved by relevant tax authorities, BYD Precision and BYD Tianjin, wholly-owned subsidiaries of the Company operating in the PRC, were exempted from the PRC corporate income tax ("CIT") for the two years commencing from their respective first profit-making years, after deducting the tax losses carried forward, and were granted a 50% reduction in tax for the three years thereafter. 2006 and 2007 are the first profit-making years for BYD Precision and BYD Tianjin, respectively. No profit tax has been provided for Huizhou BYD as no assessable profit has been derived.

No Hong Kong profits tax has been provided since no assessable profit arose in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions of which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No provision has been made for profit tax in India, Hungary, Romania and Finland as the Group had no assessable profits derived there.

10. TAX (Continued)

The major components of the income tax expense for the year are as follows:

	2007 RMB'000	2006 RMB'000
Group:		
Current - PRC	—	96
Deferred (note 26)	**(7,405)**	(1,696)
Total tax credit for the year	**(7,405)**	(1,600)

A reconciliation of the income tax expense applicable to profit before tax at the statutory income tax rate of the PRC to the income tax expense at the Group's effective income tax rate is as follows:

	Group			
	2007		2006	
	RMB'000	**%**	RMB'000	%
Profit before tax	**1,085,884**		729,489	
Tax at the applicable tax rates	**358,342**	**33.0**	240,731	33.0
Expenses not deductible for tax	**22,333**	**2.1**	312	0.1
Effect of tax exemption and concessionary rates granted to the PRC subsidiaries	**(388,080)**	**(35.8)**	(242,643)	(33.3)
Tax charge at the Group's effective rate	**(7,405)**	**(0.7)**	(1,600)	(0.2)

On 16 March 2007, the National people's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic-invested and foreign-invested enterprises from 1 January 2008 will decrease from 33% to 25%. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. However, the change in tax rate has had no material impact on the results and financial position of the Group for the year ended 31 December 2007.

11. DIVIDEND

	2007 RMB'000	2006 RMB'000
Proposed final – RMB0.15 (2006: RMB0.16) per ordinary share	**340,837**	300,000

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the Company of RMB1,093,289,000 (2006: RMB731,089,000) and the weighted average of 1,880,849,000 (2006: 1,870,000,000) ordinary shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 December 2007 includes the weighted average of 330,000,000 shares issued upon the listing of the Company's shares on the Stock Exchange on 20 December 2007 in addition to the 1,870,000,000 ordinary shares upon completion of the Group Reorganisation.

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2006 and 2007 and, therefore, no diluted earnings per share amounts have been presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007							
At 31 December 2006 and at 1 January 2007:							
Cost	—	1,309	847,243	27,166	2,725	159,310	1,037,753
Accumulated depreciation	—	(193)	(100,459)	(4,474)	(699)	—	(105,825)
Net carrying amount	—	1,116	746,784	22,692	2,026	159,310	931,928
At 1 January 2007, net of accumulated depreciation	—	1,116	746,784	22,692	2,026	159,310	931,928
Additions	50,712	2,730	663,390	73,380	4,715	133,053	927,980
Disposals	—	—	(44,032)	(1,238)	(494)	—	(45,764)
Depreciation provided during the year	(279)	(2,003)	(159,909)	(8,141)	(683)	—	(171,015)
Transfers	1,008	—	208,789	739	27	(210,563)	—
At 31 December 2007, net of accumulated depreciation	51,441	1,843	1,415,022	87,432	5,591	81,800	1,643,129
At 31 December 2007:							
Cost	51,720	4,039	1,669,752	100,262	7,069	81,800	1,914,642
Accumulated depreciation	(279)	(2,196)	(254,730)	(12,830)	(1,478)	—	(271,513)
Net carrying amount	51,441	1,843	1,415,022	87,432	5,591	81,800	1,643,129

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost	—	264,772	6,958	1,178	29,969	302,877
Accumulated depreciation	—	(47,348)	(1,989)	(432)	—	(49,769)
Net carrying amount	—	217,424	4,969	746	29,969	253,108
At 1 January 2006, net of accumulated depreciation	—	217,424	4,969	746	29,969	253,108
Additions	1,309	543,456	20,377	1,519	176,910	743,571
Disposals	—	(3,918)	(72)	—	—	(3,990)
Depreciation provided during the year	(193)	(57,717)	(2,584)	(267)	—	(60,761)
Transfers	—	47,539	2	28	(47,569)	—
At 31 December 2006, net of accumulated depreciation	1,116	746,784	22,692	2,026	159,310	931,928
At 31 December 2006:						
Cost	1,309	847,243	27,166	2,725	159,310	1,037,753
Accumulated depreciation	(193)	(100,459)	(4,474)	(699)	—	(105,825)
Net carrying amount	1,116	746,784	22,692	2,026	159,310	931,928

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2007	2006
	RMB'000	RMB'000
Carrying amount at 1 January	**—**	—
Additions during the year	**140,118**	—
Recognised during the year	**(831)**	—
Carrying amount at 31 December	**139,287**	—
Current portion included in prepayments, deposits and other receivables	**(2,626)**	—
Non-current portion	**136,661**	—

The leasehold land is held under a long term lease and is situated in the Mainland China and India.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2007	2006
	RMB'000	RMB'000
Non-current portion:		
Prepayments	**119,208**	125,686
Current portion:		
Prepayments	**18,828**	6,722
Deposits and other receivables	**70,109**	13,125
	88,937	19,847

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

16. INTANGIBLE ASSETS

Group

	Computer software	
	2007	2006
	RMB'000	RMB'000
Cost at 1 January, net of accumulated amortisation	**6,028**	—
Additions	**9,505**	6,614
Amortisation provided during the year	**(1,987)**	(586)
Net carrying amount	**13,546**	6,028
Cost	**16,119**	6,614
Accumulated lasted amortisation	**(2,573)**	(586)
Net carrying amount	**13,546**	6,028

17. INVESTMENTS IN SUBSIDIARIES

	Company
	2007
	RMB'000
Unlisted shares, at cost	**1,926,000**

The amount due from a subsidiary included in the Company's current assets of RMB3,258,230,000 is unsecured, interest-free and is repayable on demand. The carrying amount of the amount due from a subsidiary approximates to its fair value.

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation or registration	Paid-up/ registered capital	Percentage of equity attributable to the Group Direct	Percentage of equity attributable to the Group Indirect	Principal activities
BYD Electronic Company Limited ("BYD Electronic")	Cayman Islands	HK$1	100	—	Investment holding
Lead Wealth International Limited	British Virgin Islands	US$1	—	100	Investment holding
BYD Precision*	PRC	US$25,000,000	—	100	Manufacture, assembly and sale of mobile handset components and modules
BYD Tianjin*	PRC	US$20,000,000	—	100	High-level assembly and PCB assembly
Huizhou BYD**	PRC	US$50,000,000	—	100	High-level assembly
BYD Hungary Guarto, Szolgaltato es Kereskedelmi Korlatolt Felelossegu Tarsasag ("BYD Hungary")	Hungary	HUF3,000,000	—	100	Manufacture, assembly and sale of mobile handset components and modules and logistics
BYD Electronics India Private Limited	India	RS936,638,327	—	100	Manufacture, assembly and sale of of mobile handset components and modules

17. INVESTMENTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation or registration	Paid-up/ registered capital	Percentage of equity attributable to the Group Direct	Indirect	Principal activities
BYD Electronic Romania S.R.L	Romania	RON231,120	—	100	Manufacture and sale of of mobile handset components and modules
BYD Finland Oy	Finland	EURO2,500	—	100	Sales and marketing

* BYD Precision and BYD Tianjin are registered as wholly-foreign-owned enterprises under PRC law.

** Huizhou BYD is registered as a co-operative joint venture enterprise.

18. INVENTORIES

	Group 2007 RMB'000	2006 RMB'000
Raw materials	**272,688**	220,786
Work in progress	**1,636**	44
Finished goods	**583,213**	248,290
Moulds held for production	**250,301**	32,709
	1,107,838	501,829
Less: Provision against obsolete inventories	**(44,912)**	(20,616)
	1,062,926	481,213

At 31 December 2007, the carrying amount of the Group's inventories pledged as security for the Group's bank loans amounted to RMB107,278,000 (2006: RMB59,464,000) as further detailed in note 25 to the financial statements.

19. TRADE AND BILLS RECEIVABLES

	Group	
	2007	2006
	RMB'000	RMB'000
Trade and bills receivables	**1,825,882**	682,288
Impairment	**(31,877)**	(45,877)
	1,794,005	636,411

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of two to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise its credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within 90 days	**1,785,047**	593,271
91 to 180 days	**8,081**	30,485
181 to 360 days	**877**	12,655
	1,794,005	636,411

The movements in provision for impairment of trade and bills receivable are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	**45,877**	18,324
Impairment loss recognised (note 7)	**—**	31,690
Impairment written back (note 7)	**(14,000)**	
Amount written off as uncollectible	**—**	(4,137)
	31,877	45,877

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB31,877,000 (2006: RMB45,877,000) with a carrying amount of RMB72,296,000 (2006: RMB58,410,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

19. TRADE AND BILLS RECEIVABLES (Continued)

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	**1,652,761**	423,602
Less than one year past due	**125,270**	167,879
	1,778,031	591,481

Receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

20. FACTORED TRADE RECEIVABLES

At 31 December 2006, the Group factored trade receivables of RMB309,139,000 to banks on a without-recourse basis for cash. As the Group retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition condition as stipulated in HKAS 39 had not been fulfilled. Accordingly, bank advance from the factoring of the Group's trade receivables has been accounted for as liabilities in the consolidated balance sheet. The amount has been fully settled on 27 June 2007.

21. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSIT

		Group		Company
		2007	2006	**2007**
	Notes	**RMB'000**	RMB'000	**RMB'000**
Cash and bank balances		**3,214,830**	607,977	**20**
Restricted bank deposits	(i)	**1,860**	1,622	**—**
		3,216,690	609,599	
Less: Pledged bank deposit	(ii)	**(19,924)**	—	**—**
Cash and cash equivalent	(iii)	**3,196,766**	609,599	**20**

21. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSIT (Continued)

Notes:

(i) The restricted bank balances as at 31 December 2007 represented a guarantee deposit as required by the PRC custom in relation to importing materials for assembling uses. The amount will be released when the assembled products are exported within a time limit predetermined by the custom.

(ii) At 31 December 2007, the pledged bank deposit of RMB19,924,000 was pledged for banking facilities.

(iii) At 31 December 2007, the cash and cash equivalents of the Group denominated in RMB amounted to RMB56,526,000 (2006: RMB40,290,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

22. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within 90 days	**1,328,202**	481,869
91 to 180 days	**85,278**	20,265
181 to 360 days	**2,107**	6,070
Over 1 year	**554**	745
	1,416,141	508,949

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

23. OTHER PAYABLES AND ACCRUALS

	Group		**Company**
	2007	2006	**2007**
	RMB'000	RMB'000	**RMB'000**
Other payables	**409,144**	234,777	**—**
Accruals	**80,545**	33,897	**1,580**
	489,689	268,674	**1,580**

Other payables are non-interest-bearing and have an average term of three months.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2007	2006
	RMB'000	RMB'000
Assets		
Forward currency contracts	**6,530**	4,337
Liabilities		
Forward currency contracts	**7,280**	3,360

The carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are conducted with Bank of China, Agricultural Bank of China and China Construction Bank, which are three of the top five commercial bank in the PRC.

25. INTEREST-BEARING BANK BORROWINGS

				31 December	
	Notes	Effective interest rate (%)	Maturity	**2007** **RMB '000**	2006 RMB '000
Current					
Bank loans - secured	(i)	5.71% to 6.65%	2008	**107,948**	59,464
Bank loans - unsecured	(ii)	5.75% to 6.48%	2008	**1,189,035**	173,731
				1,296,983	233,195

Notes:

(i) Bank loans as at 31 December 2007 were secured by the pledge of certain of the Group's inventories amounting to RMB107,278,000 (2006: RMB59,464,000) (note 18). The carrying amounts of the secured bank loans approximate to their fair values.

(ii) The unsecured bank loans are repayable within one year and are denominated in United States dollars, Renminbi and Euro. The carrying amounts of the unsecured bank loans approximate to their fair values. At 31 December 2006, certain short term bank loans were under a corporate guarantee from the ultimate holding company and were released on 27 June 2007.

26. DEFERRED TAX ASSETS

Group

	Depreciation in excess of related depreciation allowance	
	2007	2006
	RMB'000	RMB'000
At 1 January	**2,301**	605
Deferred tax credited to the income statement during the year (note 10)	**7,405**	1,696
Gross deferred tax assets at 31 December	**9,706**	2,301

At 31 December 2006 and 2007, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

27. SHARE CAPITAL

Shares

	2007
	RMB'000
Authorised	
4,400,000,000 ordinary shares of HK$0.1 each	**425,964**
Issued and fully paid	
2,200,000,000 ordinary shares of HK$0.1 each	**211,929**

27. SHARE CAPITAL (Continued)

The changes in the Company's authorised and issued share capital took place during the period from 14 June 2007 (date of incorporation) to 31 December 2007 and the period subsequent to the balance sheet date up to 16 January 2008, and upon the dates of completion of the initial public offering and the exercise of an over-allotment option are as follows:

	Notes	Number of ordinary shares	Nominal value of ordinary shares RMB'000
Authorised:			
Upon incorporation and after completion of initial public offering	(a)	4,400,000,000	425,964
Issued:			
Upon incorporation (one share of HK$0.1)	(a)	1	—
Issue of new shares on acquisition of BYD Electronic	(b)	1,869,999,999	181,036
Pro forma share capital as at 31 December 2006		1,870,000,000	181,036
Issue of new shares	(c)	330,000,000	30,893
As at 20 December 2007, upon completion of initial public offering, and 31 December 2007		2,200,000,000	211,929
Issue of new shares	(d)	72,246,000	6,710
Subsequent to balance sheet date at 16 January 2008, upon exercise of an over-allotment option		2,272,246,000	218,639

Notes:

(a) The Company was incorporated on 14 June 2007 with an authorised of HK$440,000,000 representing 4,400,000,000 shares of HK$0.1 each and issued share capital of HK$0.1 representing one ordinary share of HK$ 0.1 each.

(b) (i) Pursuant to an ordinary resolution passed on 29 June 2007, the Company issued an additional 9,999 shares to the shareholder at HK$0.1 each on 29 June 2007.

(ii) Pursuant to an ordinary resolution passed on 27 July 2007, the Company acquired the entire issued share capital of BYD Electronic on 27 July 2007. In consideration of the acquisition of BYD Electronic, the Company allotted and issued 1,869,990,000 shares of HK$0.1 each and credited as 1,869,990,000 fully-paid shares.

(c) In connection with the Company's initial public offering, 330,000,000 new shares of HK$0.1 each were issued at a price of HK$10.75 per share for a total cash consideration, before expenses, of approximately HK$3,547,500,000. Dealings in these shares on the Stock Exchange were commenced on 20 December 2007.

(d) Subsequent to the balance sheet date, in connection with the Company's initial public offering, an over-allotment of 72,246,000 additional shares of HK$0.1 each was exercised by the Company at a price of HK$10.75 per share for a total cash consideration, before expenses, of HK$776,644,500. Dealings in these shares on the Stock Exchange commenced on 16 January 2008.

28. RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 38 of the financial statements.

The Group's contributed surplus represents (i) the difference of RMB181,036,000 between the nominal value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the reserve amount of RMB134,713,000 upon the acquisition of the Precision Manufacturing Division from the ultimate holding company, which is not subject to distribution to the shareholders of the Company.

(b) Company

	Notes	Share premium account RMB'000	Retained profits RMB'000	Total RMB'000
At incorporation		—	—	—
Issue of shares	27	5,063,276	—	5,063,276
Share issue expenses	27	(109,775)	—	(109,775)
Profit for the year		—	340,837	340,837
Proposed final 2007 dividend	11	—	(340,837)	(340,837)
At 31 December 2007		**4,953,501**	**—**	**4,953,501**

The Company's share premium represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation referred to in note 28(a), over the nominal value of the Company's shares issued in exchange therefor.

29. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

On 27 July 2007, the Company acquired the entire issued share capital of BYD Electronic. In consideration of the acquisition of BYD Electronic, the Company allotted and issued 1,869,990,000 shares of HK$0.1 each and credited as 1,869,990,000 fully-paid shares.

30. CONTINGENT LIABILITIES

In June 2007, a Hong Kong High Court (the "Court") action (the "June 2007 Action") was commenced by a subsidiary and an affiliate of Foxconn International Holdings Limited (the "Plaintiffs") against the ultimate holding company, the intermediate holding company, the immediate holding company and certain subsidiaries of the Company (the "Defendants") for allegories in connection with the use of the confidential information alleged to have been obtained improperly from the Plaintiffs. The Plaintiffs alleged that the Defendants have directly or indirectly through the assistance of certain employees of the Plaintiffs, induced and procured certain former employees of the Plaintiffs (some of whom were subsequently employed by the holding companies of the Group) to breach their contractual and fiduciary duties with their former employer, the Plaintiffs, by disclosing to the Defendants confidential information that such employees have acquired through their employment with the Plaintiffs. In addition, it was alleged that the Defendants knew or ought to have known the confidential nature of such information and that the Defendants allowed or acquiesced its misuse in establishing a handset production system that is highly similar to the Plaintiffs' handset production system and using the Plaintiffs' confidential information with respect to their suppliers and customers. The Plaintiffs discontinued the June 2007 Action on 5 October 2007 with the effect that the June 2007 Action has been wholly discontinued against all the Defendants named in the action and that this finally disposed of the June 2007 Action without any liability to the ultimate holding company, the intermediate holding company, the immediate holding company and subsidiaries of the Company concerned. On the same day, the Plaintiffs initiated a new set of legal proceedings in the Hong Kong High Court (the "October 2007 Action"). The Defendants named in the October 2007 Action are the same as the Defendants in the June 2007 Action, and the claims made by the Plaintiffs in the October 2007 Action are based on the same facts and the same allegations arising in the June 2007 Action. In essence, the Plaintiffs allege that the Defendants have misappropriated and misused confidential information belonging to the Plaintiffs. The remedies sought by the Plaintiffs in the October 2007 Action include an injunction restraining the Defendants from using the alleged confidential information, an order for the disgorgement of profit made by the Defendants through the use of the confidential information, damages based on the loss suffered by the Plaintiffs and exemplary damages. The Plaintiffs have quantified part of their claim for damages, consisting of the estimated cost of producing the alleged confidential information of RMB2,907,000, and an amount of RMB3,600,000 which allegedly represents compensation paid by the Plaintiffs to other parties to whom they owed a duty to keep the alleged confidential information confidential. The damages otherwise sought by the Plaintiffs in the October 2007 Action have not been quantified.

Regarding the October 2007 Action, the ultimate holding company has given an indemnity in favour of the Company and other Defendants of the Group for all liabilities, losses, damages, costs and expenses (if any) incurred arising out of or in connection with the October 2007 Action. The indemnity given by the ultimate holding company to the indemnified parties will not cover the loss of future profit and revenue as well as any obligation, such as ceasing to use certain information, on the part of the indemnified parties to comply with any injunction order or any court order to deliver up documents.

As at the date of these financial statements, only the ultimate holding company and the intermediate holding company of the Group had been served with the writ; the other parties named as Defendants in the writ had not yet been served. As at the date of these financial statements, no judgement has been made in the court proceedings. To the knowledge of the directors of the Company, the ultimate holding company and the intermediate holding company's application for a stay of the legal proceedings have been set to be heard on 11 June 2008 over a two-day hearing.

Based on legal advice of the litigation legal counsels for the ultimate holding company of the Group, the ultimate outcome of the litigations is not yet determinable given the early stage of the proceedings. Accordingly no liability accrual has been recorded by the Company.

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its production plants, staff quarters and warehouses under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to three years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Within one year	**28,137**	2,003
In the second to fifth years, inclusive	**28,177**	3,542
	56,314	5,545

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2007	2006
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**421,612**	280,319

At the balance sheet date, the Company had no significant commitments.

33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

			Year ended 31 December	
Nature of transactions	**Notes**	**Related Parties**	**2007 RMB'000**	2006 RMB'000
Purchases of plant and machinery	(i)	Ultimate holding company	**49,034**	827
		Intermediate holding company	**—**	77,251
		Fellow subsidiaries	**4,207**	36,838
Purchases of inventories	(ii)	Ultimate holding company	**17,684**	32,253
		Intermediate holding company	**53,407**	268,837
		Fellow subsidiaries	**181,297**	53,106
Sales of inventories	(ii)	Ultimate holding company	**11,747**	3,489
		Intermediate holding company	**396**	188
		Fellow subsidiaries	**64,716**	53,394
Ancillary expenses paid to	(iii)	Ultimate holding company	**178,802**	114,998
		Intermediate holding company	**—**	8,944
		Fellow subsidiary	**694**	—

Notes:

(i) The purchases of plant and machinery are made at net book values.

(ii) The sales and purchases of inventories were conducted at market prices/in accordance with prices and terms mutually agreed between the parties/at cost. In the opinion of the directors, the transactions were conducted in the ordinary and usual course of business.

(iii) Expenses were charged on an actual incurred basis/in accordance with terms mutually agreed between the parties. In the opinion of the directors, the transactions were conducted in the ordinary and usual course of business.

(b) Other transactions with related parties:

During the year, the Group acquired the Precision Manufacturing Division from the ultimate holding company at RMB134,713,000, based on the net asset value of the Precision Manufacturing Division at the date of acquisition.

(c) Outstanding balances with related parties:

Balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group:

Except those disclosed in note 8 to the financial statements for directors' emoluments, no compensation was made to other key management personnel of the Group during the year.

The related party transactions in respect of items set out in note 33(a) above also constitute connected transactions or continuing connected transaction as defined in chapter 14A of the Listing Rules.

34. POST BALANCE SHEET EVENTS

The following subsequent events took place subsequent to 31 December 2007:

(i) Over-allotment of the Company's shares

On 16 January 2008, an over-allotment of 72,246,000 additional shares (the "Over-allotment Shares"), representing 13.14% of the issued shares, was exercised. The Over-allotment Shares were issued at HK$10.75 per share. Net proceeds of HK$757 million were received on 16 January 2008.

(ii) Acquisition of Mirae Hungary Industrial Manufacturer Ltd. ("Mirae Hungary")

On 1 February 2008, BYD Hungary entered into a sales and purchase agreement (the "Sale and Purchase Agreement") with Mirae Industry Co. Ltd. ("Mirae Industry") for acquisition of the equity interest of Mirae Hungary, a wholly owned subsidiary of Mirae Industry, at a consideration of EUR2,960,000 (equivalent to approximately RMB32 million). In addition, BYD Hungary has agreed to pay a certain sum for the settlement of the liabilities of Mirae Hungary as at 31 October 2007. According to the Sale and Purchase Agreement, the total amount payable by BYD Hungary, including the consideration of EUR2,960,000 for the acquisition, will not exceed EUR15,500,000 (equivalent to approximately RMB167 million).

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

Group

	Financial assets at fair value through profit or loss held for trading	Loans and receivables	Total	Financial assets at fair value through profit or loss held for trading	Loans and receivables	Total
	2007	**2007**	**2007**	2006	2006	2006
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Trade and bills receivables	**—**	**1,794,005**	**1,794,005**	—	636,411	636,411
Factored trade receivables	**—**	**—**	**—**	—	309,139	309,139
Financial assets included in prepayments, deposits and other receivables (note 15)	**—**	**70,109**	**70,109**	—	13,125	13,125
Due from the ultimate holding company	**—**	**39,000**	**39,000**	—	—	—
Due from the intermediate holding company	**—**	**14,257**	**14,257**	—	—	—
Due from fellow subsidiaries	**—**	**92,677**	**92,677**	—	74,170	74,170
Derivative financial instruments	**6,530**	**—**	**6,530**	4,337	—	4,337
Restricted bank deposit	**—**	**1,860**	**1,860**	—	1,622	1,622
Pledged bank deposit	**—**	**19,924**	**19,924**	—	—	—
Cash and cash equivalents	**—**	**3,194,906**	**3,194,906**	—	607,977	607,977
	6,530	**5,226,738**	**5,233,268**	4,337	1,642,444	1,646,781

Company

	Loans and receivables
	2007
	RMB'000
Due from a subsidiary	**3,258,230**
Cash and bank balances	**20**
	3,258,250

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

Group

	Financial liabilities at fair value through profit or loss held for trading	Financial liabilities at amortised cost	Total	Financial liabilities at fair value through profit or loss held for trading	Financial liabilities at amortised cost	Total
	2007	**2007**	**2007**	2006	2006	2006
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Trade and bills payables	**—**	**1,416,141**	**1,416,141**	—	508,949	508,949
Financial liabilities included in other payables and accruals (note 23)	**—**	**409,144**	**409,144**	—	234,777	234,777
Derivative financial Instruments	**7,280**	**—**	**7,280**	3,360	—	3,360
Interest-bearing bank borrowings	**—**	**1,296,983**	**1,296,983**	—	233,195	233,195
Bank advances on factored trade receivables	**—**	**—**	**—**	—	309,139	309,139
Due to fellow subsidiaries	**—**	**135,391**	**135,391**	—	74,528	74,528
Due to the intermediate holding company	**—**	**—**	**—**	—	549,907	549,907
Due to the ultimate holding company	**—**	**—**	**—**	—	392,200	392,200
	7,280	**3,257,659**	**3,264,939**	3,360	2,302,695	2,306,055

Company

	Financial liabilities at amortised cost 2007 RMB'000
Due to the ultimate holding company	**22,288**

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, balances with related companies and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings) and the group's owners' equity.

		Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in owners' equity
	%	RMB'000	RMB'000
2007			
RMB	**20**	**350**	**350**
United States dollar	**20**	**490**	**490**
RMB	**(15)**	**(263)**	**(263)**
United States dollar	**(15)**	**(368)**	**(368)**
2006			
Hong Kong dollar	20	680	680
United States dollar	20	28	28
Hong Kong dollar	(15)	(510)	(510)
United States dollar	(15)	(21)	(21)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. In addition, certain portion of the bank loans and loans from related companies are denominated in currencies other than RMB. The Group tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts. The Group takes rolling forecast on the foreign currency revenue and expenses and matches the currency and the amount incurred so as to alleviate the impact on business due to exchange rate fluctuations.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's owners' equity (due to changes in the fair values of forward currency contracts).

	Increase/ (decrease) in United States dollar exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in owners' equity**
	%	RMB'000	RMB'000
2007			
If RMB weakens against United States dollar	**5%**	**167,910**	**167,910**
If RMB strengthens against United States dollar	**(5%)**	**(167,910)**	**(167,910)**
2006			
If RMB weakens against United States dollar	5%	17,619	17,619
If RMB strengthens against United States dollar	(5%)	(17,619)	(17,619)

Credit risk

The Group trades only with recognised and creditworthy customers. Concentrations of credit risk are managed by customers. At the balance sheet date, the Group has certain concentrations of credit risk as 57% (2006: 65%) and 97% (2006: 87%) of the Group's trade receivables were due from the Group's largest customers and the five largest customers, respectively. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral for other financial assets such as prepayments, deposits and other receivables.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 19 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks and related companies to meet its commitment over the foreseeable future in accordance with its strategic plan. As at 31 December 2007, 100% of the Group's debts would mature in less than one year.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group	**2007**			
	On demand	**Less than 3 months**	**3 to less than 12 months**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Interest-bearing bank and other borrowings	**—**	**550,612**	**746,371**	**1,296,983**
Trade and bills payables	**356,740**	**922,633**	**136,768**	**1,416,141**
Other payables	**111,142**	**171,005**	**126,997**	**409,144**
Due to fellow subsidiaries	**135,391**	**—**	**—**	**135,391**
Derivative financial instruments	**—**	**7,280**	**—**	**7,280**
	603,273	**1,651,530**	**1,010,136**	**3,264,939**

Group	2006			
	On demand	Less than 3 months	3 to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	127,299	105,896	233,195
Trade and bills payables	6,818	475,165	26,966	508,949
Other payables	35,161	115,370	84,246	234,777
Bank advance on factored trade receivables	—	—	309,139	309,139
Due to the ultimate holding company	392,200	—	—	392,200
Due to fellow subsidiaries	74,528	—	—	74,528
Due to the intermediate holding company	549,907	—	—	549,907
Derivative financial instruments	—	3,360	—	3,360
	1,058,614	721,194	526,247	2,306,055

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company	2007		
	On demand	Less than 3 months	Total
	RMB'000	RMB'000	RMB'000
Due to the ultimate holding company	**22,288**	—	**22,288**

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, an amount due to the ultimate holding company, amounts due to fellow subsidiaries, an amount due to the intermediate holding company, trade, bills and other payables, bank advance on factored trade receivables, accruals, less cash and bank balances. Total capital represents total equity. The gearing ratios as at the balance sheet dates were as follows:

Group

	2007 RMB'000	2006 RMB'000
Interest-bearing bank borrowings	**1,296,983**	233,195
Trade and bills payables	**1,416,141**	508,949
Bank advance on factored trade receivables	—	309,139
Other payables and accruals	**489,689**	268,674
Due to fellow subsidiaries	**135,391**	74,528
Due to the ultimate holding company	—	392,200
Due to the intermediate holding company	—	549,907
Less: Cash and bank balances	**(3,194,906)**	(607,977)
Net debt	**143,298**	1,728,615
Total equity	**4,891,788**	860,611
Total capital and net debt	**5,035,086**	2,589,226
Gearing ratio	**3%**	67%

37. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2008.

FOUR YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**5,767,256**	3,043,966	600,813	362,605
Cost of sales	**(4,239,331)**	(2,091,470)	(460,422)	(268,632)
Gross profit	**1,527,925**	952,496	140,391	93,973
Other income and gains	**64,295**	24,640	8,337	621
Research and development costs	**(175,542)**	(55,873)	(26,700)	(13,053)
Selling and distribution costs	**(54,138)**	(35,939)	(8,084)	(3,390)
Administrative expenses	**(152,073)**	(80,613)	(36,755)	(23,290)
Other expenses	**(58,401)**	(43,656)	(12,697)	(3,575)
Finance costs	**(66,182)**	(31,566)	(9,076)	(3,484)
PROFIT BEFORE TAX	**1,085,884**	729,489	55,416	47,802
Tax	**7,405**	1,600	(9,948)	(4,025)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**1,093,289**	731,089	45,468	43,777
ASSETS AND LIABILITIES				
TOTAL ASSETS	**8,237,272**	3,200,659	858,497	394,573
TOTAL LIABILITIES	**(3,345,484)**	(2,340,048)	(629,375)	(230,424)
	4,891,788	860,611	229,122	164,149

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比亞迪電子(國際)有限公司
BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED