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

(Stock Code 股份代號: 285)

A Vision For FUTURE

ANNUAL REPORT **2017** 年年報

BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company"; together with its subsidiaries known as the "Group"; stock code: 0285) was spun off from BYD Company Limited ("BYD", stock code: 1211) and listed on the Main Board of the Hong Kong Stock Exchange on 20 December 2007. It is one of the world's most competitive providers of design, components manufacturing and system products assembly services for electronic products. The Company provides vertically integrated one-stop services to global leading brand manufacturers for mobile intelligent terminals. Its highly vertically integrated capability enhances its ability to provide customers with a full range of services, and quickly and efficiently 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）於二零零七年十二月二十日由比亞迪股份有限公司（「比亞迪」；股份代號：1211）分拆於香港聯合交易所主板獨立上市。比亞迪電子是全球最具競爭力的電子產品設計、部件製造和系統產品組裝服務供應商之一。公司為全球知名移動智能終端品牌廠商提供垂直整合的一站式服務。公司的高度垂直整合能力使得公司可以為客戶提供全面的服務，更快和更有效率地響應市場不斷變化的需求。

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FINANCIAL HIGHLIGHTS

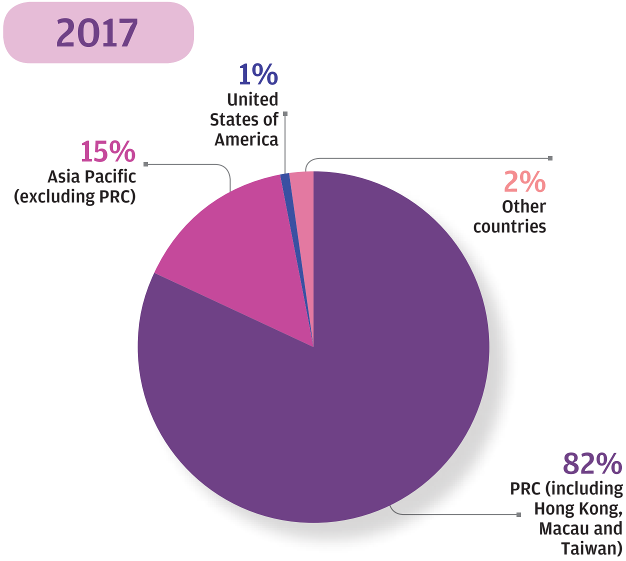
FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

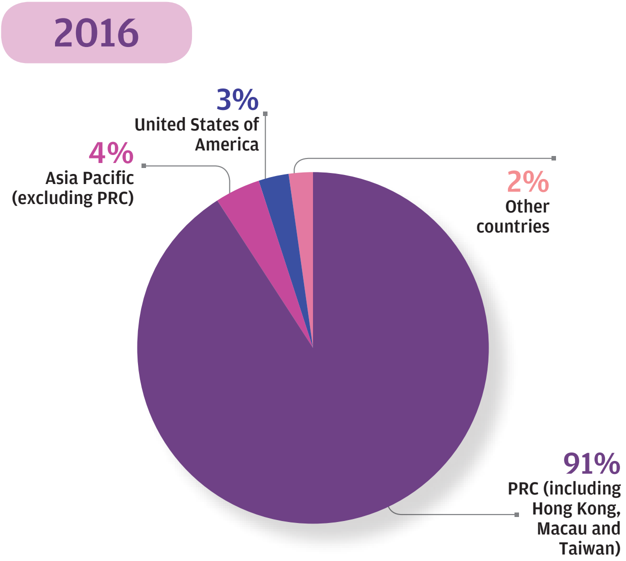
	For the year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**38,774,422**	36,734,264	29,285,830	19,832,127	16,062,179
Gross profit	**4,263,938**	2,800,129	1,903,545	2,105,162	1,679,002
Gross profit margin (%)	**11**	8	7	11	10
Profit attributable to equity holders of the parent	**2,584,868**	1,233,491	908,145	901,697	648,405
Net profit margin (%)	**7**	3	3	5	4

	For the year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Net assets	**14,191,313**	11,754,222	10,547,779	9,665,212	8,834,141
Total assets	**25,386,326**	23,994,987	22,244,401	16,834,457	13,876,605
Gearing ratio (%) (Note)	**-20**	-25	-19	-18	-27
Current ratio (times)	**1.50**	1.34	1.24	1.51	1.74
Account and bills receivable turnover (days)	**84**	85	86	90	70
Inventory turnover (days)	**44**	41	44	47	48

Note: Gearing ratio = Total interest-bearing bank borrowings net of cash and bank deposits/equity

REVENUE BREAKDOWN BY LOCATION OF CUSTOMERS





CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Wang Nian-qiang
Wang Bo

NON-EXECUTIVE DIRECTORS
Wang Chuan-fu
Wu Jing-sheng

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie

COMPANY SECRETARIES
Li Qian
Cheung Hon-wan

AUDIT COMMITTEE
Wang Chuan-fu
Wu Jing-sheng
Chung Kwok Mo John (Chairman)
Antony Francis MAMPILLY
Qian Jing-jie

REMUNERATION COMMITTEE
Wang Nian-qiang
Wang Chuan-fu
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie (Chairman)

NOMINATION COMMITTEE
Wang Bo
Wang Chuan-fu (Chairman)
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie

AUTHORIZED REPRESENTATIVES
Wang Nian-qiang
Wu Jing-sheng

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WEBSITE
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STOCK CODE
0285

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors of BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company") and its subsidiaries (which are collectively referred to as the "Group"), I hereby present the annual report of the Company for the year ended 31 December 2017 (the "Year") to all shareholders.

In 2017, global economic growth accelerated while China's economy reversed the trend of slowdown in growth. However, after many years of growth, the market of global smartphones gradually saturated. Global smartphone shipments fell for the first time during the Year, down by 0.5% year-on-year to 1.462 billion units. As for China's market, during the Year, China's smartphone shipments also declined by 11.6% year-on-year to 461 million units. During the Year, handset brand manufacturers' demands for high-end handset components such as metal parts and glass casings continued to increase, bringing structural opportunities to the industry.

During the Year, the Group's turnover amounted to approximately RMB38,774 million, representing a year-on-year increase of 5.55%, and the profit attributable to the owners of the parent company was RMB2,585 million, representing an increase of 109.56% as compared with that of 2016. The Board of Directors recommended a final dividend for the year ended 31 December 2017 of RMB0.230 per share.

As being thinner and lighter and full screen displays became the development trends of smartphone industry, the penetration rate of metal parts in smartphones and other mobile intelligent terminals continued to increase during the Year, coupled with the wider application of more premium 7-series aluminum alloy materials in the high-end handset models. During the Year, the Group continued to receive orders from a plurality of world-renowned smartphone brands for their high-end flagship handset models and continued to provide them with metal casings, metal middle frames and other handset components, thereby driving the rapid growth of the revenue from the Group's metal parts operation and bringing significant profit contribution to the Group.

On the other hand, with the continuous advancement of 5G technology and the gradual rise in popularity of wireless charging technology, 3D glass is expected to see wider application. BYD Electronic has already put effective comprehensive plans in place for the field of new materials, invested a large amount of resources in the research and development of new materials such as 3D glass and ceramics as well as new craftsmanship processes, and got its production capacity ready for the field of 3D glass. The Group achieved volume production and commenced shipments to the leading handset brand manufacturers. It is expected that 3D glass casings will be used in the majority of flagship handsets in 2018, bringing enormous opportunity to the rapid development of the Group's 3D glass.

In the future, with glass casings becoming more widely adopted, the demand for metal middle frames will also increase significantly. As the metal middle frames are

used to support the glass casings, their requirement of intricacy and physical performance are higher than those of the metal casings, with higher difficulty in processing. Leveraging on the long-time experiences and leading technologies in the metal parts field, the Group is expected to remarkably benefit from the new industry opportunities arising from glass casings integrated with metal middle frames, further solidifying and enhancing the Group's leading position in the industry.

Looking into 2018, the Group will follow closely the development trend of industry and constantly expand the Group's business scope. While reinforcing its advantage position in the field of mobile intelligent terminals, the Group will actively push forward the development of businesses including automotive electronics, smart hardware and smart products of the Internet of things. Moreover, the Group will continue to negotiate cooperation opportunities with potential customers, expand the customer resources and increase market share to drive the continuous growth in revenue and profit of the Group.

Finally, on behalf of BYD Electronic, I would like to thank our loyal customers, business partners, investors and shareholders for their support and trust in the Group. I would also like to thank all the staff members for their concerted efforts during the past year. BYD Electronic will continue to push forward the development of all its business segments. Leveraging on its capability of high level of vertical integration, the Group will become a global leading manufacturer and service provider of electronic products. We will spear our efforts to deliver an outstanding performance and maximize returns for our shareholders.

Wang Chuan-fu
Chairman

Hong Kong, 27 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

For the year ended 31 December 2017 (the "Year"), global economic growth was 3.7%, hitting a three-year new high. Most economies in the world reported accelerating economic growth. At the same time, China's economic growth also accelerated for the first time in six years. The National Bureau of Statistics announced that China's gross domestic product rose by 6.9% in 2017, higher than the growth recorded in 2016, reversing the slowdown that began in 2011. During the Year, consumption in China continued to increase and structural upgrading continued to accelerate, driving the steady and solid development of the economy.

Global smartphone market saw sales decline for the first time during the year after years of growth, decreasing by 0.5% year-on-year to 1.462 billion units. For China's market, according to data released by CAICT, handset shipments in China were 491 million units in 2017, representing a year-on-year decrease of 12.3%. In particular, the smartphone shipments accounted for 93.9% of domestic handset shipments over the same period, reaching 461 million units, representing a year-on-year decrease of 11.6%. However, China's handset brand manufacturers continued consolidating their market share in the high-end handset market through technological innovation and precisely addressing the needs of users. Meanwhile, they also actively expanded into the overseas markets. In 2017, three of the top five handset brands by global smartphone sales were China's proprietary brands. The influence of China's proprietary brands in the global market continued to increase.

On the other hand, with the rapid development of wireless charging capabilities of handsets and the approaching of the 5G era, the demand for glass casings has increased substantially. As the structure of glass casings requires the metal middle frames to support the strength of the casings, the rise of glass casings has also promoted the application of metal middle frames. Currently, glass casings plus the metal middle frames has gradually become one of the mainstream designs of high-end handsets. The new industry trend propelled the rapid growth in demand for glass casings and metal middle frames, bringing new opportunities to the leading suppliers of handset supply chain.

BUSINESS REVIEW

BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company") and its subsidiaries (collectively referred to as the "Group") is a global leading manufacturer of electronic products and service provider, offering customers with one-stop services including design, R&D, manufacturing, logistics and after-sales services. The main business includes metal parts, plastic parts, glass casings, and other components manufacturing as well as original design, testing, and assembly for electronic products. Products cover consumer electronics, automotive electronics, industrial electronics and other fields. During the Year, the Group recorded sales of approximately RMB38,774 million, representing an increase of approximately 5.55% over the same period last year, and the profit attributable to shareholders increased by approximately 109.56% from 2016 to approximately RMB2,585 million.

In 2017, the penetration rate of metal parts continued to increase. Leveraging on the long-time experiences, leading technologies and mature craftsmanship processes accumulated in the metal parts field, the Group continued to maintain close cooperation with leading handset brand manufacturers in the domestic and overseas markets, thus the Group constantly received orders of high-end flagship models from leading smartphone manufacturers. During the Year, the Group actively promoted the research and development as well as application of new materials and new craftsmanship process. The Group provided high-quality 7-series aluminium parts and new craftsmanship process to the leading handset brand manufacturers, driving the continuous growth of metal parts business.

In addition, the combination of metal middle frames and glass casings has become a new development trend of smartphones. During the Year, the Group has been actively expanding its glass business to foster a new growth point for the handset components business. The Group has invested heavily in research and development of 3D glass which allowed it to achieve breakthrough in the complete cycle of key craftsmanship processes including thermal bending, polishing, bonding and coating. The Group also strived to produce the key equipment which is thermal bending machine and critical material namely PET film on its own. In the second half of 2017, the Group began volume production for 3D glass, while actively expanding the production capacity.

As for automotive electronics business, the Group achieved good progress as it passed the qualifications of several global renowned automakers and realized shipments to the customers. The Group provided customers with products including multimedia modules, communications modules and structural components, fostering new growth poles for the Group's long-term development. In addition, concerning smart hardware and the smart products of Internet of things, the Group also actively expanded its presence by providing customers with one-stop services ranging from product design to complete handset assembly, so as to expand its business scope and strive to realize the long-term and continuous growth of the Group.

FUTURE STRATEGY

Looking ahead to 2018, the global economy is likely to further improve and it is expected that the global economy will usher in a full recovery after the financial crisis. Against the backdrop of favourable economic environment, China's economy is expected to sustain steady and sound momentum of development and continue improving its economic structure, thereby achieving high-quality economic development. According to TrendForce, a global market research institute, the global smartphone production volume is expected to increase by 5% to approximately 1.53 billion units in 2018. China's brands will maintain relatively strong growth momentum. With the approaching of the 5G era and more handset brand manufacturers adopting 3D glass, the 3D glass casing industry will usher in a new cycle of prosperity. The Group has already put effective comprehensive plans in place for new materials including 3D glass and ceramics and got its technologies, craftsmanship and production capacity ready, thus expecting the related products to make significant revenue contribution to the Group in 2018.

In the future, the Group will continue to deepen its cooperation with existing well-known electronic industry clients at home and abroad while strengthening its collaboration with existing clients in various fields including automotive electronics, industrial electronics and smart hardware, as well as actively acquiring new high-quality customers to expand its client base.

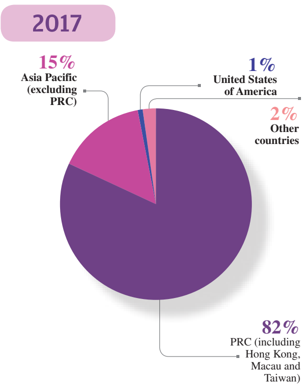
Looking to the future, BYD Electronic will continue to uphold the core corporate values, stay focused on technological innovation and upgrade intelligent manufacturing, constantly enhance its competitive advantages and provide customers with competitive and innovative creations. Meanwhile, the Group will actively put strategic plans in place for 5G, formulate solutions for the Internet of things and artificial intelligence, maintain strategic sensitivity and drive the corporate upgrade and transformation so as to lay a sturdy foundation for the long-term development of the Group and create a solid return for shareholders and investors.

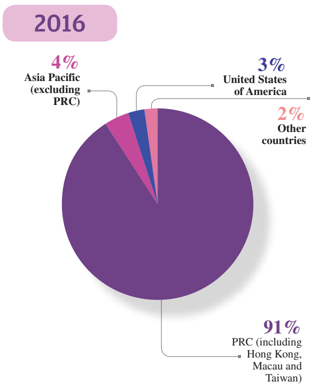
FINANCIAL REVIEW

Revenue recorded an increase of 5.55% as compared to the previous year. Profit attributable to equity owners of the parent recorded an increase of 109.56% as compared to the previous year, mainly attributable to the growth of metal parts business.

SEGMENTAL INFORMATION

Set out below is the comparison of geographical segment information by customer location for the years ended 31 December 2017 and 2016:





GROSS PROFIT AND MARGIN

The Group's gross profit for the Year increased by approximately 52.28% to approximately RMB4,264 million. Gross profit margin increased from approximately 7.62% in 2016 to 11.00%.The increase in gross profit margin was mainly due to the increase in income proportion and gross profit margin of metal parts.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group recorded cash inflow from operations of approximately RMB1,863 million, compared with approximately RMB2,954 million recorded in 2016. During the Year, funds were mainly obtained from the net cash derived from the Group's operations. As of 31 December 2017 and 31 December 2016, the Group did not have bank borrowings.

The Group maintained sufficient liquidity to meet daily liquidity management and capital expenditure requirements, and control internal operating cash flows. Turnover days of accounts and bills receivables was approximately 84 days for the year ended 31 December 2017, compared with approximately 85 days for the year ended 31 December 2016, which showed no significant changes. Turnover days of inventory for the year ended 31 December 2017 was approximately 44 days, compared with approximately 41 days for the year ended 31 December 2016, which showed no significant changes.

CAPITAL STRUCTURE

The duty of the Company's financial division is to manage the Group's financial risk, and to operate in accordance with the policies approved and implemented by the senior management. As of 31 December 2017, the Group had no bank borrowings and its cash and cash equivalents were mainly held in Renminbi and US dollars. The Group's current bank deposits and cash balances and fixed deposits, as well as the Group's credit facilities and net cash derived from operating activities will be sufficient to satisfy the Group's material commitments and the expected need for working capital, capital expenditure, business expansion, investments and debt repayment for at least the next year.

The Group monitors capital using a gearing ratio, which is net debt divided by equity. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Equity represents equity attributable to owners of the parent. As the Group did not have any interest-bearing bank borrowings, the gearing ratio was zero as at 31 December 2017 and 31 December 2016.

EXPOSURE TO FOREIGN EXCHANGE RISK

Most of the Group's income and expenditure are settled in Renminbi and US dollars. During the Year, the Group did not encounter any significant difficulties or come under any impact on its operations or liquidity due to fluctuation in currency exchange rates. The directors believe that the Group will have sufficient foreign exchange to meet its own foreign exchange needs.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2017, the Group had employed approximately 68,000 employees. During the Year, total staff cost accounted for approximately 14.39% of the Group's revenue. The Group determines the remuneration of its employees based on their performance, experience and prevailing industry practices, and compensation policies are reviewed on a regular basis. Bonuses and rewards may also be given to employees based on their annual performance evaluation. Incentives may be offered to encourage individual development.

In 2017, the Group has standardized a three-tier training framework for new staff members and has concretely carried out the trainings. The subjects, hours and assessment methods of the three-tier training framework are clearly stated, and safety training materials and examination questions are drafted according to the job nature of employees. New employees are required to attend the trainings and pass the examination before taking on the job.

FINAL DIVIDEND

The Board has resolved to declare a final dividend for the year ended 31 December 2017 which is subject to consideration and approval at the Company's AGM. Please refer to Note 34 of the financial statements included in this announcement for details of the final dividend.

SHARE CAPITAL

As at 31 December 2017, the share capital of the Company was as follows:

Number of shares issued: 2,253,204,500 shares.

PURCHASE, SALE OR REDEMPTION OF SHARES

From 1 January 2017 to 31 December 2017, the Company or its subsidiaries did not redeem any of its shares. During the Year, neither the Company nor any of its subsidiaries purchased or sold any listed securities of the Company.

CAPITAL COMMITMENTS

As at 31 December 2017, the Company had capital commitment of approximately RMB287 million (31 December 2016: approximately RMB476 million).

CONTINGENT LIABILITIES

Please refer to Note 27 of the financial statements included in this announcement for details of contingent liabilities.

ENVIRONMENTAL PROTECTION AND SOCIAL SECURITY

During the reporting period, the Group had no significant environmental protection or social security issues.

EXECUTIVE DIRECTORS

WANG, NIAN-QIANG

Mr. Wang, born in 1964, Chinese national with no right of abode overseas, master's degree holder, engineer. Mr. Wang graduated from Central South University of Technology (中南工業大學) (now the Central South University) in the People's Republic of China in 1987 with a bachelor's degree majoring in industrial analysis. In 2011, he obtained a master's degree in MBA from China Europe International Business School. Mr. Wang worked at Anhui Tongling Institute of Non-ferrous Metals (安徽銅陵有色金屬公司研究院) as an engineer. He joined Shenzhen BYD Battery Company Limited (深圳市比亞迪實業有限公司) ("BYD Industries", renamed as BYD Company Limited on 11 June 2002) in February 1995 as a chief engineer. He joined the Group in April 2015 and is chief executive officer and executive director of the Company and a director of BYD Charity Foundation.

WANG, BO

Mr. Wang Bo, born in 1972, bachelor's degree holder. Mr. Wang graduated from the Harbin Institute of Technology (哈爾濱工業大學) with a bachelor's degree in engineering specializing in electrochemical engineering in 1993. Mr. Wang worked as an assistant engineer at No. 18 Tianjin Institute of Power Sources (天津電源研究所第十八研究院), a senior quality engineer and resource development manager at Motorola (China) Ltd. (摩托羅拉中國有限公司). Mr. Wang joined BYD Industries in September 2001 and is mainly responsible for marketing and sales. He has focused on marketing and sales of the Group and the day-to-day management of the commercial and customer service aspects of our business since our listing on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He has been appointed as an Executive Director of the Company since 3 January 2017.

NON-EXECUTIVE DIRECTORS

WANG, CHUAN-FU

Mr. Wang Chuan-fu, born in 1966, Chinese national with no right of abode overseas, master's degree holder, senior engineer. Mr. Wang graduated from Central South University of Technology (中南工業大學) (currently known as Central South University) in 1987 with a bachelor's degree majoring in metallurgy physical chemistry, and then graduated from Beijing Non-Ferrous Research Institute (北京有色金屬研究總院) in the PRC in 1990 with a master's degree majoring in materials science. Mr. Wang held positions as vice supervisor in Beijing Non-Ferrous Research Institute, general manager in Shenzhen Bi Ge Battery Co. Limited (深圳市比格電池有限公司). In February 1995, he founded BYD Industries with Mr. Lv Xiang-yang and took the position of general manager. He has been a non-executive Director and Chairman of the Company since December 2007 and now serves as the Chairman, an executive director and the President of BYD Company Limited ("**BYD**"), a director of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司) (formerly known as "Shenzhen BYD Daimler New Technology Co. Ltd. (深圳比亞迪戴姆勒新技術有限公司)"), the vice chairman of Shenzhen Pengcheng Electric Automobiles Renting Co., Ltd. (深圳市鵬程電動汽車出租有限公司), a director of BYD Auto (Tianjin) Co., Limited (天津比亞迪汽車有限公司), a director of China Railway Engineering Consulting Group Co., Ltd.(中鐵工程設計諮詢集團有限公司), an independent director of Renren Inc., a director of South University of Science and Technology of China (南方科技大學) and a director of BYD Charity Foundation.

Mr. Wang, being a technology expert, enjoyed special allowances from the State Council. In June 2003, he was awarded Star of Asia by BusinessWeek. He was awarded with "Mayor award of Shenzhen in 2004" (二零零四年深圳市市長獎), "The 2008 CCTV Man of the Year China Economy Innovation Award", Southern Guangdong Meritorious Service Award (南粵功勳獎) in 2011, Zayed Future Energy Prize Lifetime Achievement Award (扎耶德未來能源獎個人終身成就獎) in 2014 and "China Best Leaders Award" (中國最佳商業領袖) in 2015, etc.

WU, JING-SHENG

Mr. Wu Jing-sheng, born in 1963, Chinese national with no right of abode overseas, master's degree holder. Mr. Wu graduated from Anhui Normal University (安徽省師範大學) in 1988 majoring in Chinese language. He took part in National Examination for Lawyers (全國律師統考) and obtained qualification as a lawyer granted by the Department of Justice of Anhui Province (安徽省司法廳) in 1992. Mr. Wu also passed the National Examination for Certified Public Accountants (註冊會計師全國統考) and obtained qualification as a PRC Certified Public Accountant in 1995. In July 2006, he graduated from Guanghua School of Management of the Peking University (北京大學光華管理學院) with an MBA. Mr. Wu worked at Guangzhou Youngy Investment & Management Group Company Limited (廣州融捷投資管理集團有限公司) and was responsible for finance and related duties. He joined BYD Industries in September 1995 as its financial manager. He has been appointed as a non-executive Director of the Company since December 2007, a senior vice president and chief financial officer of BYD, a director of Tibet Shigatse Zhabuye Lithium High-Tech Co., Ltd. (西藏日喀則扎布耶鋰業高科技有限公司), a supervisor of Qianhai Insurance Trading Center (Shenzhen) Co., Limited (前海保險交易中心(深圳)股份有限公司), the chairman of Shenzhen BYD International Financial Leasing Co., Ltd (深圳比亞迪國際融資租賃有限公司), a director of Shenzhen Shendianneng Electricity Co., Ltd. (深圳市深電能售電有限公司), the chairman of Shenzhen BYD Electric Vehicles Investment Co., Ltd. (深圳比亞迪電動汽車投資有限公司), the chairman of Shenzhen Didi New Energy Automobiles Renting Co., Ltd. (深圳市迪滴新能源汽車租賃有限公司), the chairman of BYD Auto Finance Company Limited (比亞迪汽車金融有限公司), the chairman of Energy Storage Power Station (Hubei) Co., Ltd. (儲能電站(湖北)有限公司), the chairman of Nanjing Zhongbei Didi New Energy Automobiles Renting Service Co., Ltd. (南京中北迪滴新能源汽車租賃服務有限公司), a director of BYD International Financial Leasing (Tianjin) Co., Ltd (比亞迪國際融資租賃(天津)有限公司) and a director of BYD Charity Foundation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHUNG, KWOK MO JOHN

Mr. Chung Kwok Mo John, born in 1969, Chinese national, permanent resident of the Hong Kong Special Administrative Region. Mr Chung obtained a Bachelor of Economics degree from Macquarie University, Australia in 1992 and is also a member of Hong Kong Institute of Certified Public Accountants and CPA Australia, with over 20 years of experience in auditing, financial management and corporate finance. Mr. Chung was an auditor in an international accounting firm from 1992 to 1999. From 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in a number of listed companies in Hong Kong. Mr. Chung is presently a vice president of Yongsheng Advanced Materials Company Limited, a company listed on the Stock Exchange (Stock Code: 3608).

Mr. Chung has joined the Group as an independent non-executive Director of the Company since 7 June 2013. In addition, he is also an independent non-executive director of each of B & S International Holdings Ltd., a listed company on the Stock Exchange (Stock Code: 1705), YTO Express (International) Holdings Limited, a listed company on the Stock Exchange (Stock Code:6123) and Zhengye International Holdings Company Limited, a listed company on the Stock Exchange (Stock Code: 3363).

ANTONY FRANCIS MAMPILLY

Mr. Mampilly, born in 1950, United States national, master's degree holder. Mr. Mampilly obtained a bachelor's degree and a master's degree in physics from Kerala University, India in 1970. Mr. Mampilly worked at Motorola, Inc. where he held positions as general manager of the Energy Systems Group, general manager of the auto electronics business, corporate vice president and chief procurement officer. He joined the Group in November 2007 and is an independent non-executive Director of the Company.

QIAN, JING-JIE

Mr. Qian Jing-jie, born in 1982, Chinese national without right of abode overseas. Mr. Qian graduated from Monash University in Australia and completed his undergraduate studies in finance in 2006. Since 2006, he has been working at Shenzhen Kind Care Group Co., Ltd. (深圳一德集團有限公司) and is a director and an assistant to the president thereof. Mr. Qian has extensive experience in business management. He has been an independent non-executive Director of the Company since 27 April 2015.

SENIOR MANAGEMENT

DONG, GE-NING

Mr. Dong Ge-ning, born in 1972, Chinese national with no right of abode overseas, bachelor's degree holder. Mr. Dong graduated from Southwest Agricultural University (西南農業大學) with a bachelor's degree in engineering specializing in agricultural mechanization in 1993. Mr. Dong held positions as engineer, plant manager at Zhanjiang Agricultural Reclamation No. 2 Machinery Factory (湛江農墾第二機械廠) and worked at Foxconn International Holdings Limited where he was responsible for product development. Mr. Dong joined BYD in March 2003 and now serves as a general manager of Division 3 and Moulding Center of the Group and is responsible for a number of areas including development and manufacture of new plastic products, project management, the research and development, design and production of moulds.

ZHOU, YA-LIN

Ms. Zhou Ya-lin, born in 1977, Chinese national with no right of abode overseas, bachelor's degree holder. Ms. Zhou graduated from Jiangxi University of Finance and Economics (江西財經大學) with a bachelor's degree in economics in 1999. Ms. Zhou joined BYD in March 1999 and has been appointed as the Chief Financial Officer of the Company since January 2016 and now also serves as the chief accountant of BYD, a director of Shenzhen BYD Electric Vehicles Investment Co., Ltd. (深圳比亞迪電動汽車投資有限公司), a director of Shenzhen Qianhai Green Transportation Co., Ltd. (深圳市前海綠色交通有限公司), a supervisor of Shenzhen BYD International Financial Leasing Co., Ltd (深圳比亞迪國際融資租賃有限公司), a director of BYD Auto Finance Company Limited (比亞迪汽車金融有限公司), a supervisor of Hangzhou West Lake BYD New Energy Automobiles Co., Ltd. (杭州西湖比亞迪新能源汽車有限公司), a supervisor of Beijing Hualin Special Vehicle Co., Ltd (北京華林特裝車有限公司), a supervisor of Xi'an Chengtou Yadi Automobiles Service Co., Ltd. (西安城投亞迪汽車服務有限責任公司), a director of Chengdu Shudu BYD New Energy Automobiles Co., Ltd. (成都蜀都比亞迪新能源汽車有限公司), a director of Qinghai Salt Lake BYD Resources Development Co., Ltd (青海鹽湖比亞迪資源開發有限公司), a supervisor of Yinchuan Sky Rail Operation Co., Ltd. (銀川雲軌運營有限公司), a director of Guangzhou Guang Qi BYD New Energy Bus Co., Ltd. (廣州廣汽比亞迪新能源客車有限公司), a supervisor of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司) and a supervisor of BYD Charity Foundation, etc.

LI, QIAN

Mr. Li Qian, born in 1973, Chinese national with no right of abode overseas, master's degree holder. Mr. Li graduated from Jiangxi University of Finance and Economics (江西財經大學) with a bachelor's degree in economics in 1997. In July 2016, he obtained an MBA from Guanghua School of Management of Peking University (北京大學光華管理學院). Mr. Li worked as an auditor and business consultant at PwC China and Arthur Andersen and served as a representative of securities affairs at ZTE Corporation (中興通訊股份有限公司). Mr. Li joined BYD in August 2005 and has been nominated as a joint company secretary of the Company since November 2007 and now also serves as a secretary to the board of directors and a company secretary of BYD and a supervisor of Tibet Shigatse Zhabuye Lithium High- Tech Co., Ltd (西藏日喀則扎布耶鋰業高科技有限公司).

CHEUNG, HON-WAN

Mr. Cheung Hon-wan, born in 1956, Chinese national, permanent resident of the Hong Kong Special Administrative Region, master's degree holder. Mr. Cheung obtained a master degree in accounting and finance from the University of Lancaster in the United Kingdom in 1983. He is also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Cheung worked at various Hong Kong listed companies and served as a qualified accountant of the Company. He joined the Group in June 2007 and is a joint company secretary of the Company.

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 Company has put in place corporate governance practices to comply with all the applicable provisions and most of the recommended best practices of the Corporate Governance Code (the "Code") since the shares of the Company commenced listing on the main board of the Stock Exchange.

In the opinion of the Directors, the Company had complied with the applicable code provisions as set out in Appendix 14 of the Listing Rules during the Year, except for deviation from code provision A.6.7. Code provision A.6.7 stipulates that independent non-executive Directors and non-executive Directors should attend general meetings. Due to important business engagements at the relevant time, not all independent non-executive Directors and non-executive Directors attended the annual general meeting of the Company held on 6 June 2017.

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 Board is also responsible for, and has during the Year performed, the corporate governance duties set out in the terms of reference in code provision D.3.1 of the Code (including the determining of the corporate governance policy of the Company).

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. Brief biographical details 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 12 to 14 of this annual report.

The Group believes that its executive Directors and non-executive 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all independent non-executive Directors to be independent.

The Board held eight meetings during this year to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is provided in a timely manner with all necessary information 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 discussion. Topics discussed at these Board meetings include: overall strategy; quarterly, interim and annual results; recommendations on Directors' appointment(s); the Board Diversity Policy; approval of connected transactions; regulatory compliance; 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, interim and quarterly accounts for the Board's approval before public reporting; the implementation of various 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. The Directors acknowledge their responsibility for preparing all information and representations of the financial statements of the Company for the year ended 31 December 2017.

Each of the non-executive Directors and independent non-executive Directors of the Company entered into a letter of appointment with the Company for a term of three years respectively 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 the Company.

In accordance with Article 106 of 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. According to Article 111 of the Articles, a director appointed by the Board to fill a vacancy shall retire at the next following general meeting. A retiring director shall be eligible for re-election. Accordingly, Mr. WANG Chuan-fu, Mr. CHUNG Kwok Mo John and Mr. Antony Francis MAMPILLY, shall retire by rotation, and it is proposed that Mr. WANG Chuan-fu, Mr. CHUNG Kwok Mo John and Mr. Antony Francis MAMPILLY, shall be eligible for re-election at the forthcoming annual general meeting.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Newly appointed Directors of the Company will be provided with relevant induction materials to assist them to fully understand their duties as a director under the requirements of the relevant laws and regulations, such as the Listing Rules. This will also help the Directors to gain insights in the Company's business and operation. In order to ensure adequate performance of duties by the independent non-executive Directors, the Company will also arrange on-site visits and sufficient communication with the management for the independent non-executive Directors. Pursuant to the corporate governance requirements, the Directors should participate in continuous professional development programme to develop and update their knowledge and skills. The particulars of the trainings of each Director are as follow:

Name of Director	Training/ seminars participated	Reading materials
Executive Director		
WANG Nian-qiang	✓	✓
SUN Yi-zao (resigned as a Director with effect from 3 January 2017)	✓	✓
WANG Bo (appointed as a Director with effect from 3 January 2017)	✓	✓
Non-executive Director		
WANG Chuan-fu	✓	✓
WU Jing-sheng	✓	✓
Independent Non-executive Director		
CHUNG Kwok Mo John	✓	✓
Antony Francis MAMPILLY	✓	✓
QIAN Jing-jie	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of chairman and chief executive are held separately by Mr. Wang Chuan-fu and Mr. Wang Nian-qiang respectively. This segregation ensures a clear distinction between the chairman's responsibility to manage the Board and the chief executive's responsibility to manage the Company's business.

BOARD MEETINGS

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a regular board meeting. The meeting agenda is set in consultation with members of the Board. The Board held eight meetings in 2017. The attendance of individual Directors at the Board meetings as well as general meetings in 2017 is set out below:

Member of the Board	Board meetings	Annual General Meeting
WANG Nian-qiang	8/8	1/1
SUN Yi-zao (resigned as a Director with effect from 3 January 2017)	0/8	0/1
WANG Bo (appointed as a Director with effect from 3 January 2017)	8/8	1/1
WANG Chuan-fu	8/8	1/1
WU Jing-sheng	8/8	1/1
CHUNG Kwok Mo John	8/8	1/1
Antony Francis MAMPILLY	8/8	0/1
QIAN Jing-jie	8/8	1/1

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 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 risk management and internal control systems and to provide advice and comments to the Board of Directors. As of the date of this report, the Audit Committee consists of five members, namely Mr. WANG Chuan-fu, Mr. WU Jing-sheng, Mr. CHUNG Kwok Mo John (chairman), Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie, of whom Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors of the Company and among them, Mr. CHUNG Kwok Mo John has 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 and is published on the websites of Stock Exchange and the Company pursuant to Code C.3.4.

The Company established the Audit Committee on 29 November 2007 and has held four meetings during the Year to review the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the unaudited consolidated financial statements for the three months ended 31 March 2017, the six months ended 30 June 2017, the nine months ended 30 September 2017 and the effectiveness of the financial reporting process and risk management and internal control systems of the Company. The individual attendance of its members of the meetings is set out as follows:

Member of the Audit Committee	No. of Committee meetings attended	Attendance rate
WANG Chuan-fu	4	100%
WU Jing-sheng	4	100%
CHUNG Kwok Mo John	4	100%
Antony Francis MAMPILLY	4	100%
QIAN Jing-jie	4	100%

REMUNERATION COMMITTEE

The Company has also set up a remuneration committee on 29 November 2007 which currently consists of five Directors of the Company, namely Mr. WANG Nian-qiang, Mr. WANG Chuan-fu, Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie (chairman), of which Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors of the Company, as of the date of this report. The Remuneration Committee considers and makes recommendation to the Board regarding the policy and structure on remuneration and other benefits paid by the Company to the Directors, Senior Management and Staff, assesses the performance of executive Directors, and (with delegated responsibility) approves the terms (including terms on remuneration packages) of the executive Directors' service contracts. 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. The Remuneration Committee has performed the above duties during the Year. The Company held one meeting during the Year and the individual attendance of its members of the meetings is set out as follows:

Member of the Remuneration Committee	No. of Committee meetings attended	Attendance rate
WANG Nian-qiang	1	100%
WANG Chuan-fu	1	100%
CHUNG Kwok Mo John	1	100%
Antony Francis MAMPILLY	1	100%
QIAN Jing-jie	1	100%

The terms of reference of the Remuneration Committee is published on the websites of Stock Exchange and the Company pursuant to Code B.1.3.

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 to their individual performance as measured against the corporate objectives and the Group's operating results and taking into account the comparable market conditions. The principal elements of the remuneration package of executive Directors include basic salary and discretionary bonus.

The emoluments paid to each Director of the Company for the year ended 31 December 2017 are set out in note 9 to the financial statements.

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

Directors do not participate in decisions on their own remuneration.

REMUNERATION OF SENIOR MANAGEMENT

Remuneration by bands	Number of senior management
RMB0 to RMB1 million	3
RMB1 million to RMB2.5 million	1

NOMINATION COMMITTEE

The Company 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 also reviews the structure, size and composition of the Board annually, assesses the independence of independent non-executive Directors, and determines the policy for the nomination of Directors. As of the date of this report, the Nomination Committee comprises five members, namely Mr. WANG Bo, Mr. WANG Chuan-fu (chairman), Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie, of which Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors of the Company as of the date of this report. The Nomination Committee has performed the above duties during the Year.

THE BOARD'S DIVERSITY POLICY

The Board has adopted the Diversity Policy, which sets out the approach to diversity of Board members. In determining the Board composition, the Board and the Nomination Committee consider a range of diversity elements, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All appointments of the Board will be made based on merit and objective criteria while taking into full account of the interest of Board's diversity.

The selection of candidate will be based on a range of diversity elements. The final decision will be made according to the strengths of the candidate and his/her contribution that would bring to the Board.

The Company held one meeting during the Year and the individual attendance of its members of the meetings is set out as follows:

Member of the Nomination Committee	No. of Committee meetings attended	Attendance rate
WANG Bo	1	100%
WANG Chuan-fu	1	100%
CHUNG Kwok Mo John	1	100%
Antony Francis MAMPILLY	1	100%
QIAN Jing-jie	1	100%

The terms of reference of the Nomination Committee is published on the websites of Stock Exchange and the Company pursuant to Code A.5.3.

INDEPENDENT INTERNATIONAL AUDITOR AND THEIR REMUNERATION

For the year ended 31 December 2017, the total remuneration paid and payable by the Company to the independent international auditor, Ernst & Young, were RMB1,340,000 for audit services. The audit fee was approved by the Board. During the reporting period, the total remuneration in respect of the non-audit services was RMB250,000.

Item	2017	2016
Review of interim results	**RMB250,000**	RMB250,000
Other non-audit services	**RMB0**	RMB0

The re-appointment of Ernst & Young as the Company's independent international auditor for the Year 2018 has been recommended and endorsed by the Board and is subject to approval by shareholders at the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection and reappointment of the external auditor during the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board confirms its responsibility for risk management and internal control, and for reviewing their effectiveness through the Audit Committee at least annually. The Audit Committee assists the Board in performing its responsibilities for supervision and corporate governance, covering financial, operational, compliance, risk management and internal control, and internal audit functions of the Company.

Various measures 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 Company's systems of risk management and internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material errors, losses or fraud. The Board considers that the Company is fully compliant with the provisions of risk management and internal control as set forth in the Corporate Governance Code.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Company's risk management system is composed of well-established organizational structure as well as all-rounded policies and procedures. Responsibilities of each business and functional department are clearly defined to ensure effective balance. The Company's risk management and internal control structure comprises of:

BOARD OF DIRECTORS

- Evaluating and determining the nature and magnitude of the risks to be assumed by the Company, to achieve its business and strategic goals;

- Ensuring that the Company has established and maintained appropriate and effective risk management and internal control system;

- Supervising the designing, implementation and inspection of the risk management and internal control system by the management team.

AUDIT COMMITTEE

- Assisting the Board in performing its duties of risk management and internal control systems;

- Supervising the Company's risk management and internal control system on an ongoing basis, to provide opinions and suggestions with regard to the improvement of the risk management and internal control systems;

- Reviewing the effectiveness of the Company's risk management and internal control systems at least once a year;
- Ensuring that the Company has sufficient resources, staff qualifications and experiences in accounting, internal audit and financial reporting functions.

MANAGEMENT TEAM

- Designing, implementing and inspecting the risk management and internal control systems;
- Identifying, evaluating and managing risks that may exert potential impacts on major operational procedures;
- Responding to and following up with in a timely manner the investigation results of risk management and internal control issues raised by the Internal Audit Department;
- Providing opinions to the Board and the Audit Committee on the acknowledgment of the effectiveness of the risk management and internal control systems.

INTERNAL AUDIT DEPARTMENT

- Reviewing the due effectiveness of the Company's risk management and internal control systems;
- Reporting the audit results and making suggestions to the Audit Committee, to improve major drawbacks of the systems or finding the deficiency of the control.

IDENTIFICATION, EVALUATION AND MANAGEMENT OF MAJOR RISKS

The management team and relevant staff identify risks that may exert potential impacts on the Company and its operation, and evaluate risks in environment and process of the control. Through comparison of the risk appraisal results and risk prioritization, risk management strategies and internal control procedures are determined to prevent, avoid or reduce risks.

Major risks and related control measures are reviewed and upgraded on an ongoing basis to ensure proper internal control procedures in place. Based on the testing results, persons in charge confirm with the Senior Management that internal control measures have played their roles as expected, their weakness identified in the control have been corrected, and risk management policies and internal control procedures have been revised, in the event of any major changes. The Board and the Audit Committee supervise the control activities of the management team to ensure the effectiveness of the control measures.

ANNUAL REVIEW

In 2017, the Board reviewed the soundness and effectiveness of the Group's risk management and internal control systems, with an self-evaluation report issued on the internal control. In addition, the Company retained an auditor to audit the effectiveness of the internal control related to the Company's financial reports, and to provide independent and objective assessment and suggestions in the form of auditor's report. The Board considers that the Company's risk managements and internal control systems are effective and adequate.

INTERNAL AUDIT

The Group has an Audit Department which, equipped with independent internal audit system, plays an important role in the Group's risk management and internal control framework. The Audit Department reports directly to the Audit Committee. Major audit findings will be reported on timely basis. Based on its consideration, the Audit Committee will provide advices to the Board and the Senior Management, with subsequent measures taken to review the implementation of the rectification and improvement plans.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by its Directors. Having made specific enquiry, all Directors complied with their obligations under the Model Code regarding their securities transactions during the Year.

Specified individuals who are likely to be in possession of inside information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2017.

DISCLOSURE OF INSIDE INFORMATION

The Group has put in place a set of policy for the disclosure of inside information which sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The policy and its effectiveness are subject to review on a regular basis.

SHAREHOLDERS' RIGHTS

Under the Company's Articles and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Hong Kong 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 5% of the total voting rights of all members having the right to vote at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting of the Company. The request, which must state the general nature of the business to be dealt with at the meeting, may be sent to the Company in hard copy form or in electronic form and must be authenticated by the Shareholder(s) making it.

Further, Shareholders representing at least 2.5% of the total voting rights of all the members having a right to vote, or, at least 50 Shareholders who have a relevant right to vote, may put forward proposal at general meeting; and circulate to other shareholders written statement with respect to matter to be dealt with or other business to be dealt with at general meeting. For further details on the shareholder qualifications, and the procedures and timeline, in connection with the above, shareholders are kindly requested to refer to Sections 580 and 615 of the Hong Kong Companies Ordinance.

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

INVESTOR RELATIONS

The Company believes that effective communication with the investors is essential for enhancing investors' knowledge and understanding of the Company. To achieve this, the Company pursues a proactive policy of promoting investor relations and communication. 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.

There has not been any significant change in the Company's Articles during the Year.

As a global leading electronics manufacturing services provider, the Group can provide customers with one-stop services covering design, research & development, manufacture, logistics and after-sale services. Currently, we mainly engage in such businesses as manufacture of parts like metal structural parts and plastic structural parts of electronics, 3D glass, ceramics, chargers and lithium ion battery pack, and design, testing and assembly of electronic products, with products covering consumer electronics, automotive electronics, industrial electronics, IoT (Internet of Things) and other industries.

In 2017, the Group insisted on the "people-oriented" core philosophy and carried out operations in compliance with laws and regulations to create an open, fair and just as well as orderly, safe and stable industry competition environment; actively launched such public welfare activities as poverty alleviation, disaster relief and education aid and performed corporate social responsibilities, so as to continue to create values for customers, employees and the society.

During the year, the Group has complied with the "comply or explain" provisions set out in the Environmental, Social and Governance Reporting Guide under Appendix 27 of the Listing Rules, and has established, continuously operated and updated our social responsibility management system through initiatives in the following aspects:

A. REPORT ON THE ENVIRONMENTAL ASPECT

We begin to enter into a new era thanks to on-going industrial revolutions, progress of human society, fast growing economy and ever-changing technologies. However, in the meantime, our environment has also suffered unprecedented damages. In the 21st century, environmental issue has become a serious problem facing the world today. Therefore, the Group always regards environmental protection as an important precondition and guarantee for stable corporate development. Shouldering the mission of "sustainable development", we commit ourselves to ensuring lawful and compliant operations and realizing the ultimate goal of clean production. We respect and protect nature, strictly comply with state laws, regulations and standards, actively take into overall consideration the environmental impacts of our decisions and activities, and strengthen prevention & control of hidden threats and environmental protection in the whole production process, in order to achieve harmony with the environment. In 2017, the Group did not incur any material or aforementioned environmental pollution or ecological damage.

ASPECT A1: EMISSIONS

The Group strictly complies with Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Water Pollution Prevention and Control Law of the People's Republic of China, Environmental Protection Law of the People's Republic of China and other laws & regulations and restricts emission of three wastes (waste water, waste gas and solid wastes) through rational management and control to ensure sound environmental safety work and build a green homeland.

A1.1 Types of Emissions and Relevant Emission Data

Emissions cover waste water, waste gas, solid wastes and noise. Waste water includes production waste water and domestic sewage, waste gas mainly includes nitric oxide, sulfur dioxide and suspended particles and solid wastes include recyclable waste, hazardous waste and general waste.

A1.2 Total Greenhouse-gas Emissions

In view of the global concerns on climate change, the Group has taken the initiative to reduce carbon emission and adopt carbon sequestration in accordance with the relevant requirements governing the reduction of greenhouse-gas emissions, so as to join hands with the community to combat climate change. In 2017, the total volume of greenhouse gases we emitted was approximately 0.8311 million tons of carbon dioxide (calculation based on local emission factors).

A1.3 Discharge of Hazardous Waste

The Group has reduced the emissions of air, land and water pollutants through identifying, evaluating and managing wastes generated during the production process. All hazardous wastes we generated are transferred to and handled by qualified hazardous-waste processing companies, while the sewage from our production is discharged to our sewage treatment station for processing. After treatment, the sewage will be disposed of if certain standards are met. In 2017, the volume of sewage treated and released was approximately 1,403,458 tons.

In 2017, the total amount of hazardous solid wastes generated was approximately 28,480 tons, and all were commissioned to and treated by environmental companies licensed to handle hazardous wastes.

A1.4 Discharge of Non-hazardous Waste

In 2017, the total amount of non-hazardous wastes was approximately 6,906 tons, and all were commissioned to and handled by companies approved by government departments. Materials are recycled in the production process to reduce waste, for instance, using plastic frames and recycled cabinets in the production of products.

A1.5 Emission-reduction Measures and Achievements

In 2017, the Group set its energy saving goal at 2,000 tons of standard coal, and attained that goal through an annual energy-saving work plan and follow-up measures. According to the energy-saving goal for 2018, the Group expects to save 2,050 tons of standard coal.

A1.6 Methods for Disposal of Hazardous and Non-hazardous Wastes, Emission-reduction Measures and Achievements

The Group has attained the following achievements in reducing the emission of greenhouse gases:

Case 1: Implemented green lighting and purchased 5,000 energy-saving LED lights in 2017.

Case 2: Installed waste heat recovery system to the air-compressor to provide dormitories with hot water (figure 1).

Figure 1: Application of waste heat recovery techniques

Case 3: The mechanical arms with a vacuum generator that generates negative pressure via compressed air were replaced by those with a vacuum solenoid valve that generates negative pressure via vacuum to absorb and improve the products (figure 2).

Figure 2: Replacement of vacuum generator by vacuum solenoid valve (replacement of compressed air by vacuum)

ASPECT A2: RESOURCE CONSUMPTION

To use resources effectively, the Group has formulated and implemented Management Procedure for Implementation Plan Concerning Energy Targets, Energy Index and Energy Management, Energy Assessment & Control Procedure and Control Procedure for Energy Baseline & Energy Performance Parameters, Management Regulations on Energy-saving Work and other regulations and policies.

A2.1 Energy Consumption

The Group uses diesel and natural gas as fuels. In 2017, the total amount of natural gas consumed was approximately 3,218,514 cubic meters, while the total amount of diesel consumed was approximately 1,320 liters. The total power consumption in 2017 was approximately 915,623,388 KWH.

A2.2 Water Resources Consumption

The Group's goal of "improving the efficiency of water usage and attaining sustainability in the use of water resources" is reflected in all aspects of production and operations. The total amount of water consumed in 2017 was approximately 9,044,957 cubic meters.

A2.3 Energy Conservation

The Group strives to reduce energy consumption, improve efficiency of energy utilization, and mitigate the pressure we bring to the environment as a result of our energy consumption. We implement energy-conservation and emission-reduction measures through three aspects, namely energy-saving management, energy-saving technologies and energy-saving structure. Under these initiatives, approximately 61 energy-saving technological transformations were carried out. In 2017, energy-saving technological transformation projects achieved an annual energy-saving of more than 2,386 tons of standard coal.

Case 1: Transformation of pallet washing line by replacing compressed air dryer with heat pump helped save approximately 34.06 tons of standard coal every year.

Case 2: Process improvement project of CNC6 sound hole helped save approximately 63 tons of standard coal each year.

A2.4 Water Resources Conservation

The Group has not encountered any issues with sourcing water that is fit for purpose. The Group improved anodic process and water purification unit and recycled waste water for curved surface machining to reduce consumption of fresh water and save costs. In 2017, the Group saved approximately 233,700 cubic meters of water usage.

A2.5 Packaging Materials of End-products

The Group used a total of approximately 1,438,292,031 pieces of packaging materials for our end-products in 2017.

ASPECT A3: ENVIRONMENTAL AND NATURAL RESOURCES

Environmental Risk Management

The Group has implemented an environmental risk management system covering the whole process of our construction projects. We adopt the "three simultaneousnesses" system regarding our environmental protection facilities and main constructions, namely "to design simultaneously", "to construct simultaneously", and "to commence operations simultaneously" on the facilities and constructions, so as to ensure that environmental risks are under control. In addition, the Group has also established an integrated environmental management system (EMS) and obtained the ISO14001 certification for the system in 2003. Besides, it passed certification of the upgraded system in October 2017.

Cultural Promotion

The Group is dedicated to forging a harmonious relationship between man and nature. Step by step, the Group exerts efforts to protect the surrounding environment, spread the message of environmental conservation and foster environmental awareness. The Group also promotes the concept of "green office" internally by posting labels, such as those carrying the message "take the lead to save energy" in prominent places. In June 2017, the Group organized an Environmental Day themed on "Everyone Participates to Build a Green Homeland", summarized the safety, environment and energy-saving work in the year and commended excellent units and individuals.

Figure 3: Environment safety Q&A prize-giveaway

Figure 4: Environment safety competition

Figure 5: 2017 environmental safety and 5S energy saving and consumption reduction annual award ceremony

B. REPORT ON SOCIAL ASPECTS

EMPLOYMENT AND LABOR ROUTINE

Based on the Labor Law, Labor Contract Law and other relevant laws and regulations of the People's Republic of China, the Group has formulated a systematic, normalized and personalized human resources system, which covers policies in many aspects including remuneration & welfare, vocational training, code of conduct, working hour, performance evaluation, social benefits, health & safety, diversification & anti-discrimination, child labor and forced labor, so as to provide employees with favourable conditions and broad platforms for career development.

ASPECT B1: EMPLOYMENT

We seek development based on outstanding talents and endeavor to build core competitiveness with abundant high-quality manpower resources, so as to promote sustainable development of the enterprise. We believe that our development should be attributed to the hard work of our employees. We always adhere to the "people-oriented" human resources policy. While providing our employees with a broad stage for displaying their talent, we also attach great importance to the cultivation of their abilities and professional quality, encourage technological innovations among them and strive to create more development opportunities and build a fair, just and open working environment for them.

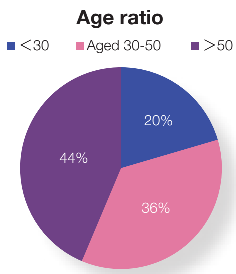
Labor Contract

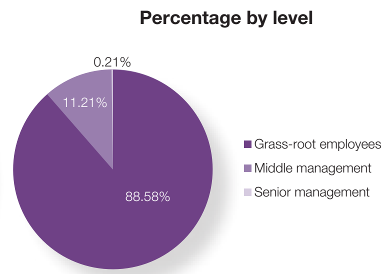
To regulate the employment relationship with our employees and protect their legitimate rights and interests according to laws, the Group has signed labor contracts with all employees at the beginning of their employment to define the rights and obligations of the enterprise and employees and provide a reliable legal evidence and basis for our employees in settling labor disputes and protecting their legitimate rights and interests.

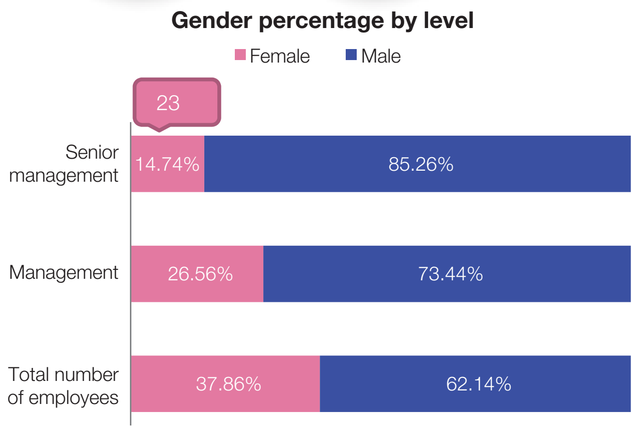
Equality and Diversification

To build a diversified platform, create equal opportunities and strive for common benefits, the Group, since its establishment, has kept respecting the privacy and belief of our employees and prohibiting any discrimination, including any discrimination on age, gender, birthplace, nationality, customs, social rank, religion, physical disability, political affiliation and so on. So, the Group has a variety of employees at present.

The Group has set a good example for the public in fighting against discrimination on age and gender. The Group engages employees at various ages. In recent years, the proportion of female employees in the Group's total number of employees remained largely stable at about 38%. In 2017, female managers accounted for 26% of the management. About 15% of the senior management are female (23 persons).







Communication and Complaint Mechanism

The Group attaches importance to the voice of employees. To substantially protect the rights and interests of employees, we have provided diversified channels for communications and complaints. We have in place a wide range of communication and complaint channels that operate as a whole, including group discussion (figure 6), labor union, email, mailboxes, complaints hotlines and Wechat account, so as to build a bridge for effective communication between the Group and employees and give them warm care. In 2017, the Group posted up "complaint-handling channels and processes" in the whole group, to enhance publicizing handling of complaints concerning operation and management and make complaint channels more transparent. Meanwhile, it protected the privacy security of employees who have made complaints, to create a more harmonious enterprise environment.

Figure 6: Group discussion

Compensation and benefits system

Based on the national compensation and benefits policies and systems, the Group has developed a sound compensation management system in which staff bonuses are closely related to the Group's operating situations, the performance of the department the employee belongs to, and the employee's personal performance, to provide employees with competitive compensation and ensure payment of monthly wages on time. Meanwhile, to maximize the protection on employees' rights and benefits, the Group also reviews and amends the remuneration system annually.

Employee protection

The Group firmly believes that employees are the foundation of an enterprise and the guarantee for its sustainable development. Therefore, the Group upholds the "people-oriented" principle and protects basic rights and interests of employees from the system level, which demonstrates humanistic care. The Group ensures that employees are entitled to benefits such as annual leave, sick leave, marriage leave, funeral leave, maternity leave, breastfeeding leave and so on. During the daily management, the Group actively provides employees with support and assistance in household registration transfer and affiliation of personnel archives, to ensure that employees have no additional worries. In order to protect the social insurance benefits of employees, the Group has also supplemented clear explanations on the welfare items, scopes of application, payment standards and forms of payment of such benefits; pensions, healthcare payments, work injury payments, child-birth payments, unemployment insurance and housing provident funds are paid in full in a timely manner for employees in strict accordance with the laws.

Meanwhile, the Group has always been concerned about and committed to bettering the livelihood of employees. In this regard, the Group has made great achievements in different areas including housing, transportation, children's education and healthcare:

Dining: The Group has built staff canteens in various industrial parks. Employees are provided with diversified and nutritional meals every day to ensure their adequate nutritional intake.

Accommodation: The Group has built staff quarters in various industrial parks where employees can reside at a low cost.

Transportation: To make traveling easier for employees, the Group provides staff members with a daily shuttle bus service that operates in multiple shifts and lines. The Group also provides zero-deposit car-purchase benefits to employees in which subsidies are offered according to the car model the employee purchases. Meanwhile, the Group has also in place professionally-installed chargers for employees who purchased new energy vehicles, and employees are allowed to charge their cars for free within the Group.

Healthcare: The Group has established and continuously improved the staff protection system. Employees' social insurances are paid for in strict accordance with the law. The Group has also set up a medical fund for the staff to add an extra layer of medical protection for employees.

ASPECT B2: HEALTH AND SAFETY

Safety is the Group's eternal theme and safe production is the Group's foundation of survival. Safety is a respect for employees' health, the best interest of employees, an ultimate embodiment of the enterprise's "people-oriented" concept and an inevitable requirement of scientific development, harmonious development and green development. It is the most basic responsibility of an enterprise to ensure the safety and health of every employee. The Group has made great efforts in ensuring the safety and health of employees, established a corresponding management system, and provided employees with guarantee and care to make them feel at home.

Occupational health and safety management system

Based on the OHSAS 18001:2007 "Occupational Health and Safety Management System – Requirements" and by keeping learning from and analysing the management models of excellent enterprises, the Group has finally mapped out its management approach and goals in ensuring the occupational health and safety of staff; it has also developed a range of standards and management procedures as well as an integrated occupational health and safety management system so that well-defined rules are laid out for everyone to follow, and everyone can shoulder their own responsibilities. In January 2007, the Group obtained the OHSAS 18001: 2007 certification, which is a certification monitored and approved by the DNV certification group annually. The Group also conducts internal audits on its occupational health and safety management system annually to ensure the completeness and reasonability of the management system. In 2017, the Group has further strengthened its occupational health and safety management system, so that the system can be improved continuously.

Risk control and lowering of labour intensity

Safety accidents in the production process are often caused by minor errors or mistakes of human behavior. When employees are tired or lack enthusiasm for work, they tend to work absent-mindedly and carelessly, thus causing minor errors, which may lead to serious accidents. Therefore, the core objective of the Group's production safety principles is to "always ensure the health of employees and strengthen care for employees."

During the year, in the daily management, the Group ensured the safety and health of employees by evaluating work risks and lowering labour intensity. In 2017, the Group identified the risks in production activities and in the procedures bringing products or services into place and also assessed the magnitude of the risks and assigned rating to such risks. After determining the magnitude of risks, the Group took corresponding measures to implement different levels of effective control over all dangerous matters, so as to avoid occupational safety accidents to the greatest extent. Meanwhile, the Group expedited the implementation of automation projects in 2017, such as the automation of stamping processes, CNC processes and grinding processes, in order to improve the working environment, reduce the intensity of labour for workers, ease the burdens of employees and enable them to work more effectively and energetically.

Safe production

(I) Strengthening the implementation of responsibility

The enterprise is the liability subject of safe production and should not have the slightest relaxation and mentality of taking chances. To ensure safe production management, the Group firmly developed a safe production idea of "safety first, emphasize precautionary measures, implement comprehensive controls", established a vertical and horizontal job responsibility system for various employees and required production managers at all levels to sign a "letter of responsibility governing production safety objectives". From senior management to project operators and site operation personnel, safety responsibility is implemented to every job and every link during the production process and an atmosphere of universal safety awareness is formed so as to prevent accidents and effectively ensure the safety of employees.

The "four NOs" principle is closely followed to eliminate production accidents. In order to prevent the recurrence of similar incidents, improvements were made focusing on the "tangible" aspects to ensure production is fundamentally safe. In 2017, the Group has not incurred any workplace death in its business.

(II) Enhancing safety education training and assessment

People are the theme of safe production and people's unsafe behaviours pose the biggest threat to safety. Only by enhancing safety education, strengthening people's safety awareness, improving people's safety culture quality, reinforcing people's precaution awareness, and standardizing and improving employees' behaviours can the ideological defence line of safe production be firmly built.

In 2017, the Group has standardized a three-tier training framework for new staff members and has concretely carried out the trainings. Spot checks for the implementation of the three-tier trainings have been conducted quarterly, and safety training materials and examination questions have been drafted according to the job nature of employees. New employees are required to attend the trainings and pass the examination before taking on the job.

During the production process, every link of production and operation by each employee was effectively supervised through production safety inspections. Meanwhile, hidden problems identified are reported while employees found to have violated regulations are educated and provided guidance. This has effectively curbed any violations of regulations in business instructions and operations. In 2017, the Group has designed and developed a system to manage special documents so as to achieve the real-time tracking and information-sharing regarding the rectification status of hidden problems.

In 2017, according to the work safety assessment standards, quarterly evaluations and assessments have been performed in different units to gauge the implementation of the standards. Units that have achieved outstanding results in the annual assessment have been awarded and recognized (figure 7).

Figure 7: 2017 environmental safety and 5S energy saving and consumption reduction annual award ceremony

Emergency management

The Group continuously improves the emergency management structure and strengthens the capacity of emergency relief insisting on the principle of "emergency preparation as priority, and integration of emergency preparation with emergency relief". In 2017, the Group kept identifying and evaluating emergent conditions and events and minimized the impact through emergency applications and emergency plans, so that hazards to people, environment and properties were reduced.

In 2017, the Group experienced Typhoon "Hato" on 23 August. No accidents happened during the typhoon period, as the Group promptly issued early warnings, formulated the emergency plans, implemented the typhoon accountability system, stepped up precautionary tasks, carried out patrol of dangerous regions, salvation and relief works.

LEVEL B3: DEVELOPMENT AND TRAINING

Training guidance

Employee training is the only way to help employees grow up, implement talent strategy and achieve long-term development. The long-term development of employees not only benefits from their actual experience in daily work, but also depends on the sustained and effective talent training organized by enterprises. Therefore, the Group upholds the management concept of "people-orientation" to build a sound employee cultivation system and provide employees with a wide range of systematic training courses. By improving the knowledge reserve, professional skills and career planning of employees, the Group provides employees with a good working environment and gives them more opportunities to train themselves and fulfil personal growth and values and at the same time creates an energetic and positive working atmosphere for the whole enterprise and establishes a sound talent cultivation and utilization mechanism to lay a solid foundation and make progress together.

The Group provides employees with induction training for new employees and training in preparation for promotion of junior talents. Tutor training course is also organized for the current batch of employees under the theme of "imparting, helping and leading" (figure 8) to help them faster and better adapt to the working environment and content and start work more effectively so as to promote mutual development of the Group and individuals.

In 2017, the Group organized more than 58,000 training sessions with approximately 3,100,000 training participants (36% of females and 64% of males) and approximately 40 training hours per capita.

Figure 8: Learners in lessons of the current tutor training course

Development and cultivation

The Group endeavors to give employees "home-like" care and organizes various outdoor activities for employees every year to alleviate their work pressure and enhance their physical quality; meanwhile, the Group also has set up many communities and encouraged employees to join the communities according to their abilities and interests so as to help them grow further in team activities.

(I) Outdoor activity: The 2nd anniversary celebration hiking carnival

On 18 June 2017, the anniversary celebration carnival of the Group was held in B Square, Yadi Second Village, Aotou Town, Huiyang District, Huizhou City. Themed on "Carnival", this activity involved more than 1,000 employees and 100 villagers from the Yadi Second Village. Mr. Wang Nian-qiang, chief executive officer and executive director of our Group, participated in the activity and delivered an important speech. The hiking not only alleviated employees' work pressure, but also helped colleagues bond together and keep up high morale, fully demonstrating the positive mental attitude of the Group's employees!

Figure 9: The 2nd anniversary celebration hiking carnival in 2017

(II) Rich community activities

To provide opportunities for employees who love literature, photography and dance to show their talents, the Group has organized non-profit-making social bodies including reporters group, photographers association and dance association for internal employees, which provide training and photography and literature activities from time to time. They also perform in, take photo of and write articles on major activities of the Group, as well as show their talents in the Group's newspapers, magazines and other mainstream media.

Figure 10: "Love Dancing Club" is performing at a large event of the Group

LEVEL B4: LABOUR STANDARDS

Forbiddance of child labour

In order to effectively safeguard the basic rights of employees and eliminate the employment of child labour, the Group has formulated relevant rules and regulations to prohibit child labour in accordance with the Labour Law of the People's Republic of China, the Law on the Protection of Minors and the Rules on the Forbiddance of Child Labour.

By continuously improving and optimizing its recruitment procedure, the Group fully implemented its corporate social responsibilities and ensured the healthy growth of children. On the one hand, the Group's "rules on the forbiddance of child labour" are disclosed through active external publicity. On the other hand, the Group has actively implemented the rules besides specifying the terms of employment and formulating the identification system and relief measures for child labour.

Forbiddance of forced labour

The Group fully respects employees' freedom in terms of choice of employment, beliefs, association and personal privacy. The Group commits to refrain from employing any form of prison labour, indentured labour and bonded labour, and not to employ child labour. The Group also strictly forbids seizure of credentials, collection of money or objects as security, withholding of wages, surveillance, interception, body search, access restrictions or acts of forced labor in any form.

OPERATING PRACTICES

LEVEL B5: SUPPLY CHAIN MANAGEMENT

Supply chain and suppliers management

Adhering to responsible procurement, sunshine procurement and green procurement, the Group proactively fulfilled its social responsibilities in the procurement process and stuck to the path of sustainable development while its life-cycle management is conducted in a closed-loop feedback mechanism to create a highly efficient, collaborative and mutually-beneficial supply chain platform.

The Group formulated the Requirements for Suppliers and the Supplier Social Responsibility Management Practices to inform existing and potential suppliers of the Group of the Group's requirements for suppliers, to establish the basis for supplier certification and business risk analysis, and to establish the basis for continuous improvement and development of suppliers. The Group provided in details all the standards and requirements set for suppliers in terms of quality control, environmental management, occupational health and safety, corporate social responsibilities, intellectual property, materials management and production management. And a veto vote is provided under the corporate social responsibility module. The veto vote prevents any issues in breach of the labour law, and laws on the protection of women's and children's rights from being passed despite how many votes are obtained by other modules.

When engaging a new supplier, the Group will check whether it meets the CSR provisions in the BSR Evaluation Form for Suppliers and set a fatal item with one-vote veto power. We have selected suppliers according to strict standards on environmental protection, labour practices and human rights, requiring them to obtain ISO14001 environmental management system certification, comply with the Group's provisions about the environment, labour and human rights in the Agreement on Corporate Social Responsibilities of Suppliers and BSR Evaluation Form for Suppliers, and sign the Protocol on Toxic and Hazardous Substances and IT Industrial Cluster Environmental Management Material Standards.

Supplier social responsibility evaluation and investigation

The Group conducted regular social responsibility assessment and investigation on suppliers and had on-site evaluation of suppliers according to the provisions on corporate social responsibility assessment in the BSR Evaluation Form for Suppliers to see whether they have followed social responsibility related policies. If relevant suppliers fail to pass the evaluation, BYD would provide them with interviews, tutoring and training to promote continual improvement; those suppliers that fail to make satisfactory rectifications within the prescribed time would be disqualified from being suppliers according to the actual situation.

Each year, the Group would choose an appropriate time to conduct annual evaluation of suppliers that have transactions with us. Among the qualified suppliers, we selected the suppliers to be investigated based on the characteristics of materials (such as PCB, FPC, LCD and other high energy consumption and high pollution materials), and then investigated the suppliers on the list and required them to fill in the Annual Environmental Humanities Key Performance Indicators Report.

The Group periodically checked with the government website whether any BYD supplier is included in the government's black list; if yes, it would promptly freeze the supplier code and stop transaction on the procurement system and send an official mail to respective procurement departments; if the circumstances are serious, a certain amount of fine would be imposed.

Help suppliers perform social responsibilities

In order to promote the fulfillment of social responsibilities by its supplier partners, the Group required that an Agreement on Corporate Social Responsibilities of Suppliers should be signed to guide and supervise the suppliers, requiring them to serve the society and actively assume social responsibilities.

At the beginning of each year, the Group would formulate an annual environmental humanities performance assessment plan for suppliers. According to the assessment plan, the Group would require the suppliers to provide the environmental humanities performance indicators report of last year and conduct spot check on the data provided by the suppliers in the report to ensure the authenticity and effectiveness of the data.

We attach great importance to the protection of the rights of child workers, minors and women. It is explicitly specified in the Requirements for Suppliers that child labour is not allowed at any stage of the operation. Suppliers should establish procedures and take effective measures to protect minors. Suppliers should establish procedures to protect the lawful rights and interests of women and provide equal pay for both men and women. Female employees shall be entitled to statutory holidays such as maternity leave and Women's Day.

Responsible Procurement

Based on the development strategy and environmental policy, the Group guarantees the production and the orderly supply of living materials and services, establishes equal partnerships with suppliers for mutual benefit and common development to achieve optimal cost-effectiveness and efficiency, and continue to enhance the Group's core competitiveness in cost management. With the joint efforts of all procurement staff, the Group's responsible procurement ratio has reached 100%.

Sunshine Procurement

In respect of supply chain management and procurement, the Group has adhered to the philosophy of "sunshine procurement", so as to ensure that the whole process of supply chain management and procurement is "fair, open and equitable".

1. In respect of supply chain management, the Group first requires the suppliers to establish clear and formal code of business ethics and business conduct based on industry standards, such as EICC (Electronic Industry Code of Conduct), and such requirement shall be included in the suppliers' audit criteria. The Group will vigorously promote, establish and protect the suppliers' sunshine procurement system through "supplier meetings" and "supplier seminars", etc. It will also set the sunshine procurement policy as the key aspect for assessing suppliers and will strictly urge the suppliers to establish sunshine procurement system and process.

2. In respect of ways of procurement, the Group widely adopts various ways of procurement, such as tender, close quotation via electronic means, comparing prices, etc. It requires all suppliers to sign a "sunshine cooperation agreement", which specifies the responsibilities and obligations of both parties during the sunshine cooperation regarding procurement activities. The sunshine cooperation agreement also states ways of complaints, such as by telephone, email, message, etc., so as to provide the suppliers with convenient ways of making complaints. Hence, suppliers are also included in the list of "supervisors" in the sunshine procurement of BYD.

3. In respect of supervision, the Group specially established two departments under its direct control, i.e. a procurement committee and an examining division, to control supply chain management and procurement internally. Signs, telephone numbers and mailboxes related to making complaints are displayed in various places in each manufacturing base of the Group, and all behaviour and activities in breach of sunshine procurement will be imposed with serious punishment once verified. Such measures ensure that supply chain management and procurement are supervised by all personnel and facilitate the effective implementation and supervision of sunshine procurement.

4. In addition, the Group's procurement division collects blacklists of suppliers regularly. The Group blacklists those enterprises that use improper ways to compete or are punished by the government due to various reasons during the procurement. Suppliers on the blacklist are not allowed to carry out transactions with the Group within one year and can only be re-introduced according to the process after the rectification meets the requirement.

Green procurement

The Group insists on green procurement in the supply chain and raw material ends. The Group established the green procurement system of "green suppliers, green raw materials" mainly in all regions, businesses and factories under direction of the Procurement Section of the Head Office. Various tasks of environmental management in the procurement activities are subject to its control to ensure that each component procured from external source satisfies the green environment requirements.

1. The Group has established a series of green procurement policies and guidelines, issued "Requirements for Suppliers", "Formula of Development, Evaluation and Management of Production Material Suppliers", "Details for Development and Engagement of Production Material Suppliers", "Details for Review Management of Production Materials Suppliers" and "Details for Performance Appraisal of Production Material Suppliers" and other documents in the management of suppliers, which set forth clear requirements and operating guidelines in environmental substance management for suppliers; it involves in the management of toxic and hazardous substances in the supplier introduction phase. All suppliers are required to sign the Protocol on Toxic and Hazardous

Substances and Agreement on Corporate Social Responsibilities before cooperation. A management group on green procurement from suppliers is set up and the appraisal system for green procurement from suppliers is formulated. Suppliers are appraised annually for their performance in environmental protection.

2. If suppliers have had any acts against the green practice or environmental protection in their production and operation activities, and environmental inefficiency report will be issued to demand for improvement. In serious cases, penalties are imposed in the form of fines or reduction of procurement share. Those involved in extraordinary serious breach will be disqualified. In respect of raw material and parts procurement, the Group requires suppliers to use green materials in the preproduction stage. In the interim pilot stage, the DFE (Design of Environment) survey is conducted on the raw materials. In the final stage of mass production, supervisory inspections are carried out on supplied materials to ensure that BYD's "green procurement" approach is fully implemented.

3. The control of front-end green procurements of suppliers and raw materials avoids the spread of pollution and wastage to the back end. By centrally including raw materials, work in process and end products in the loop management for organic dynamics between the suppliers, customers and the Group, it genuinely fulfills full green process in the production and operation activities, and honour the Group's commitment to the society and environment with excellent performance in green procurement.

4. In respect of conflict minerals management, the Group conducts annual investigation on the source of metal materials provided by the suppliers to confirm whether they conform to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Each supplier is required to prove that they understand and support the EICC-GeSI (Electronic Industry Code of Conduct – Global e-Sustainability Initiative) actions and do not knowingly procure conflict minerals from the Democratic Republic of Congo, and to provide evidence that they have completed the EICC-GeSI Reporting Template for Conflict Free Minerals and have signed letters of commitments not to use conflict minerals. The Group supports such programs as the Conflict-Free Smelter (CFS) to ensure a responsible and sustainable source of raw materials. The Group will re-evaluate suppliers whose supply chains are found to include metal from the conflict areas.

LEVEL B6: PRODUCT RESPONSIBILITY

The core interest of the survival and development of any enterprise lies in the development, design, manufacture and sale of products; any enterprise should bear the natural responsibility for the market of its relevant products and the environment of the relevant economy and society. This is called the "corporate product responsibility." The Group strictly abides by the laws and regulations such as the Product Quality Law, Standardization Law, Metrology Law and Consumer Protection Law of the People's Republic of China and strictly enforces the product standards so as to firmly establish the idea of "quality first", to continuously enhance the awareness of quality and social responsibility, to ensure and improve product quality, to fulfill the main responsibility of enterprise quality, and to meet customer expectations and demand for high-quality products and enhance customer confidence.

Product Quality and Staff Quality

The Group adheres to the culture of "people before products", and believes the quality of people determines the quality of products. As a manufacturing enterprise, products are our foundation of success, and quality is the essence of products. After over two decades of development and exploration, the Group has a deeper understanding on quality and quality culture. In 2017, we focuses on strengthening the quality management of all staff, processes and aspects, and strictly controlled the quality of raw materials, production processes, products shipping and storage, transportation and sale to ensure that the quality of our products met or even exceeded the requirements of our customers. Meanwhile, the Group provided training on quality for employees on a regular basis, and also implemented rules for training and examination on quality. The Group planned to use three years to further raise the staff's awareness on quality through three aspects, i.e. management, execution and operation, from 2016 to 2018, and enhance relevant quality management requirements and training on skills, such that the quality management of the Group can make a qualitative leap.

Customers First

The Group is committed to providing excellent service to all customers. In the process of production management, the Group establishes a quality department in each plant which is responsible for the quality management system, product quality management and customer service management. Customer satisfaction is the goal that the Group will always pursue. Customer complaints against quality customer service staff are promptly handled. Once customer complaints are received, responses will be made in accordance with the Customer Complaints and Returns Process in the first place to ensure customer satisfaction.

Quality Appraisal and Recovery Procedures

The Group implements the Product Safety Responsibility Management Procedure and sets its annual quality target according to customer requirements and quality performance of the previous year. It evaluates the achievement of the quality target on a monthly basis and requires those who fail to reach the target to adopt improvement measures. Each of the quality targets has been effectively managed in 2017. Recycled products are strictly controlled according to the Non-compliance Management Procedure. Product quality is in line with the national Product Quality Law.

Consumer Privacy Protection

The Group respects the privacy right of each customer and strictly implements customer privacy management in accordance with the "Client Property Management Procedures" and the "Product Information Management Regulations". In terms of technology, the Group has set four levels of computer access to restrict employee copying of information; meanwhile, the Group's internal network is physically isolated from the external network to ensure that business data remains on computers for business operations only and will not be taken away by employees. Strict control should be implemented over the access to backend systems and databases of IT staff, especially those responsible for maintaining databases containing customer information, and strict real-time monitoring and auditing of their operations are implemented to prevent IT staff from unauthorized operating of customer information through technical means or taking customer information away. In respect of hardware, the Group always ensures the security of servers and the protection of the firewall against common viruses and information security by establishing multiple lines of defense.

LEVEL B7: ANTI-CORRUPTION

The Group is convinced that operating with integrity is the foundation for the fulfillment of corporate social responsibility and the basis of competitive advantage and continuing operation. The Group is committed to preventing corruption, bribery, extortion, fraud and money laundering across the Group and prohibits its employees from providing special treatment to and soliciting any benefits from customers, suppliers or any business related persons and strives to achieve the ultimate goal of green operation.

Staff Code

The Group requires employees to strictly abide by the laws and regulations such as the Anti-Unfair Competition Law of the People's Republic of China and the Anti-Corruption and Bribery Law of the People's Republic of China throughout the country, and to refuse commercial bribery, offering bribery and other improper gifts. We require employees to comply with laws, social norms, professional ethics, and internal rules and regulations of the Group. In 2017, the legal audit rate of various rules and regulations, economic contracts and important decisions of the Group has remained 100%. Meanwhile, the Group has implemented effective internal control mechanism in order to protect the performance of economic contracts.

In addition, the "Code of Conduct" in the Employee Handbook of the Group states that all of its activities will fully comply with all laws, systems and regulations of the countries in which it operates. We undertake to get to know the views of the related parties regularly so as to continue to develop and perfect the code of conduct

Anti-corruption Propaganda and Whistleblowing Policy

The Group believes that ethical behavior is extremely important to the sustainable development and the long-term success of the business of an enterprise. Therefore, the Group strictly abides by the state regulations in "China's Efforts to Combat Corruption and Build a Clean Government" and prohibits the provision or acceptance of bribes, gifts, entertainment or any other form of practice which intends to affect or may affect the relevant business decisions of the Group in order to gain unusual or inappropriate advantages.

We attach great importance to promoting and fostering a culture of integrity and consider the punishment and prevention of corruption as the key aspect of corporate culture, as such, we widely carries out education on integrity and self-discipline and alerts all staff through notices on corruption cases. Meanwhile, the Group provides channels for complaints. If any corruption, bribery, extortion, fraud and money laundering are found, employees must report to the administrative department. All complaints will be handled confidentially and the Group has the duty to protect the lawful rights and interests of the disclosers. In the event of any corruption, bribery, extortion, fraud and money laundering, the Group will investigate and take necessary legal action to protect the Group's interests.

The Group has complied with all anti-corruption laws and regulations during the year.

COMMUNITY

LEVEL B8: COMMUNITY INVESTMENT

The Group is committed to creating a positive impact on the communities in which it operates and encouraging its employees to participate in community projects or activities. The Group always keeps in mind its social responsibilities and has been expanding the areas of its charitable work. It actively participates and promotes national public welfare activities and raises funds for charity to help create a loving society.

"Pass Love and Spread Warmth" Old Clothes Recycling Environmental Charity Event

On 28 and 29 November, 2017, the Group participated in the fifth old clothes recycling environmental charity event known as "Old Clothes Deep Love", and set donation spots in various industrial parks and living areas to started clothes donation. During the two-day event, a lot of volunteers were involved to spread the knowledge on recycling and call upon people to make donations. "Let your used items be others' necessities", staff and their families were encouraged to make donations in order to contribute to such national charitable event.

"Dream Library" Book Donation

Children are the future of the country and the hope of the nation. Cultivating a new generation is the key to improving the national quality. The Group always pays attention to poor children and is dedicated to helping the growth of the children. In 2017, the Group participated in the "Dream Library" book donation, devoted to improving children's lack of reading resources in impoverished areas. Starting from 24 October 2017, donations points were set up in various industrial parks. Employees responded positively and participated in the book donation one after another to offer their love for children in the impoverished areas so that they could also have the opportunity to tour the sea of knowledge and read books that would bring lifelong benefits.

Figure 11: "Dream Library" donation

The board of directors (the "Board") of BYD Electronic (International) Company Limited would like to present its annual report and audited consolidated financial statements for the year ended 31 December 2017.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in Hong Kong 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 mobile intelligent terminal components and modules. It also provides design and assembly services for mobile intelligent terminal to its customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements and their notes on pages 56 to 119 in this annual report.

The Board has resolved to declare a final dividend for the year ended 31 December 2017 of RMB0.230 per share (for the year ended 31 December 2016: RMB0.069 per share). The proposed final dividend is subject to consideration and approval at the Company's annual general meeting (the "AGM").

The Company will issue announcement, circular and notice of AGM regarding the AGM in accordance with the Listing Rules and the Articles of Association of the Company. The Company will also make separate announcement regarding the record date and date of closure of register of members for the payment of the final dividend. It is expected that the final dividend will be distributed before 31 August 2018.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statements of changes in equity and note 26 and 36 to the financial statements respectively.

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 financial statements.

SHARE CAPITAL/PAID-IN CAPITAL

Details of the movements during the year in the share capital are set out in note 25 to the financial statements.

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company as at 31 December 2017, calculated under the provisions of Sections 291, 297 and 299 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) (the "Hong Kong Companies Ordinance"), amounted to approximately RMB10,308,378,000 (2016: RMB7,878,981,000).

DIRECTORS AND SERVICE CONTRACTS

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

EXECUTIVE DIRECTORS

WANG Nian-qiang
SUN Yi-zao (resigned on 3 January 2017)
WANG Bo (appointed on 3 January 2017)

NON-EXECUTIVE DIRECTORS

WANG Chuan-fu
WU Jing-sheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Antony Francis Mampilly
CHUNG Kwok Mo John
QIAN Jing-jie

Below is a list of directors of the subsidiaries of the Company during the Year and up to the date of this report in alphabetical order:

CHEN Yong-ping	HE Zhi-qi	LI Ke
LIU Wei-hua	LV Xiang-yang	SUN Yi-zao
WANG Bo	WANG Chuan-fu	WANG Jiang
WANG Nian-qiang	WANG Zhen	WU Jing-sheng
XIA Zuo-quan	ZHAO Bo	

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 of the Company has entered into a service contract with the Company for a term of three years. 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 Directors and independent non-executive Directors is for a period of three years 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 the Company.

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.

BUSINESS REVIEW

The business review of the Group are set out in the following sections of this annual report: Chairman's Statement, Management Discussion and Analysis and Note 33 to the Financial Statements. The applicable discussion and analysis as referenced shall form an integral part of this Directors' Report.

The Group recognises the importance of compliance with relevant laws and regulations and the impact of non-compliance with such relevant laws and regulations on the business. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators through effective communication. During the year ended 31 December 2017, the Group has complied with, to the best of our knowledge, all relevant rules and regulations that have a significant impact on the Group.

The Company recognises that our employees, customers and suppliers are key to our corporate sustainability. We strive to engage our employees, provide quality services to our customers and collaborate with our suppliers.

The Company places significant emphasis on human capital by promoting a diverse, non-discriminatory and fair environment to our staff, as well as providing a range of opportunities for career advancement based on employees' merits and performance. We also provide continuing training and development opportunities on the latest developments in the market and industry, including courses organized by external organizations and internally.

We value the feedback from customers and have established a mechanism handling customer service, support and complaints. We also proactively collaborate with our suppliers to deliver quality sustainable products and services. We have developed certain requirements in our standard tender documents. These requirements include regulatory compliance, labour practices, anti-corruption and other business ethics.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 12 to 14.

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

As at 31 December 2017, the relevant interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which 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 Company	Capacity	Number of issued shares held	Approximate percentage of total issued shares of that company
Mr. WANG Nian-qiang	the Company	Beneficial owner and beneficiary	17,102,000[1] (long position)	0.76%
	BYD	Beneficial owner	19,049,740[2] (long position)	0.70%
Mr. WANG Bo	the Company	Beneficiary	2,805,000[3] (long position)	0.12%
Mr. WU Jing-sheng	the Company	Beneficiary	8,602,000[3] (long position)	0.38%
	BYD	Beneficial owner	4,457,580[2] (long position)	0.16%
Mr. WANG Chuan-fu	BYD	Beneficial owner	517,351,520[4] (long position)	18.96%

Notes:

1. Of which 8,500,000 shares are held by Mr. Wang Nian-qiang and 8,602,000 shares are held by Gold Dragonfly Limited ("Gold Dragonfly"), a company incorporated in the British Virgin Islands and wholly owned by BF Gold Dragon Fly (PTC) Limited ("BF Trustee") as the trustee of BF Trust, the beneficiaries of which include Mr. Wang Nian-qiang.

2. These are the A shares of BYD held by Mr. WANG Nian-qiang and Mr. WU Jing-sheng. The total issued share capital of BYD as at 31 December 2017 was RMB2,728,142,855, comprising 1,813,142,855 A shares and 915,000,000 H shares, all of par value of RMB1 each. The A shares of BYD held by Mr. WANG Nian-qiang and Mr. WU Jing-sheng represented approximately 1.05% and 0.25% of the total issued A shares of BYD as of 31 December 2017.

3. These shares are held by Gold Dragonfly, a company wholly owned by BF Trustee as the trustee of BF Trust, the beneficiaries of which include Mr. WANG Bo and Mr. WU Jing-sheng.

4. These are the 512,623,820 A shares, 3,727,700 A shares held in No.1 Assets Management Plan through E Fund BYD and 1,000,000 H shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 28.48% and approximately 0.11% of total issued A shares and H shares of BYD as of 31 December 2017, respectively.

Save as disclosed above, none of the Directors or chief executive had or was deemed to have any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2017.

SHARE OPTIONS

During the year under review, the Company did not adopt any share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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 2017 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 the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, so far as was known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the ordinary shares and underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange 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	Nature of interest	Number of ordinary shares in which the interested party has or is deemed to have interests or short positions	Approximate percentage of total issued shares
Golden Link Worldwide Limited ("Golden Link")	Beneficial interest[1]	1,481,700,000 (long position)	65.76%
BYD (H.K.) Co., Limited ("BYD Hong Kong")	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
BYD Company Limited ("BYD")	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
Gold Dragonfly	Beneficial interest[2]	137,081,650 (long position)	6.08%
BF Trustee	Trustee[2]	137,081,650 (long position)	6.08%

Notes:

1. BYD is the sole shareholder of BYD Hong Kong, which in turn is the sole shareholder of Golden Link. As such, both BYD Hong Kong and BYD were deemed to be interested in the shares of the Company held by Golden Link.

2. The shares are held by Gold Dragonfly, a company wholly owned by BF Trustee as trustee of BF Trust, the beneficiaries of which are 32 employees of BYD, its subsidiaries and the Group. As such, BF Trustee was deemed to be interested in the shares of the Company held by Gold Dragonfly.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the ordinary shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange 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.

CORPORATE GOVERNANCE

Report for the corporate governance adopted by the Company is set out on page 15 to 22 of this annual report.

REMUNERATIONS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2017, the total remuneration of the Directors and the five highest paid employees are set out in note 9 and 10 to the financial statements.

Subject to the Hong Kong Companies Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability, loss or expenditure incurred by him in defending any legal proceedings which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as an officer or auditor of the Company and in which judgment is given in his favour or in which he is acquitted, or incurred in connection with any application in which relief is granted to him by the court from liability in respect of any such act or omission.

MAJOR CUSTOMERS AND SUPPLIERS

The top five largest customer groups and the largest customer group of the Group represent approximately 79.62% and 35.65% of the Group's total sales of the Year respectively. The top five largest suppliers and the largest supplier of the Group represent approximately 41.48% and 19.07% of the Group's total purchase of the Year respectively.

None of the Directors, any of their close associates or any shareholders of the Company (which, to the knowledge of the Directors, own 5% or more of the issued shares 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 operation of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2017.

NON-COMPETE UNDERTAKING

BYD Company Limited declared that it has complied with the non-compete deed given by it to Mr. Wang Chuan-fu and Mr. Lv 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. Lv 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 Deed by any of BYD Company Limited, Mr. Wang Chuan-fu and Mr. Lv Xiang-yang.

RELATED PARTY TRANSACTIONS

The related party transactions set out in note 30(a) to the financial statements constitute connected transactions or continuing connected transactions (as defined in Chapter 14A of the Listing Rules) of the Company and the Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such transactions.

CONNECTED TRANSACTIONS

Details of the connected transactions are as follows:

THE FOLLOWING CONNECTED TRANSACTIONS OF THE COMPANY ARE SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

(i) Sale of assets by the Company to BYD

On 22 June 2017, the Company entered into another assets sale agreement with BYD for the transfer of infrared touch probe (紅外觸發測頭), washing line (清洗線) and other related equipment to BYD Group by the Group at a consideration of RMB9,110,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 30 April 2017, subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

On 11 December 2017, the Company entered into another assets sale agreement with BYD for the transfer of drilling and cutting process equipment (鑽削加工設備) and other related equipment to BYD Group by the Group at a consideration of RMB78,488,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 31 October 2017, subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

Such sale proceeds have been used as general working capital of the Group.

As BYD is the controlling shareholder of the Company, it is a connected person of the Company and therefore the sale of assets constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. The sales under the assets sale agreements entered into in June and December 2017 were aggregated with the sales under the assets sale agreement entered into in December 2016 (the details of which were set out in the announcement of the company dated 7 December 2016) for the purpose of calculating the percentage ratios as stipulated under Rule 14.07 of the Listing Rules. As the applicable percentage ratios were all more than 0.1% but less than 5%, the sales were subject to the reporting and announcement requirements under Rule 14A.76 of the Listing Rules, but are exempt from the independent shareholders' approval requirement.

The assets transferred to BYD Group have not been fully utilized by the Group and the Group has incurred maintenance cost in retaining such assets. The transfer of assets therefore enabled the Group to increase the overall utilization rate of its assets and hence enhanced its competitiveness.

(ii) Purchase of assets by the Company from BYD

On 22 June 2017, the Company entered into another assets purchase agreement with BYD for the purchase of surface mount machines/system (貼片機), automated optical inspection machine (自動光學檢驗機), reflow oven (回流爐) and other related equipment by the Group from BYD Group with a consideration of RMB53,183,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 30 April 2017 and subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

On 11 December 2017, the Company entered into another assets purchase agreement with BYD for the purchase of robots (機器人), test and measurement equipment (測試計量設備) and other related equipment by the Group from BYD Group with a consideration of RMB30,164,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 31 October 2017 and subject to a downward adjustment on the day of assets delivery due to the accumulated depreciation before the delivery.

The considerations in relation to the aforesaid acquisitions were financed by internal resources of the Group.

As BYD is the controlling Shareholder of the Company, it is a connected person of the Company and therefore the assets purchases constituted connected transactions of the Company under Chapter 14A of the Listing Rules. The purchases under the assets purchase agreements entered into in June and December 2017 were aggregated with the purchases under the assets purchase agreement entered into in December 2016 (the details of which were set out in the announcement of the company dated 7 December 2016) for the purpose of calculating the percentage ratios as stipulated under Rule 14.07 of the Listing Rules. As the applicable percentage ratios calculated on aggregation basis were all more than 0.1% but less than 5%, the purchases were subject to the reporting and announcement requirements under Rule 14A.76 of the Listing Rules, but are exempt from the independent Shareholders' approval requirements.

The purchase of the assets which have not been fully utilized by BYD Group accommodated the business needs of the Group and minimized short-term capital commitment and transaction costs of the Group. Furthermore, due to the proximity of the location of the Group and BYD Group, the Group has also benefited from reduced transportation cost and more convenient testing of the assets.

(iii) Extension of entrusted loan provided by BYD Precision Manufacture Co., Ltd. to BYD Company Limited

Pursuant to the entrusted loan agreement dated 29 November 2011, BYD Precision Manufacture Company Ltd. (比亞迪精密製造有限公司) ("BYD Precision") entrusted among others, the bank to lend the original entrusted loan of a total principal amount of RMB400 million from BYD Precision as lender to BYD as borrower. As the original entrusted loan was due to expire on 28 November 2014, BYD, BYD Precision and the bank entered into an agreement on 21 November 2014 to extend the maturity date of the original entrusted loan in an amount of RMB400 million for a further term of 36 months from the original maturity date until 28 November 2017 ("Entrusted Loan Extension Agreement"). As the Entrusted Loan Extension Agreement was due to expire on 28 November 2017, BYD Precision, BYD and the bank entered into the Second Entrusted Loan Extension Agreement on 27 November 2017 to extend the maturity date of entrusted loan for a further term of 36 months to 27 November 2020 ("the Second Entrusted Loan Extension Agreement").

The interest rate during the extension period under the Second Entrusted Loan Extension Agreement is at a fixed interest rate equivalent to the RMB benchmark interest rate for 3-year term loans effective on 27 November 2017 as announced by the People's Bank of China, and is to be settled on a monthly basis. The loan is to be repaid by a one-off repayment of the principal by BYD on its maturity, subject to early repayment as demanded by BYD Precision or opted by BYD. BYD Precision was also responsible for paying a one-off handling charge to the bank calculated at 0.02% of the total principal amount of the entrusted loan for arranging the extension of the entrusted loan.

As BYD is the controlling Shareholder of the Company indirectly interested in approximately 65.76% of the issued shares of the Company, it is a connected person of the Company. As such, the Entrusted Loan Extension Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the extension of the Entrusted Loan under the Entrusted Loan Extension Agreement exceed 0.1% but less than 5%, the Entrusted Loan Extension Agreement is subject to the reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement set out in Chapter 14A of the Listing Rules.

The Entrusted Loans were intended to enable the Group to enhance the return on its surplus cash resources also the Entrusted Loan Extension Agreement is on normal commercial terms which are fair and are reasonable and in the interests of the Company and its shareholders as a whole.

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) Leasing of factory and premises from BYD Group (other than the Group)

Pursuant to the New Baolong Lease Agreement dated 6 November 2015 between BYD Precision and BYD, BYD has agreed to lease to BYD Precision certain factory and office premises situated at Baolong Industrial Park, Longgang District, Shenzhen, the PRC during the period from 1 January 2016 to 31 December 2018. Pursuant to the Supplemental Baolong Lease Agreement dated 28 April 2017 between BYD Precision and BYD, BYD has agreed to adjust the gross lease area and monthly rental under the existing Baolong Lease Agreement during the time from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New Huizhou Lease Agreement dated 6 November 2015 between Huizhou BYD Electronic Co., Limited (惠州比亞迪電子有限公司) ("Huizhou Electronic") and BYD (Huizhou) Company Limited (惠州比亞迪實業有限公司) ("BYD Huizhou"), BYD Huizhou has agreed to lease to Huizhou Electronic certain factory buildings situated at Xiangshui River, Dayawan Economic Technology Development District, Huizhou during the period from 1 January 2016 to 31 December 2018. Pursuant to the Supplemental Huizhou Lease Agreement dated 28 April 2017 between Huizhou Electronic and BYD Huizhou, BYD Huizhou has agreed to adjust the aggregate leasing area and monthly rental under the Existing Huizhou Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New Beijing Lease Agreement dated 6 November 2015 between BYD Precision and Beijing BYD Mould Company Limited (北京比亞迪模具有限公司) ("BYD Beijing"), BYD Beijing has agreed to lease to BYD Precision certain premises at the 3rd and 4th floors and part of the 2nd floor of certain factory building at No. 1, Kechuang East Fifth Street, Tongzhou District, Beijing during the period from 1 January 2016 to 31 December 2018. Pursuant to the Supplemental Beijing Lease Agreement dated 28 April 2017 between BYD Precision and BYD Beijing, BYD Beijing has agreed to adjust the aggregate leasing area and monthly rental under the Existing Beijing Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New

Xi'an Lease Agreement dated 6 November 2015 between BYD Automobile Company Limited (比亞迪汽車有限公司) ("BYD Auto") and Xi'an BYD Electronic Company Limited (西安比亞迪電子有限公司) ("BYD Xi'an"), BYD Auto has agreed to lease BYD Xi'an certain factory and premises situated at No. 2, Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 1 December 2015 to 30 November 2018. Pursuant to the Supplemental Xi'an Lease Agreement dated 28 April 2017 between BYD Xi'an and BYD Auto, BYD Auto has agreed to adjust the aggregate leasing area, monthly rental and the term of the lease under the Existing Xi'an Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New Xi'an Land Lease Agreement dated 6 November 2015 between BYD Automobile Company Limited ("BYD Auto") and Xi'an BYD Electronic Company Limited ("BYD Xi'an"), BYD Auto has agreed to lease BYD Xi'an certain lands situated at No. 2, Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 1 January 2016 to 30 December 2018. Pursuant to the Supplemental Xi'an Land Lease Agreement dated 28 April 2017 between BYD Xi'an and BYD Auto, BYD Auto has agreed to adjust the aggregate leasing area and monthly rental under the Existing Xi'an Land Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the Xi'an Additional Lease Agreement dated 28 April 2017 between BYD Xi'an and BYD Auto, BYD Auto has agreed to lease BYD Xi'an certain factory and premises situated at No.2 Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 16 May 2017 to 31 December 2018. Pursuant to the Shanghai Lease Agreement dated 28 April 2017 between BYD Precision and Shanghai BYD Company Limited ("BYD Shanghai"), BYD Shanghai has agreed to lease BYD Precision certain factory and premises situated at the 2nd and 4th floors of certain factory buildings at No. 999 Xiangjing Road, Songjiang District, Shanghai during the period from 1 May 2017 to 31 December 2018. Pursuant to the Inner-Mongolia Lease Agreement dated 28 April 2017 between Baotou BYD Electronic Co., Limited ("Baotao Electronic") and Baotou City BYD Mining Vehicles Company Limited ("BYD Baotou"), BYD Baotou has agreed to lease Baotao Electronic certain factory and premises, canteen and staff quarters situated at No. 18 Jianhua North Road, Inner-Mongolia Baotou Equipment Manufacturing Industrial Park New Planning District during the period from 1 May 2017 to 31 December 2018. Pursuant to the Shaoguan Lease Agreement dated 28 April 2017 between Shaoguan BYD Electronic Co., Limited ("Shaoguan Electronic") and BYD (Shaoguan) Company Limited ("BYD Shaoguan"), BYD Shaoguan has agreed to lease Shaoguan Electronic certain factory buildings situated at 1 BYD Avenue, Zhenjiang District Industrial Park, Shaoguan during the period from 1 May 2017 to 31 December 2018. Pursuant to the Huizhou Additional Lease Agreement dated 28 April 2017 between Huizhou BYD Electronic Co., Limited ("Huizhou Electronic") and Huizhou BYD Battery Company Limited ("BYD Huizhou Battery"), BYD Huizhou Battery has agreed to lease Huizhou Electronic certain factory buildings situated at Xiangshui River, Dayawan Economic Technology Development District, Huizhou during the period from 1 May 2017 to 31 December 2018. Pursuant to the Shanwei Lease Agreement dated 23 August 2017 between Shanwei BYD Electronic Co., Limited ("Shanwei Electronic") and BYD (Shanwei) Company Limited ("BYD Shanwei"), BYD Shanwei has agreed to lease Shanwei Electronic certain factory situated at 88 Yanhe Road, Hongcao County, Shanwei City during the period from 1 September 2017 to 31 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries (other than the Group) are connected persons of the Company. For the year ended 31 December 2017, the annual cap of total amount of the rental transactions of the Company was set at RMB160,549,000, and the actual aggregate amount was approximately RMB136,472,000.

(ii) Sharing of ancillary services with BYD Group (other than the Group)

The Company and BYD entered into a New Comprehensive Services Master Agreement on 6 November 2015, pursuant to which BYD Group has agreed to provide to the Group ancillary services required for its operations during the period from 1 January 2016 to 30 December 2018. The Company and BYD entered into the Supplemental Comprehensive Services Master Agreement on 28 April 2017, pursuant to which BYD Group shall provide the same services to the Group on the same terms for a term from 1 January 2016 to 31 December 2018.

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

The annual cap of total expenditure for acquiring the ancillary services for the year ended 31 December 2017 is RMB20,448,000, and the actual aggregate amount was approximately RMB16,918,000.

(iii) Provision of processing services for BYD Group (other than the Group)

Pursuant to the New BE Processing Services Agreement dated 6 November 2015 between the Company and BYD, the Company has agreed that the Group will provide to BYD Group automation equipment design services, processing services and research and development support for certain products of BYD Group, and waste water treatment facilities during the period from 1 January 2016 to 31 December 2018.

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

The annual cap of total amount of the processing services provided to BYD Group is RMB62,001,000 for the year ended 31 December 2017, and the actual aggregate amount was approximately RMB48,094,000.

(iv) Provision of purchasing service by BYD Group

Pursuant to the New Supply Chain Management Service Agreement dated 6 November 2015 and the supplementary agreement dated 18 November 2016 between the Company and BYD Group, BYD Group has agreed to provide certain purchasing services to the Group during the period from 1 January 2016 to 30 December 2018.

As BYD is the controlling shareholder of the Company, BYD and its subsidiaries, are connected persons of the Company.

The annual cap of purchasing service fee payable to BYD Group by the Company for the year ended 31 December 2017 is RMB53,543,000, and the actual aggregate amount was approximately RMB50,798,000.

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 BYD Group (other than the Group)

Pursuant to the New Supply Agreement dated 6 November 2015 between the Company and BYD, the Company has agreed that the Group will supply to BYD Group products it required for producing its products such as plastic components, metal parts, chargers, and certain other materials at prevailing market prices during the period from 1 January 2016 to 31 December 2018.

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

The annual cap of total amount of supply of products to BYD Group is RMB780,942,000 for the year ended 31 December 2017, and the actual aggregate amount was approximately RMB394,858,000.

(ii) Purchasing products from BYD Group (other than the Group)

Pursuant to the New Purchase Agreement dated 6 November 2015 between the Company and BYD, BYD has agreed that BYD Group will supply to the Group (i) painting products and moulds; (ii) materials used for the Group's production of handset cases and chargers, etc.; and (iii) certain other related products at prevailing market prices during the period from 1 January 2016 to 31 December 2018.

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

The annual cap set for the total purchases of products from BYD Group for the year ended 31 December 2017 is RMB1,122,585,000. The actual aggregate amount was approximately RMB615,051,000.

(iii) Provision of utility connection and/or utility by BYD Group (other than the Group)

Pursuant to the New Utility Services Master Agreement dated 6 November 2015 between the Company and BYD, BYD Group has agreed to provide to the Group certain utility connection and/or utility (as the case may be), including water and electricity, during the period from 1 January 2016 to 31 December 2018.

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

The annual cap of total expenditure for acquiring utility connection and/or utility from BYD for the year ended 31 December 2017 is RMB742,342,000, and the actual aggregate amount was approximately RMB601,707,000.

(iv) Provision of processing services by BYD Group (other than the Group)

Pursuant to the New Processing Services Agreement dated 6 November 2015 between the Company and BYD, BYD Group has agreed to provide certain processing services for certain products (including handset metal parts) and facilities (including waste water treatment) of the Group whereby some steps in the production process of such facilities are further processed by BYD Group during the period from 1 January 2016 to 31 December 2018.

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

The annual cap of expenditure for acquiring processing services from BYD Group is RMB534,077,000 for the year ended 31 December 2017, and the actual aggregate amount was approximately RMB399,728,000.

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

(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 has provided a letter and confirmed that the aforesaid continuing connected transactions:

1. nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

Mr. WANG Chuan-fu, a non-executive Director of the Company, has also been an executive director and chairman of the board of directors of BYD. Mr. WU Jing-sheng, a non-executive Director of the Company, has also been the vice president and chief financial officer of BYD. As Mr. WANG Chuan-fu and Mr. WU Jing-sheng held certain interests in the shares of BYD as at the dates of the aforementioned connected transactions and continuing connected transactions, Mr. WANG Chuan-fu and Mr. WU Jing-sheng, being Directors who may have a material interest in the aforesaid transactions, have voluntarily abstained from voting on the board resolutions of the Company concerning the aforesaid transactions.

PURCHASE, SALE OR REDEMPTION OF SHARES

From 1 January 2017 to 31 December 2017, the Company did not redeem any shares. During the Year, neither the Company nor any of its subsidiaries purchased or sold any shares of the Company.

DIRECTORS' INTEREST IN CONTRACTS

Save for the connected transactions and continuing connected transactions described in this report, no Directors or entities connected to the Directors have direct or indirect material interests in any material transactions or arrangements conducted or material contracts entered into by the Company or any of its subsidiaries at any time during or at the end of the Year.

SUFFICIENCY OF 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 year ended 31 December 2017.

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.

INDEPENDENT INTERNATIONAL AUDITOR

Since the incorporation of the Company, all its financial statements have been audited by Ernst & Young. A resolution will be proposed regarding the re-appointment of Ernst & Young as the Company's independent international auditor for 2018 at the forthcoming annual general meeting.

By the order of the Board

WANG NIAN-QIANG
Director

27 March 2018

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To the members of BYD Electronic (International) Company Limited

(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of BYD Electronic (International) Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 119, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Inventory Provision	
As of 31 December 2017, the total inventories and the related provision amounted to RMB4,855.3 million and RMB247.5 million, respectively, which were material to the financial statements. The inventories of the Group are mainly mobile intelligent terminals which are subject to rapid product innovations and technological upgrade. Management assessment on the inventory provision is judgmental and is based on assumptions, specifically the forecasted inventory usage and estimated selling prices, which are affected by expected future market and sales orders. The accounting policies and disclosures for inventory provision are included in note 2.4, 3 and 18 to the consolidated financial statements.	We performed the following procedures, among others, on the inventory provision: • Assessed management's methodology and provision process and compared to that of the historical records; • Evaluated the assumptions used to determine the provision for slow moving, excess or obsolete items; and • Recalculated provision amount by using the management's provision policy.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is TJEN, Michael.

Ernst & Young
Certified Public Accountants

Hong Kong

27 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	**38,774,422**	36,734,264
Cost of sales		**(34,510,484)**	(33,934,135)
Gross profit		**4,263,938**	2,800,129
Other income and gains	5	**493,442**	474,005
Government grants and subsidies	6	**240,161**	25,502
Research and development expenses		**(1,200,632)**	(978,772)
Selling and distribution expenses		**(229,098)**	(184,698)
Administrative expenses		**(434,024)**	(562,215)
Other expenses		**(97,620)**	(113,914)
Finance costs	7	**(44,040)**	(26,953)
PROFIT BEFORE TAX	8	**2,992,127**	1,433,084
Income tax expense	11	**(407,259)**	(199,593)
PROFIT FOR THE YEAR			
Attributable to owners of the parent		**2,584,868**	1,233,491
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted			
– For profit for the year	12	**RMB1.15**	RMB0.55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	**2,584,868**	1,233,491
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**7,694**	123,917
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**7,694**	123,917
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**7,694**	123,917
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,592,562**	1,357,408
Attributable to owners of the parent	**2,592,562**	1,357,408

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**7,430,949**	6,396,606
Prepaid land lease payments	14	**280,970**	215,155
Prepayments for items of property, plant and equipment	15	**368,514**	398,569
Other intangible assets	16	**25,073**	24,938
Loan to the ultimate holding company	32	**400,000**	400,000
Deferred tax assets	24	**225,857**	215,990
Available-for-sale investments	17	**13,779**	–
Total non-current assets		**8,745,142**	7,651,258
CURRENT ASSETS			
Inventories	18	**4,607,845**	3,337,732
Trade and bills receivables	19	**8,556,349**	9,394,599
Prepayments, deposits and other receivables	15	**654,652**	397,974
Pledged bank deposits	20	**71**	–
Short-term deposits	20	**–**	247,360
Cash and cash equivalents	20	**2,822,267**	2,966,064
Total current assets		**16,641,184**	16,343,729
CURRENT LIABILITIES			
Trade and bills payables	21	**8,982,988**	10,118,810
Other payables	22	**1,855,408**	1,998,659
Due to related parties		**940**	2,760
Tax payable		**173,367**	120,536
Deferred income	23	**75,301**	–
Total current liabilities		**11,088,004**	12,240,765
NET CURRENT ASSETS		**5,553,180**	4,102,964
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,298,322**	11,754,222
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**25,912**	–
Deferred income	23	**81,097**	–
Total non-current liabilities		**107,009**	–
Net assets		**14,191,313**	11,754,222
EQUITY			
Share capital	25	**4,052,228**	4,052,228
Other reserves	26	**10,139,085**	7,701,994
Total equity		**14,191,313**	11,754,222

Wang Chuan-fu
Director

Wang Nian-qiang
Director

	Attributable to owners of the parent					
	Share capital RMB'000 (note 25)	Contributed surplus RMB'000	Statutory surplus reserve RMB'000 (note (a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	4,052,228	(46,323)	731,431	(300,904)	6,111,347	10,547,779
Profit for the year	–	–	–	–	1,233,491	1,233,491
Exchange differences on translation of foreign operations	–	–	–	88,710	–	88,710
Total comprehensive income for the year	–	–	–	88,710	1,233,491	1,322,201
Disposal of a subsidiary	–	–	–	35,207	–	35,207
Interim 2016 dividend	–	–	–	–	(150,965)	(150,965)
Transfer to statutory surplus	–	–	91,866	–	(91,866)	–
At 31 December 2016 and at 1 January 2017	4,052,228	(46,323)*	823,297*	(176,987)*	7,102,007*	11,754,222
Profit for the year	–	–	–	–	2,584,868	2,584,868
Exchange differences on translation of foreign operations	–	–	–	7,694	–	7,694
Total comprehensive income for the year	–	–	–	7,694	2,584,868	2,592,562
Disposal of a subsidiary	–	–	–	–	–	–
Final 2016 dividend declared	–	–	–	–	(155,471)	(155,471)
Transfer to statutory surplus	–	–	38,652	–	(38,652)	–
At 31 December 2017	4,052,228	(46,323)*	861,949*	(169,293)*	9,492,752*	14,191,313

Notes:

(a) In accordance with the People's Republic of China (the "PRC") Company Law and the articles of association of the Company's subsidiaries, each of the Company's subsidiaries registered in the PRC is required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to its statutory surplus reserve. When the balance of this reserve 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 capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after this usage.

* These reserve accounts comprise the consolidated other reserves of RMB10,139,085,000 (2016: RMB7,701,994,000) in the consolidated statement of financial position as at 31 December 2017.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,992,127**	1,433,084
Adjustments for:			
Finance costs	7	**44,040**	26,953
Interest income	5	**(49,954)**	(108,912)
Government grants and subsidies		**(2,295)**	–
Loss on disposal of items of property, plant and equipment	8	**28,924**	37,829
Depreciation	8	**1,586,915**	1,726,743
Amortisation of intangible assets	8	**7,552**	8,933
Recognition of prepaid land lease payments	8	**5,669**	4,939
Impairment of trade receivables	8	**8,422**	41,841
Impairment of trade receivables reversed	8	**(34,377)**	(5,334)
Impairment of inventories	8	**103,894**	115,196
Loss on disposal of a subsidiary		**–**	11,558
		4,690,917	3,292,830
(Increase)/decrease in inventories		**(1,374,007)**	494,734
Decrease/(increase) in trade and bills receivables		**864,205**	(1,524,703)
Increase in prepayments, deposits and other receivables		**(255,219)**	(38,910)
(Decrease)/increase in trade and bills payables		**(1,605,123)**	1,106,255
Decrease in amounts due from related parties		**–**	4,786
Decrease in other payables		**(167,130)**	(220,128)
Decrease in amounts due to related parties		**(1,820)**	(26,295)
Cash generated from operations		**2,151,823**	3,088,569
Interest received		**49,954**	108,912
Tax paid		**(338,383)**	(243,008)
Net cash flows from operating activities		**1,863,394**	2,954,473

	Note	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,243,384)**	(1,862,246)
Increase in prepaid land lease payments		**(72,991)**	–
Disposal of a subsidiary		**–**	(5,288)
Additions to other intangible assets	16	**(7,687)**	(16,191)
Proceeds from disposal of items of property, plant and equipment		**116,112**	10,256
Receipt of government grants		**158,693**	–
Purchase of an available-for-sale investment		**(13,779)**	–
(Increase)/decrease in pledged deposits		**(71)**	1,155
Withdrawal of short-term deposits		**247,360**	273,921
Investments in short-term deposits		**–**	(252,681)
Net cash flows used in investing activities		**(1,815,747)**	(1,851,074)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(44,040)**	(26,953)
Dividend paid		**(155,471)**	(150,965)
Net cash flows used in financing activities		**(199,511)**	(177,918)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(151,864)**	925,481
Cash and cash equivalents at beginning of year		**2,966,064**	1,958,902
Effect of foreign exchange rate changes, net		**8,067**	81,681
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,822,267**	2,966,064

1. CORPORATE AND GROUP INFORMATION

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

The Company's shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 December 2007.

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.

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

In the opinion of the directors, the parent of the Company is Golden Link Worldwide Limited, an enterprise incorporated in the British Virgin Islands, and the ultimate holding company of the Company is BYD Company Limited, which is established in the PRC.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation or registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lead Wealth International Limited ("Lead Wealth") (領裕國際有限公司) ***	British Virgin Islands	US$50,000	–	100	Investment holding
BYD Precision Manufacture Co., Ltd. ("BYD Precision") (比亞迪精密製造有限公司)*	PRC/Mainland China	US$145,000,000	–	100	Manufacture and sale of mobile handset components and modules
Huizhou BYD Electronic Co., Limited ("Huizhou Electronic") (惠州比亞迪電子有限公司)**	PRC/Mainland China	US$110,000,000	–	100	High-level assembly
BYD India Private Limited ("BYD India")***	India	INR2,407,186,600	–	100	Manufacture and sale of mobile handset components and modules, Manufacture and sale of battery, charger, Iron-phosphate batteries used in Electric Bus, Electric Truck, Electric car, Electric Forklift and its components&spare parts. Build and maintain monorail projects.

continued/...

1. CORPORATE AND GROUP INFORMATION *(Continued)*

INFORMATION ABOUT SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xi'an BYD Electronic Co., Limited ("Xi'an Electronic") (西安比亞迪電子有限公司) *	PRC/Mainland China	RMB100,000,000	–	100	Manufacture and sale of mobile handset components
BYD (Wuhan) Electronic Co., Limited ("Wuhan Electronic") (武漢比亞迪電子有限公司) *	PRC/Mainland China	RMB10,000,000	–	100	Manufacture and sale of mobile handset components
BYD (Shaoguan) Electronic Co., Limited ("Shaoguan Electronic") (韶關比亞迪電子有限公司) *	PRC/Mainland China	RMB30,000,000	–	100	Manufacture and sale of mobile handset components

* These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

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

*** These subsidiaries are registered as wholly-foreign-owned enterprises under foreign law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments have had no impacts on the disclosure of the financial statements as the Group has no liabilities arising from financing activities in the reporting period.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as there is no Group's subsidiary classified as a disposal group held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

2.3 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.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[2]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is describe below.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

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

(a) Classification and measurement

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets except:

- the Group's equity investments currently classified as available-for-sale investments will be reclassified to financial assets at fair value through profit or loss or other comprehensive income;

- the financial assets which are not held to collect contractual cash flows will be reclassified as financial assets at fair value through profit or loss;

Certain of equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables and other debt instruments within the next twelve months. Based on the assessments undertaken to date, the Group does not expect a material change of the loss allowance for the Group's receivables and other debt investments.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies, and presentation and disclosures as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

The Group's principal activities consist of the manufacture, assembly and sale of mobile handset components and modules. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation.

In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 28 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB147,053,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

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

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS AND GOODWILL *(Continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FAIR VALUE MEASUREMENT *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current 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 of disposal, 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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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 an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

RELATED PARTIES

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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 statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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 and residual value used for this purpose are as follows:

	Estimated useful lives	Residual value
Freehold land	Not depreciated	–
Buildings	10 to 70 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Machinery and equipment (except moulds)	5 to 10 years	5%
Office equipment and fixtures	5 years and below	5%
Motor vehicles	5 years	5%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION *(Continued)*

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 least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised 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 statement of profit or loss 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 a building 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.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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 statement of profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

OPERATING 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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss 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.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

INVESTMENT AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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)*

Subsequent measurement

The subsequent measurement of financial assets at fair value through profit or loss depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. 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 as defined by HKAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated a sat fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT AND OTHER FINANCIAL ASSETS *(Continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for“Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(Continued)*

Financial assets carried at amortised cost (Continued)

The amount of any impairment loss identified 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 yet been incurred) The present value of the estimated future cash flows is 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 through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

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.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(Continued)*

Available-for-sale financial investments (Continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss - is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to fellow subsidiaries and an amount due to the ultimate holding company.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL LIABILITIES *(Continued)*

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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 statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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 statement of profit or loss.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVENTORIES

Inventories 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 statement of cash flows, 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, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Term deposits with an initial term of over three months but less than one year were classified as short-term deposits on the consolidated statement of financial position.

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 end of the reporting period 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 statement of profit or loss.

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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when the deferred tax liability arises from the initial recognition of goodwill or 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 when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- when 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INCOME TAX *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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 exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

EMPLOYEE BENEFITS

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.

Pension schemes – Mainland China

The employees of the Group's subsidiaries, which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Pension schemes – outside-Mainland China

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

Housing fund – Mainland China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes 34 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

The Group treats specific inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. When a foreign operation is sold, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

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:

Deferred tax on withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries levied in the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividends. Further details are included in note 24 to the financial statements.

ESTIMATION UNCERTAINTY

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Depreciation and amortisation

The Group calculates the depreciation of items of property, plant and equipment and amortisation of intangible assets on the straight-line basis over their estimated useful lives or on the unit of production basis and after taking into account their estimated residual value, estimated useful lives or estimated total production quantities, commencing from the date the items of property, plant and equipment and intangible assets are placed into use. The estimated useful lives or the total production quantities reflect the directors' estimate of the period that the Group intends to derive future economic benefits from the use of the Group's items of property, plant and equipment or intangible assets.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing, and level of future taxable profits together with future tax planning strategies. Further details are included in note 24 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

ESTIMATION UNCERTAINTY *(Continued)*

Allowance for doubtful receivables

Management makes provision for doubtful accounts by determining whether there is any objective evidence affecting collectability, like the insolvency of the debtor or the possibility of serious financial difficulties. Management re-estimates the allowance for doubtful receivables at the end of each reporting period.

Write-down of inventories based on the lower of cost and net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes reserves for slow-moving items and obsolescence by using the lower of cost and net realisable value rule. The Group re-estimates the allowance to reduce the valuation of inventories to net realisable value item by item at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

The Group's primary business is the manufacture, assembly and sale of mobile handset components and modules. For management purposes, the Group is organised into one operating segment based on industry practice and management's vertical integration strategy. Management monitors the results of the Group as a whole for the purpose of making decisions about resource allocation and performance assessment. No further analysis thereof is presented. Segment performance is evaluated based on the revenue and profit before tax which is consistent with the Group's revenue and profit before tax.

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2017 **RMB'000**	2016 RMB'000
PRC (including Hong Kong, Macau, and Taiwan)	**31,725,621**	33,419,185
Asia Pacific (excluding PRC)	**5,816,943**	1,337,206
United States of America	**573,316**	940,750
Other countries	**658,542**	1,037,123
	38,774,422	36,734,264

The revenue information above is based on the locations of the customers.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

GEOGRAPHICAL INFORMATION *(Continued)*

(b) Non-current assets

	2017 RMB'000	2016 RMB'000
PRC (including Hong Kong, Macau, and Taiwan)	**7,950,329**	6,878,003
India	**155,104**	157,187
Other countries	**73**	78
	8,105,506	7,035,268

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers of the corresponding years accounting for over 10% of the total sales of the Group is as follows:

	2017 RMB'000
Customer A[1]	**13,821,721**
Customer B[1]	**6,359,453**
Customer C[1]	**6,353,103**
	26,534,277

	2016 RMB'000
Customer A[1]	15,327,270
Customer B[1]	5,650,082
Customer C[1]	4,796,088
	25,773,440

1 Revenue from major customers comes from providing assembly services and the sale of mobile handset components and modules.

5. REVENUE, OTHER INCOME AND GAINS

Revenue 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:

	2017 **RMB'000**	2016 RMB'000
Revenue		
Sale of mobile handset components and modules	**17,478,098**	14,875,840
Assembly services income	**21,296,324**	21,858,424
	38,774,422	36,734,264

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

	2017 **RMB'000**	2016 RMB'000
Other income and gains		
Bank interest income	**27,033**	86,571
Other interest income	**22,921**	22,341
Sale of scrap and materials	**296,525**	199,456
Compensation from suppliers and customers	**66,521**	32,541
Foreign exchange gain, net	**–**	86,763
Others	**80,442**	46,333
	493,442	474,005

6. GOVERNMENT GRANTS AND SUBSIDIES

	2017 RMB'000	2016 RMB'000
Related to assets		
Others	**2,295**	–
Related to income		
Subsidies on research and development activities (note (a))	**16,000**	10,000
Subsidies on employee stability (note (b))	**18,167**	8,045
Subsidies on operating expense	**203,647**	–
Others	**52**	7,457
	240,161	25,502

Notes:

(a) In 2017, BYD Precision, a subsidiary of the Company, received government grants with an amount of RMB10,000,000 from the Shenzhen Financial Scientific and Technological Innovation Committee (深圳市科技創新委員會) as subsidies on research and development activities. Since the related expenditure was incurred, RMB10,000,000 was fully recognised as government grant income this year (2016: RMB10,000,000).

(b) In 2017, BYD Precision, Huizhou Electronic and Xi'an Electronic, subsidiaries of the Company, received government grants with an aggregate amount of RMB18,167,000 from the Bureau of Human Resources and Social Security (人力資源和社會保障局) as subsidies on employee stability. Since the related expenditure was incurred, RMB18,167,000 was fully recognised as government grant income this year (2016: RMB8,045,000).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on factored trade receivables	**44,040**	26,953

8. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**13,229,208**	12,651,509
Cost of services provided		**21,107,382**	21,167,430
Depreciation	13	**1,586,915**	1,726,743
Research and development costs:			
Current year expenditure		**1,200,632**	978,772
Minimum lease payments under operating leases		**236,913**	142,652
Auditors' remuneration		**1,590**	1,590
Recognition of prepaid land lease payments#	14	**5,669**	4,939
Amortisation of intangible assets#	16	**7,552**	8,933
Employee benefit expense (excluding directors', supervisors' and senior executive officers' remuneration) (note 30(c))			
Wages and salaries		**4,857,284**	4,532,724
Retirement benefit scheme contributions		**342,264**	244,165
		5,199,548	4,776,889
Impairment of trade receivables##	19	**8,422**	41,841
Impairment losses of trade receivables reversed##	19	**(34,377)**	(5,334)
Impairment of inventories###		**103,894**	115,196
Loss on disposal of items of property, plant and equipment##		**28,924**	37,829
Loss on disposal of a subsidiary##		**–**	11,558
Foreign exchange loss/(gain), net##		**45,938**	(86,763)

Included in "Administrative expenses" in the consolidated statement of profit or loss

Included in "Other income and gains" or "Other expenses" in the consolidated statement of profit or loss

Included in "Cost of sales" in the consolidated statement of profit or loss

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017	2016
	RMB'000	RMB'000
Fees	**600**	600
Other emoluments:		
Salaries, allowances and benefits in kind	**10,328**	12,810
Pension scheme contributions	**51**	53
	10,379	12,863
	10,979	13,463

(a) Independent non-executive directors

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

	2017	2016
	RMB'000	RMB'000
Mr. Mampilly, Antony Francis	**200**	200
Mr. Zhong Guo-wu	**200**	200
Mr. Qian Jing-jie	**200**	200
	600	600

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
31 December 2017				
Executive directors:				
Mr. Wang Nian-qiang	**–**	**7,759**	**26**	**7,785**
Mr. Wang Bo**	**–**	**2,557**	**25**	**2,582**
Mr. Sun Yi-zao*	**–**	**12**	**–**	**12**
	–	**10,328**	**51**	**10,379**
Non-executive directors:				
Mr. Wang Chuan-fu	**–**	**–**	**–**	**–**
Mr. Wu Jing-sheng	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
31 December 2016				
Executive directors:				
Mr. Wang Nian-qiang	–	8,040	27	8,067
Mr. Sun Yi-zao	–	4,770	26	4,796
	–	12,810	53	12,863
Non-executive directors:				
Mr. Wang Chuan-fu	–	–	–	–
Mr. Wu Jing-sheng	–	–	–	–
	–	–	–	–

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

* Mr. Sun Yi-zao resigned as the executive director on 3 January 2017. His remuneration of 2017 covered the period from 1 January to 2 January.

** Mr. Wang Bo was appointed as executive director on 3 January 2017. His remuneration of 2017 covered the period from 3 January to 31 December.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2016: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2016: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	5,367	6,367
Pension scheme contributions	79	73
	5,446	6,440

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

	Number of employees	
	2017	2016
RMB2,000,001 to RMB2,500,000	2	2
RMB1,500,001 to RMB2,000,000	–	1
RMB1,000,001 to RMB1,500,000	1	–
	3	3

11. INCOME 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 operate.

BYD Precision was approved to be a high and new technology enterprise in 2015, and is entitled to enjoy a reduced enterprise income tax rate of 15% from 2015 to 2017.

Huizhou Electronic was approved to be a high and new technology enterprise in 2015, and is entitled to enjoy a reduced enterprise income tax rate of 15% from 2015 to 2017.

Xi'an Electronic which operates in Mainland China is entitled to enjoy a reduced enterprise income tax rate of 15% of the estimated assessable profits for the year pursuant to the Western Development Policy. These subsidiaries need to file the relevant documents to the in-charge tax bureau for record every year so as to be entitled to the reduced rate of 15%.

BYD India is subject to income tax at a rate of 30%.

11. INCOME TAX *(Continued)*

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 profits tax in Romania and Finland as the Group had no assessable profits derived from these countries.

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

	2017 RMB'000	2016 RMB'000
Current – Mainland China		
Charge for the year	**391,214**	200,375
Current – Elsewhere		
Charge for the year	**–**	4,706
Deferred (note 24)	**16,045**	(5,488)
Total tax charge for the year	**407,259**	199,593

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2017		2016	
	RMB'000	**%**	RMB'000	%
Profit before tax	**2,992,127**		1,433,084	
Tax at the applicable tax rate	**748,032**	**25.0**	358,271	25.0
Expenses not deductible for tax	**24,344**	**0.8**	17,487	1.2
Lower tax rate for specific provinces or enacted by local authority	**(315,368)**	**(10.5)**	(164,103)	(11.5)
Super-deduction of research and development costs	**(79,725)**	**(2.7)**	(63,669)	(4.4)
Tax losses utilised from previous periods	**(3,129)**	**(0.1)**	(101)	(0.0)
Tax losses and deductible differences not recognised	**33,105**	**1.1**	51,708	3.6
Tax charge at the Group's effective rate	**407,259**	**13.6**	199,593	13.9

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,253,204,500 (2016: 2,253,204,500) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic earnings per share is based on:

	2017 **RMB'000**	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**2,584,868**	1,233,491

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,253,204,500**	2,253,204,500

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	1,189,693	110,901	9,327,983	1,501,422	30,405	209,381	12,369,785
Accumulated depreciation and impairment	(191,442)	(28,017)	(4,725,789)	(1,013,067)	(14,864)	–	(5,973,179)
Net carrying amount	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606
At 1 January 2017, net of accumulated depreciation and impairment	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606
Additions	6	150,407	2,078,246	131,224	5,897	400,839	2,766,619
Disposals	–	(2,107)	(134,828)	(7,597)	(504)	–	(145,036)
Depreciation provided during the year	(29,570)	(37,144)	(1,390,117)	(125,506)	(4,578)	–	(1,586.915)
Exchange realignment	(323)	–	(7)	(1)	6	–	(325)
Transfers	78,930	–	292,526	(153,944)	–	(217,512)	–
At 31 December 2017, net of accumulated depreciation and impairment	1,047,294	194,040	5,448,014	332,531	16,362	392,708	7,430,949
At 31 December 2017:							
Cost	1,263,249	261,824	11,690,856	1,018,386	34,977	392,708	14,662,000
Accumulated depreciation and impairment	(215,955)	(67,784)	(6,242,842)	(685,855)	(18,615)	–	(7,231,051)
Net carrying amount	1,047,294	194,040	5,448,014	332,531	16,362	392,708	7,430,949

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	1,092,187	87,935	8,881,147	1,310,321	25,662	272,754	11,670,006
Accumulated depreciation and impairment	(171,104)	(28,579)	(3,958,843)	(842,248)	(12,338)	–	(5,013,112)
Net carrying amount	921,083	59,356	4,922,304	468,073	13,324	272,754	6,656,894
At 1 January 2016, net of accumulated depreciation and impairment	921,083	59,356	4,922,304	468,073	13,324	272,754	6,656,894
Additions	24,129	51,297	1,008,194	240,796	7,377	245,782	1,577,575
Disposals	(47,198)	(1,875)	(18,812)	(7,507)	(373)	(40,904)	(116,669)
Depreciation provided during the year	(26,833)	(25,894)	(1,414,057)	(255,169)	(4,790)	–	(1,726,743)
Exchange realignment	10,251	–	(4,751)	46	3	–	5,549
Transfers	116,819	–	109,316	42,116	–	(268,251)	–
At 31 December 2016, net of accumulated depreciation and impairment	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606
At 31 December 2016:							
Cost	1,189,693	110,901	9,327,983	1,501,422	30,405	209,381	12,369,785
Accumulated depreciation and impairment	(191,442)	(28,017)	(4,725,789)	(1,013,067)	(14,864)	–	(5,973,179)
Net carrying amount	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606

14. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**220,114**	223,996
Additions	**72,991**	–
Recognised	**(5,669)**	(4,939)
Exchange realignment	**(48)**	1,057
Carrying amount at 31 December	**287,388**	220,114
Current portion included in prepayments, deposits and other receivables	**(6,418)**	(4,959)
Non-current portion	**280,970**	215,155

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Non-current portion:		
Prepayments for items of property, plant and equipment	**368,514**	398,569
Current portion:		
Prepayments	**185,245**	24,247
Deposits and other receivables	**469,407**	373,727
	654,652	397,974

None of the financial assets included in the above balances 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. OTHER INTANGIBLE ASSETS

	Computer software RMB'000
31 December 2017	
Cost at 1 January 2017, net of accumulated amortisation	**24,938**
Additions	**7,687**
Amortisation provided during the year	**(7,552)**
At 31 December 2017	**25,073**
At 31 December 2017:	
Cost	**62,027**
Accumulated amortisation	**(36,954)**
Net carrying amount	**25,073**

	Computer software RMB'000
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	17,680
Additions	16,191
Amortisation provided during the year	(8,933)
At 31 December 2016	24,938
At 31 December 2016:	
Cost	54,523
Accumulated amortisation	(29,585)
Net carrying amount	24,938

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2017	2016
	RMB'000	RMB'000
Unlisted equity investments, at cost	**13,779**	–
	13,779	–

As at 31 December 2017, an unlisted equity investment with a carrying amount of RMB13,779,000 (2016: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

The above investment consists of investment in equity security which was designated as available-for-sale financial asset and has no fixed maturity date or coupon rate.

18. INVENTORIES

	Group	
	2017	2016
	RMB'000	RMB'000
Raw materials	**1,651,891**	1,490,321
Work in progress	**118,665**	100,114
Finished goods	**2,809,971**	1,727,848
Moulds held for production	**27,318**	19,449
	4,607,845	3,337,732

19. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**8,584,350**	9,460,708
Impairment	**(28,001)**	(66,109)
	8,556,349	9,394,599

The Group's trading terms with its customers are mainly on credit. The credit period is generally 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 credit risk. Overdue balances are reviewed regularly by senior management. At the end of the reporting period, the Group had a certain concentration of credit risk as 23% (2016: 36%) and 64% (2016: 71%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017 RMB'000	2016 RMB'000
Within 90 days	**8,268,592**	9,001,700
91 to 180 days	**274,226**	381,617
181 to 360 days	**13,531**	11,282
	8,556,349	9,394,599

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

	2017 RMB'000	2016 RMB'000
At 1 January	**66,109**	47,314
Impairment losses recognised (note 8)	**8,422**	41,841
Impairment losses reversed (note 8)	**(34,377)**	(5,334)
Amount written off as uncollectible	**(12,153)**	(17,712)
At 31 December	**28,001**	66,109

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB28,001,000 (2016: RMB66,109,000) with a carrying amount of RMB30,795,000 (2016: RMB116,086,000).

19. TRADE AND BILLS RECEIVABLES *(Continued)*

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**8,222,549**	8,800,818
Less than one year past due	**331,006**	543,804
	8,553,555	9,344,622

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 any significant change in credit quality and the balances are still considered fully recoverable.

20. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	Notes	**2017 RMB'000**	2016 RMB'000
Cash and bank balances		**2,637,267**	2,966,064
Time deposits		**185,071**	247,360
		2,822,338	3,213,424
Less: Restricted bank deposits:			
Short term deposits	(iii)	**–**	(247,360)
Pledged deposit	(i)	**(71)**	–
Cash and cash equivalents	(ii)	**2,822,267**	2,966,064

Notes:

(i) At 31 December 2017, bank deposit of RMB71,000 (2016: Nil) was pledged for letter of credit. No bank deposit (2016: Nil) was pledged to the customs department for the operation in the bonded zone.

(ii) At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to RMB1,459,410,000 (2016: RMB1,452,889,000). The 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.

(iii) There are no short term deposits as at 31 December 2017 (2016: RMB247,360,000).

(iv) 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.

21. TRADE AND BILLS PAYABLES

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 90 days	**6,948,227**	9,049,082
91 to 180 days	**988,718**	633,316
181 to 360 days	**372,276**	406,960
1 to 2 years	**670,930**	26,471
Over 2 years	**2,837**	2,981
	8,982,988	10,118,810

The trade payables are non-interest-bearing and are normally settled within terms of 30 to 120 days.

22. OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Other payables	**972,115**	1,079,356
Accrued payroll	**883,293**	919,303
	1,855,408	1,998,659

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

23. DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
At 1 January	**–**	–
Received during the year	**378,392**	–
Released to the statement of profit or loss	**(221,994)**	–
At 31 December	**156,398**	–
Less: Portion classified as current liabilities	**(75,301)**	–
Non-current portion	**81,097**	–

Various government grants have been received for basic research and development activities. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. A certain grant received relates to an asset is also credited to deferred income and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

DEFERRED TAX LIABILITIES

	Withholding taxes on the earnings anticipated to be remitted by subsidiaries	
	2017	2016
	RMB'000	RMB'000
At 1 January	–	–
Deferred tax charged to the statement of profit or loss during the year (note 11)	**25,912**	–
At 31 December	**25,912**	–

DEFERRED TAX ASSETS

	Depreciation in excess of depreciation allowance	Impairment of inventories	Government grants	Tax losses	Accruals	Undeducted payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	**140,654**	**31,431**	**–**	**41,768**	**2,137**	**–**	**215,990**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	**38,493**	**2,016**	**12,511**	**(41,016)**	**(2,137)**	**–**	**9,867**
At 31 December 2017	**179,147**	**33,447**	**12,511**	**752**	**–**	**–**	**225,857**
At 1 January 2016	129,314	21,936	–	51,192	7,612	448	210,502
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	11,340	9,495	–	(9,424)	(5,475)	(448)	5,488
At 31 December 2016	140,654	31,431	–	41,768	2,137	–	215,990

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

	2017	2016
	RMB'000	RMB'000
Tax losses	**17,278**	46
Deductible temporary differences	**367,309**	338,034
	384,587	338,080

The above tax losses will expire in one to five years for offsetting against future taxable profits in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

24. DEFERRED TAX *(Continued)*

DEFERRED TAX ASSETS *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2017, the Group recognised the relevant deferred tax liabilities of RMB25,912,000 (2016: Nil) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB9,404,287,000 at 31 December 2017 (2016: RMB7,407,967,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

25. SHARE CAPITAL

SHARES

	2017 RMB'000	2016 RMB'000
Issued and fully paid		
2,253,204,500 (2016: 2,253,204,500) ordinary shares	**4,052,228**	4,052,228

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital RMB'000**
At 1 January 2016	2,253,204,500	4,052,228
At 31 December 2016 and 1 January 2017	2,253,204,500	4,052,228
At 31 December 2017	**2,253,204,500**	**4,052,228**

26. OTHER RESERVES

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 page 59 of the financial statements.

Pursuant to the relevant laws and regulations for business enterprises, a portion of the profits of the Group's entities which are registered in the PRC has been transferred to the statutory surplus reserve, which is restricted as to use.

27. CONTINGENT LIABILITIES

ACTION AGAINST FOXCONN

On 11 June 2007, a Hong Kong High Court action (the "June 2007 Action") was commenced by a subsidiary and an affiliate of Foxconn International Holdings Limited (the "Plaintiffs") against the Company and certain subsidiaries of the Group (the "Defendants") for using confidential information alleged to have been obtained improperly from the Plaintiffs. 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 this finally disposed of the June 2007 Action without any liability to the Defendants. On the same day, the Plaintiffs initiated a new set of legal proceedings in the 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 grounds in the June 2007 Action. 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 total damages sought by the Plaintiffs in the October 2007 Action have not been quantified.

On 2 October 2009, the Defendants instituted a counter-action against Foxconn International Holdings Limited and certain of its affiliates for their intervention, by means of illegal measures, in the operations involving the Company and certain of its subsidiaries, collusions, written and verbal defamation, and the economic loss as a result of the said activities.

As at the reporting date, the case remains in the process of legal proceedings. After consulting the Company's legal counsel representing the Company for the case, the board is of the view that the estimate of ultimate outcome and amount to settle the obligation, if any, of the litigation cannot be made reliably up to date.

28. 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 from three to five years.

There are no contingent rentals, renewal or purchase options, escalation clauses or any restrictions imposed on dividends, additional debt and further leasing within the lease arrangements.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**145,937**	111,424
In the second year	**552**	70,274
In the third to fifth years, inclusive	**564**	36,885
	147,053	218,583

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Plant and machinery	**246,446**	425,028
Building	**40,905**	51,137
	287,351	476,165

At the end of the reporting period, neither the Group nor the Company had any significant commitments.

30. 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:

Nature of transactions	Notes	Related parties	Year ended 31 December 2017 RMB'000	2016 RMB'000
Sales of machinery	(i)	Ultimate holding company	**70,653**	24,844
		Fellow subsidiaries	**12,821**	72,449
Purchases of machinery	(i)	Ultimate holding company	**903**	1,292
		Fellow subsidiaries	**78,303**	231,105
Purchases of inventories	(ii)	Ultimate holding company	**22,760**	40,971
		Fellow subsidiaries	**592,291**	896,019
Sales of inventories	(ii)	Ultimate holding company	**36,859**	23,489
		Fellow subsidiaries	**357,999**	512,456
Leasing and ancillary expenses paid	(iii)	Ultimate holding company	**151,997**	104,165
		Fellow subsidiaries	**603,100**	326,364
Exclusive processing services received	(iv)	Ultimate holding company	**342,315**	266,559
		Fellow subsidiaries	**57,413**	70,524
Exclusive processing services provided	(iv)	Ultimate holding company	**42,944**	20,893
		Fellow subsidiaries	**5,150**	18,658
Agent fee for procurement service	(v)	Intermediate holding company	**35,434**	21,646
		Fellow subsidiaries	**15,364**	11,847

30. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

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

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

(iii) The expenses were charged on an actually incurred basis or 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.

(iv) The processing service fees and revenue were charged and received for the depreciation of the relevant machinery and equipment during the year ended 31 December 2017.

(v) The agent fee for the procurement service was charged on a certain percentage of the total amount of procurement provided by the fellow subsidiaries on behalf of the Group. For the year ended 31 December 2017, the total amount of procurement provided was RMB15,224,443,000.

Further details of the above related party transactions are set out on pages 43 to 51 of this annual report.

Mr. Wang Chuan-fu, a non-executive Director of the Company, has been an executive director and chairman of the board of directors of the Company's ultimate holding company in the related-party transactions as set out in (a) above. Mr. Wu Jing-sheng, a non-executive Director of the Company, has been the vise president and chief financial officer of the ultimate holding company. Mr. Wang Chuan-fu and Mr. Wu Jing-sheng also hold certain interests in the shares of the ultimate holding company.

(b) Outstanding balances with related parties:

Except for the entrusted loan to the ultimate holding company of RMB400,000,000, the balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

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

	2017 **RMB'000**	2016 RMB'000
Short-term employee benefits	**13,170**	19,871
Pension scheme contributions	**77**	126
	13,247	19,997

Further details of directors' emoluments are included in note 9 to the financial statements.

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

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	13,779	13,779
Loan to the ultimate holding company	400,000	–	400,000
Trade and bills receivables	8,556,349	–	8,556,349
Financial assets included in prepayments, deposits and other receivables	24,969	–	24,969
Pledged deposits	71	–	71
Cash and bank balances	2,822,267	–	2,822,267
	11,803,656	13,779	11,817,435

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	8,982,988
Financial liabilities included in other payables	686,269
	9,669,257

31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2016

Financial assets

	Loans and receivables RMB'000
Loan to the ultimate holding company	400,000
Trade and bills receivables	9,394,599
Financial assets included in prepayments, deposits and other receivables	20,006
Short-term deposits	247,360
Cash and bank balances	2,966,064
	13,028,029

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	10,118,810
Financial liabilities included in other payables	616,083
	10,734,893

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Loan to the ultimate holding company	**400,000**	400,000	**400,000**	400,000

Management has assessed that the fair values of short-term deposits, cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables, amounts due from/to subsidiaries, amounts due from/to the ultimate holding company and the immediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Loan to the ultimate holding company	**–**	**400,000**	**–**	**400,000**

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Loan to the ultimate holding company	–	400,000	–	400,000

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

33. 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 main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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 portions of the loans from related companies are denominated in currencies other than the 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 end of the reporting period 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 equity.

	Increase/ (decrease) in United States dollar exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2017			
If RMB weakens against United States dollar	**5**	**133,354**	**–**
If RMB strengthens against United States dollar	**(5)**	**(133,354)**	**–**
2016			
If RMB weakens against United States dollar	5	156,519	–
If RMB strengthens against United States dollar	(5)	(156,519)	–

* Excluding retained profits and exchange fluctuation reserve

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. Concentrations of credit risk are managed by analyses by customer. At the end of the reporting period, the Group had certain concentrations of credit risk as 23% (2016: 36%) and 64% (2016: 71%) 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.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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.

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 commitments over the foreseeable future in accordance with its strategic plan. At the end of the reporting period, all of the Group's financial instruments would mature in less than one year.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Financial liabilities

	2017			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables (note 21)	673,766	6,964,395	1,344,827	8,982,988
Other payables	329,818	213,362	143,089	686,269
	1,003,584	7,177,757	1,487,916	9,669,257

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

LIQUIDITY RISK *(Continued)*

Financial liabilities (Continued)

	2016			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables (note 21)	3,851,911	5,226,623	1,040,276	10,118,810
Other payables	53,033	230,877	332,173	616,083
	3,904,944	5,457,500	1,372,449	10,734,893

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' 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, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by equity. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Equity represents equity attributable to owners of the parent. As the Group did not have any interest-bearing bank borrowings, the gearing ratio was zero as at 31 December 2017 and 31 December 2016.

34. DIVIDENDS

	2017 **RMB'000**	2016 RMB'000
Interim Nil (2016: RMB0.067) per ordinary share	**–**	150,965
Proposed final RMB0.230 (2016: RMB0.069) per ordinary share	**518,237**	155,471
	518,237	306,436

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

35. EVENTS AFTER THE REPORTING PERIOD

A final dividend in respect of the year ended 31 December 2017 of RMB0.230 per share (tax inclusive) was proposed pursuant to a resolution passed by the Board of Directors on 27 March 2018. This intended to distribute cash dividends of RMB518,237,035 in aggregate based on the total share capital of 2,253,204,500 shares of the Company as at 27 March 2018. The proposal of the final dividend is subject to consideration and approval at the Company's forthcoming general meeting. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**10,477,811**	7,886,015
CURRENT ASSETS		
Prepayments, deposits and other receivables	**13**	13
Trade receivable	**3,712,138**	3,725,464
Dividend receivable	**–**	142,111
Cash and bank balances	**2,692**	4,595
Total current assets	**3,714,843**	3,872,183
CURRENT LIABILITIES		
Due to subsidiaries	**1**	2,636
Trade payable	**1,340**	1,340
Total current liabilities	**1,341**	3,976
NET CURRENT ASSETS	**3,713,502**	3,868,207
TOTAL ASSETS LESS CURRENT LIABILITIES	**14,191,313**	11,754,222
Net assets	**14,191,313**	11,754,222
EQUITY		
Share capital	**4,052,228**	4,052,228
Other reserves	**10,139,085**	7,701,994
Total equity	**14,191,313**	11,754,222

Wang Chuan-fu
Director

Wang Nian-qiang
Director

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's other reserves is as follows:

	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	(300,904)	6,796,455	6,495,551
Profit for the year	–	1,233,491	1,233,491
Exchange differences on translation of foreign operations	123,917	–	123,917
Total comprehensive income for the year	123,917	1,233,491	1,357,408
Interim 2016 dividend	–	(150,965)	(150,965)
At 31 December 2016 and at 1 January 2017	**(176,987)**	**7,878,981**	**7,701,994**
Profit for the year	**–**	**2,584,868**	**2,584,868**
Exchange differences on translation of foreign operations	**7,694**	**–**	**7,694**
Total comprehensive income for the year	**7,694**	**2,584,868**	**2,592,562**
2016 Final dividend declared	**–**	**(155,471)**	**(155,471)**
At 31 December 2017	**(169,293)**	**10,308,378**	**10,139,085**

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2018.

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**38,774,422**	36,734,264	29,285,830	19,832,127	16,062,179
Cost of sales	**(34,510,484)**	(33,934,135)	(27,382,285)	(17,726,965)	(14,383,177)
Gross profit	**4,263,938**	2,800,129	1,903,545	2,105,162	1,679,002
Other income and gains	**493,442**	474,005	451,442	291,908	261,870
Government subsidies	**240,161**	25,502	47,852	–	–
Research and development costs	**(1,200,632)**	(978,772)	(722,270)	(709,087)	(559,772)
Selling and distribution costs	**(229,098)**	(184,698)	(152,044)	(162,091)	(132,526)
Administrative expenses	**(434,024)**	(562,215)	(453,609)	(386,929)	(343,369)
Other expenses	**(97,620)**	(113,914)	(35,390)	(121,229)	(146,392)
Finance costs	**(44,040)**	(26,953)	(3,089)	(5,530)	(7,248)
PROFIT BEFORE TAX	**2,992,127**	1,433,084	1,036,437	1,012,204	751,565
Tax	**(407,259)**	(199,593)	(128,292)	(110,507)	(103,160)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**2,584,868**	1,233,491	908,145	901,697	648,405
ASSETS AND LIABILITIES					
TOTAL ASSETS	**25,386,326**	23,994,987	22,244,401	16,834,457	13,876,605
TOTAL LIABILITIES	**11,195,013**	12,240,765	11,696,622	7,169,245	5,042,464
Total equity	**14,191,313**	11,754,222	10,547,779	9,665,212	8,834,141

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