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

(incorporated in Hong Kong under the Companies Ordinance with limited liability)

(Stock code: 285)

2018 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors of the Company (the “Board”) is pleased to announce the unaudited results of the Company and its subsidiaries for the six months period ended 30 June 2018. This announcement, containing the full text of the 2018 Interim Report of the Company, is prepared with reference to the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of interim results. Printed version of the Company’s 2018 Interim Report will be delivered to the Company’s shareholders and is also available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at <http://www.hkex.com.hk> and of the Company at <http://www.byd-electronics.com>.

By Order of the Board of
BYD Electronic (International) Company Limited
WANG Nian-qiang
Director

Hong Kong, 29 August 2018

As at the date of this announcement, the executive Directors of the Company are Mr. WANG Nian-qiang and Mr. WANG Bo; the non-executive Directors are Mr. WANG Chuan-fu and Mr. WU Jing-sheng; and the independent non-executive Directors are Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Revenue	11.33%	to RMB19,511 million
Gross profit	-5.05%	to RMB2,007 million
Profit attributable to owners of the parent	-14.18%	to RMB1,135 million
Earnings per share	-14.18%	to RMB0.50

HIGHLIGHTS

- Metal components business: global leadership continues to be strengthened, sales volume and sales continue to grow
- Glass casing business: receives orders from a number of leading global brands for their high-end flagship models, experiencing rapid business development
- Actively expanded the automotive intelligent system, new intelligent products and other businesses, so as to cultivate new growth areas for the Group

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

For the six months ended 30 June 2018 (the “Period”), global economy sustained growth momentum. However, marginal growth was diminishing on the back of escalating international trade disputes, heightened geopolitical risks and tighter monetary policy around the world. China’s economy, in particular, performed steadily, with year-on-year growth of 6.8% in gross domestic product, on the back of consistent progress in its restructuring and upgrading.

According to IDC’s data, in the first half of 2018, global handset shipments totaled 676 million units, down by 2.35% year on year. According to the data released by China Academy of Telecommunication Research, handset shipments in China were down by 17.8% year on year to 196 million units in the first half of 2018. Smartphone shipments, in particular, dropped by 17.8% year on year to 185 million units. Nevertheless, Chinese handset brands continued to improve their overall competitiveness through technological innovation, with the result of expanding market shares of both the domestic and global markets and increasing business presence.

On the other hand, consumers’ higher requirements for the aesthetically pleasing design, lightness and thinness of electronic products also led to a wider scope of application of new materials and new techniques in production. On the back of continued progress in the development of 5G technology and rapid adoption of wireless charging, demand for glass casing increased significantly. As support to the structure of glass casing, metal middle frame was used more widely. Ceramic casing as a material used in handset casing, has enabled suppliers to provide more differentiated solutions for handset manufacturers. Presently, glass casing and metal middle frame have become main stream of the design of high-end handset, offering more opportunities and greater market potential for handset component suppliers who have rich experience and all-round technological competence.

BUSINESS REVIEW

BYD Electronic (International) Company Limited (“BYD Electronic” or the “Company”, which together with its subsidiaries, is referred to as the “Group”) is the world’s leading provider of intelligent product solutions, providing customers with one-stop service that comprises development of new materials, product design and development, manufacturing, supply chain management, logistics and after-sales service. The Company mainly engages in the manufacturing of material, molds, and components such as metal and plastic parts, glass casing, and ceramics, as well as software design, hardware design, assembly, and testing of electronic products. It provides services for businesses in such fields as consumer electronics, automotive intelligence systems, the Internet of things, robotics, artificial intelligence and new types of smart products. For the Period, the Group recorded turnover of approximately RMB19,511 million, up by 11.33% year on year. Profit attributable to shareholders was approximately RMB1,135 million, down by approximately 14.18% year on year.

In the first half of 2018, BYD Electronics continued to cooperate closely with leading handset brands from both China and foreign countries in furtherance of the metal parts business. The Company continued to win orders for high-end and flagship models of handsets from leading international handset brands. This resulted in consistent growth in both sales and sales volume, thus consolidating the Company’s position in the industry. In addition, BYD Electronic has been capitalizing on the latest trend in the handset industry by actively expanding glass casing business. As a result, the Company’s production capacity and sales were increasing. In the Period, the Group successfully won orders for flagship models of handsets from multiple global leading brand manufacturers, and became their primary supplier for glass casing. The increasing market penetration of glass casing can mean consistent growth in demand for such product in the future. The Group has already geared itself up for the bright prospect of the market by ramping up its production capacity and raising yield rate. It is well-positioned to foster new growth drivers in its handset component business. As to the Company’s plastic parts business, consumers’

MANAGEMENT DISCUSSION AND ANALYSIS

higher requirement for aesthetically pleasing design of low-end and mid-range handsets and the rapidly rising popularity of new types of smart products led to more and wider application of new types of plastic materials and new production techniques. This also drove up the demand for plastic parts and thus boosted the growth of the global plastics industry. The Group recorded rapid growth in revenue from its plastic parts business during the Period on the back of rich experience it has gained and advanced technical expertise it has developed in the plastic and moulding industries over many years.

While consolidating its existing handset component business, the Group also actively explored opportunities in the fields of automotive intelligent systems, Internet of things, robotics, artificial intelligence and new types of smart products by developing products, and it made good progress. In the field of automotive intelligent systems, the Group provided such automotive intelligent systems as intelligent central control systems, intelligent networked systems and communication modules to several world-renowned automobile manufacturers, thus fostering growth drivers for its future development. In the fields of new types of smart products and Internet of things, the Group also mapped out a plan for business development. It provided customers with one-stop service that ranged from product design and development to the manufacturing of finished products, thus paving the way for the Group's sustainable growth for the long term.

STRATEGY FOR FUTURE DEVELOPMENT

Looking ahead to the second half of the year, global economy will still be affected by trade conflicts, exchange rate volatility and geopolitical risks so it is faced with the risk of a slow down. In China, the economy has become more resilient. The restructuring of the economy and the government's expansionary fiscal policy can lead to steady economic growth. In the smartphone industry, both foreign and domestic handset manufacturers will continue to launch new models. This will help to boost smartphone shipments to a certain extent. According to a forecast by IDC, a market research institution, smartphone shipments are expected to decrease in 2018, but Chinese brands with an overall competitive advantage will develop overseas emerging markets actively, and will thus maintain momentum of strong growth.

The Group will take full advantage of the high quality of its products, advanced technology, economies of scale and its capability to produce metal parts, plastic parts, glass casing and ceramic casing to provide a comprehensive range of products and one-stop service for customers. It will also strengthen its strategic cooperation with customers. With the advent of the 5G era, more handset brands use glass casing in their high-end and flagship models, and as such, the Group is optimistic about the demand for glass casings, and expects high contribution from the sales of glass casings to its revenue in the second half of 2018.

The Group will further develop its businesses in the value chain of the smartphone industry and, at the same time, step up efforts to extend the scope of its businesses from consumer electronics to such diverse fields as automotive intelligent systems, Internet of things, robotics, artificial intelligence and new types of smart products. This will create new growth drivers, paving the way for the Group's sustainable development for the long term.

Looking ahead to the future, BYD Electronic will adhere to its core corporate values, closely follow the trends in the industry's development, extend the scope of its businesses and carry out technological innovation so as to enhance its competitive advantage constantly. The Group will consolidate its leading position in the field of consumer electronics, and actively develop its businesses of automotive intelligent system, Internet of things, robotics, artificial intelligence and new types of smart products. This will lay a solid foundation for the Group's long-term development and enable it to generate better results to shareholders and investors.

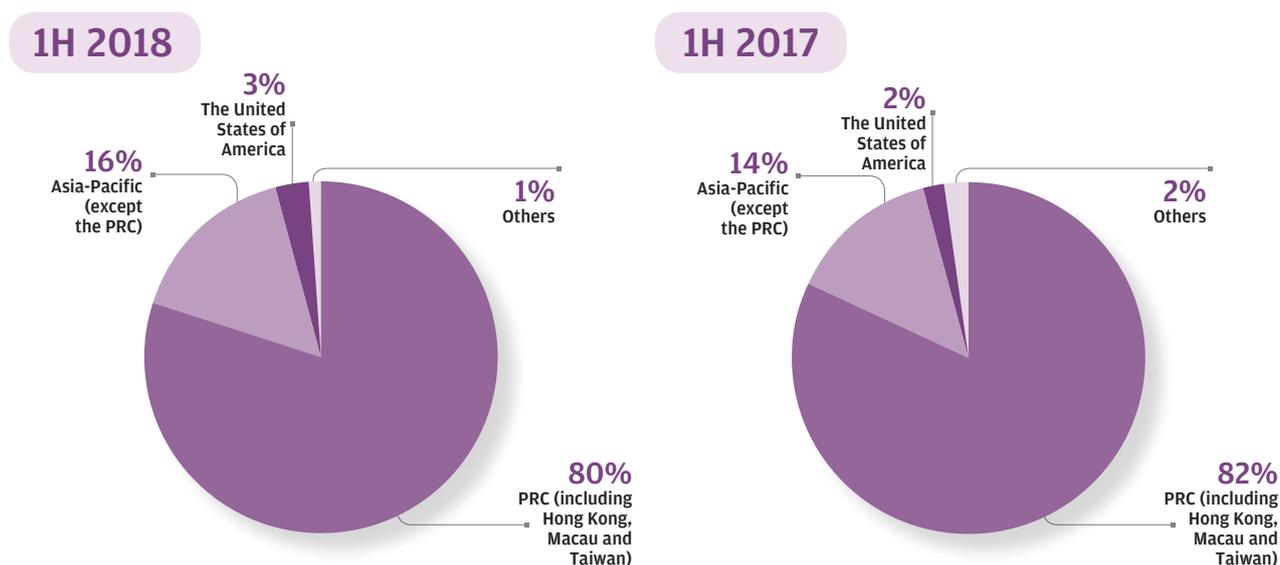
MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period under review, the increase in revenue was mainly due to the growth in metal parts business and glass casing business. Profit attributable to owners of the parent recorded a slight decrease as compared with the same period of the previous year, mainly due to the reduction in gross profit margin of metal parts business.

SEGMENTAL INFORMATION

Set out below is a comparison of geographical information by customer locations of the Group for the six months ended 30 June 2018 and 2017:



GROSS PROFIT AND MARGIN

The Group's gross profit for the Period decreased by approximately 5.05% to approximately RMB2,007 million. Gross profit margin decreased from approximately 12.06% in the first half of 2017 to approximately 10.29% for the Period. The decrease in gross profit margin was mainly due to the reduction in gross profit margin of metal parts business.

LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group recorded cash inflow in operations of approximately RMB1,560 million, compared to approximately RMB465 million of cash inflow recorded in the first half of 2017. During the Period, funds were mainly obtained from the net cash derived from the Company's operations.

The Group possessed sufficient liquidity to meet the daily liquidity management and capital expenditure requirements and to control internal operating cash flows. For the six months ended 30 June 2018, the turnover days of trade and bills receivables were approximately 76 days, while the turnover days were approximately 86 days for the six months ended 30 June 2017. The change in turnover days was mainly because the increase in average trade and bills receivables over the same period was lower than the increase in sales over the same period. Inventory turnover days increased from approximately 47 days for the six months ended 30 June 2017 to approximately 51 days for the Period, no significant changes.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

The duty of the Group's financial division is to oversee the Group's financial risk management, and to operate in accordance with the policies approved and implemented by the senior management. As of 30 June 2018, the Group did not have any 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 as well as the Group's credit facilities and net cash generated from operating activities will be sufficient to satisfy the Group's material commitments and the requirements for working capital, capital expenditure, business expansion, investments and expected debt repayment needs for at least the next twelve months.

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 and net of 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 30 June 2018 and 31 December 2017.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2018, the Group had approximately 75,000 employees. During the Period, total staff cost accounted for approximately 14.33% of the Group's revenue. Employee remuneration is determined on the basis of employees' performances, qualifications and then prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commissions may also be awarded to employees based on their annual performance appraisal. Incentives are offered for personal impetus and encouragement.

SHARE CAPITAL

As at 30 June 2018, the share capital of the Company was as follows:

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

CAPITAL COMMITMENTS

As at 30 June 2018, the Company had capital commitments of approximately RMB297 million (31 December 2017: approximately RMB287 million).

CONTINGENT LIABILITIES

Please refer to note 14 to the interim condensed consolidated financial statements for details of contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2018, the relevant interests or short positions of the Directors and chief executive of the Company in the ordinary shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Cap. 571 of the Laws of Hong Kong)), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Stock Exchange 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 the Company
Mr. WANG Nianqiang	The Company	Beneficial owner and beneficiary	17,102,000 ¹ (long position)	0.76%
	BYD Company Limited ("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:

- Of which 8,500,000 shares are held by Mr. WANG Nianqiang, while 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 trustee of BF Trust, of which Mr. WANG Nianqiang is a beneficiary.
- These are the A shares of BYD held by Mr. WANG Nianqiang and Mr. WU Jing-sheng. The total share capital of BYD as at 30 June 2018 was RMB2,728,142,855, comprising 1,813,142,855 A shares and 915,000,000 H shares, all were of par value of RMB1 each. The A shares of BYD held by Mr. WANG Nianqiang and Mr. WU Jing-sheng represented respectively approximately 1.05% and 0.25% of the total issued A shares of BYD as of 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

3. These are held by Gold Dragonfly, which is wholly-owned by BF Trustee as trustee of BF Trust, of which Mr. WANG Bo and Mr. WU Jing-sheng are beneficiaries.
4. These are the 512,623,820 A shares, 3,727,700 A shares held through E Fund Asset BYD Zengchi No.1 Assets Management Plan 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 30 June 2018, 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 or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2018.

SHARE OPTIONS

During the period under review, the Company has not adopted any share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares", at no time during the year ended 30 June 2018 was the Company, its holding company or any of its fellow subsidiaries and subsidiaries a party to any arrangements to enable the Directors or 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.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, to the best knowledge of 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 required to be 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 equity holder 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 H.K.")	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 H.K., which in turn is the sole shareholder of Golden Link. As such, both BYD H.K. and BYD were deemed to be interested in the shares of the Company held by Golden Link.
2. These are held by Gold Dragonfly, a company wholly-owned by BF Trustee as trustee of BF Trust, the beneficiaries of which are 28 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 30 June 2018, 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 required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE “CODE”)

The Board of the Company is committed to maintaining and ensuring high standards of corporate governance practices.

The Board puts emphasis on maintaining a quality Board with the balance of skill set of directors, high transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the Board, the Company had complied with the applicable provisions of the Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) during the Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the Company's code of conduct regarding securities transactions by its Directors. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code during the Period.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Since the date of publication of the latest annual report of the Company, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

THE BOARD'S DIVERSITY POLICY

The Board has adopted the Diversity Policy, which sets out the approach to the diversity of Board members. In determining the Board composition, the Company considers a range of diversity elements of Board members, 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.

AUDIT COMMITTEE

The audit committee consists of three independent non-executive directors and two non-executive directors. A meeting was convened by the Company's audit committee on 29 August 2018 to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including reviewing the financial statements for the Period) before recommending them to the Board for approval.

The audit committee has reviewed the unaudited results of the Group for the six months ended 30 June 2018.

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the Period (six months ended 30 June 2017: nil).

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the Six Months Ended 30 June 2018

		For the six months ended	
	Notes	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
REVENUE	5	19,511,163	17,525,878
Cost of sales		(17,504,382)	(15,412,296)
Gross profit		2,006,781	2,113,582
Other income and gains	5	234,673	218,151
Government grants and subsidies		131,957	42,069
Research and development costs		(623,348)	(454,644)
Selling and distribution costs		(124,065)	(111,580)
Administrative expenses		(242,664)	(210,439)
Other expenses		(23,512)	(46,715)
Finance costs	6	(23,902)	(20,396)
PROFIT BEFORE TAX	7	1,335,920	1,530,028
Income tax expense	8	(201,267)	(207,869)
PROFIT FOR THE PERIOD			
Attributable to the owners of the parent		1,134,653	1,322,159
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted for the period	9	RMB0.50	RMB0.59
PROFIT FOR THE PERIOD		1,134,653	1,322,159
OTHER COMPREHENSIVE (LOSS)/INCOME			
Expected credited loss for other debt instruments		(98)	–
Exchange differences on translation of foreign operations		(11,002)	7,794
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(11,100)	7,794
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,123,553	1,329,953
Attributable to owners of the parent		1,123,553	1,329,953

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	7,715,131	7,430,949
Prepaid land lease payments		276,435	280,970
Non-current prepayments		397,726	368,514
Other intangible assets		24,074	25,073
Loan to the ultimate holding company		398,840	400,000
Deferred tax assets		249,506	225,857
Available-for-sale investments		–	13,779
Other non-current financial assets		11,670	–
Total non-current assets		9,073,382	8,745,142
CURRENT ASSETS			
Inventories	11	4,830,332	4,607,845
Trade and bills receivables	12	7,907,085	8,556,349
Prepayments, deposits and other receivables		292,568	654,652
Due from a related party		1,378	–
Pledged bank deposits		–	71
Cash and cash equivalents		3,041,001	2,822,267
Total current assets		16,072,364	16,641,184
CURRENT LIABILITIES			
Trade and bills payables	13	7,571,014	8,982,988
Other payables		1,659,438	1,855,408
Contract liabilities		310,696	–
Due to related parties		–	940
Tax payable		192,203	173,367
Dividend payable		534,474	–
Deferred income		19,581	75,301
Total current liabilities		10,287,406	11,088,004
NET CURRENT ASSETS		5,784,958	5,553,180

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		14,858,340	14,298,322
NON-CURRENT LIABILITIES			
Deferred tax liabilities		–	25,912
Deferred income		85,032	81,097
Total non-current liabilities		85,032	107,009
Net assets		14,773,308	14,191,313
EQUITY			
Share capital		4,052,228	4,052,228
Other reserves		10,721,080	10,139,085
Total equity		14,773,308	14,191,313

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2018

	Attributable to owners of the parent						
	Share capital	Capital reserve	Contributed surplus	Statutory surplus reserve	Exchange fluctuation reserve	Retained profits	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	4,052,228	–	(46,323)	823,297	(176,987)	7,102,007	11,754,222
Profit for the period	–	–	–	–	–	1,322,159	1,322,159
Exchange differences on translation of foreign operations	–	–	–	–	7,794	–	7,794
Total comprehensive income for the period	–	–	–	–	7,794	1,322,159	1,329,953
2016 Final dividend declared	–	–	–	–	–	(155,471)	(155,471)
At 30 June 2017	4,052,228	–	(46,323)*	823,297*	(169,193)*	8,268,695*	12,928,704
At 1 January 2018	4,052,228	–	(46,323)	861,949	(169,293)	9,492,752	14,191,313
The effect of adoption of HKFRS 9	–	367	–	(1,241)	–	(22,447)	(23,321)
At 1 January 2018, as restated	4,052,228	367	(46,323)	860,708	(169,293)	9,470,305	14,167,992
Profit for the period	–	–	–	–	–	1,134,653	1,134,653
Expected credited loss for other debt instruments	–	(98)	–	–	–	–	(98)
Exchange differences on translation of foreign operations	–	–	–	–	(11,002)	–	(11,002)
Total comprehensive income for the period	–	(98)	–	–	(11,002)	1,134,653	1,123,553
2017 Final dividend declared	–	–	–	–	–	(518,237)	(518,237)
At 30 June 2018	4,052,228	269*	(46,323)*	860,708*	(180,295)*	10,086,721*	14,773,308

* These reserve accounts comprise the consolidated reserves of RMB10,721,080,000 (30 June 2017: RMB8,876,476,000) in the interim condensed consolidated statement of financial position as at 30 June 2018.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2018

For the six months ended 30 June

	Notes	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,335,920	1,530,028
Adjustments for:			
Finance costs	6	23,902	20,396
Interest income	5	(22,236)	(30,773)
Government grants and subsidies		(29,854)	(288)
Loss on disposal of items of property, plant and equipment	7	8,927	18,969
Depreciation	7	941,321	764,194
Amortisation of intangible assets	7	3,937	3,999
Recognition of prepaid land lease payments		3,192	2,473
Impairment of receivables	7	21,489	11,629
Impairment losses of receivables reserved	7	(11,426)	(15,815)
Expected credit loss of bills receivables reversed	7	(98)	–
Impairment of inventories	7	42,544	65,006
Fair value losses on other non-current financial assets		2,109	–
		2,319,727	2,369,818
Increase in inventories		(265,031)	(1,029,875)
Decrease in trade and bills receivables		617,060	2,217,525
Decrease in prepayments, deposits and other receivables		362,048	14,370
Decrease in trade and bills payables		(1,311,091)	(2,754,445)
Increase in an amount due from a related party		(1,378)	–
Increase/(decrease) in other payables		97,762	(267,336)
Increase in contract liabilities		24,850	–
Decrease in an amount due to a related party		(940)	(2,760)
Decrease in deferred income		(73,000)	–
Cash generated from operations		1,770,007	547,297
Interest received	5	22,236	30,773
Tax paid		(231,992)	(113,242)
Net cash flows from operating activities		1,560,251	464,828

continued/...

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2018

For the six months ended 30 June

Notes	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(1,328,380)	(1,031,836)
Additions to prepaid land lease payments	(55,924)	(72,991)
Additions to other intangible assets	(2,938)	(1,987)
Proceeds from disposal of items of property, plant and equipment	3,048	25,891
Receipt of government grants	51,069	80,313
Purchases of available-for-sale investments	-	(13,779)
Withdrawal of short-term deposits	-	247,360
Decrease in pledged deposits	71	-
Net cash flows used in investing activities	(1,333,054)	(767,029)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(23,902)	(20,396)
Net cash flows used in financing activities	(23,902)	(20,396)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	203,295	(322,597)
Cash and cash equivalents at beginning of period	2,822,267	2,966,064
Effect of foreign exchange rate changes, net	15,439	3,241
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,041,001	2,646,708

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

1. CORPORATION INFORMATION

BYD Electronic (International) Company Limited (“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 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 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 established in the British Virgin Islands, and the ultimate holding company of the Company is BYD Company Limited, which is incorporated in the PRC.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statement, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017.

3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group's contract liabilities include receipts in advance under HKFRS 15.

The application of HKFRS 15 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied HKFRS 9 using the modified retrospective method of adoption. With the initial application date of 1 January 2018 and no restatement of comparatives and the effect disclosures will primarily relate to the 2018 opening balances.

The effect of adopting HKFRS 9 is, as follows:

Impact on the statement of financial position as at 1 January 2018:

	HKAS39		HKFRS9	
	Classification	Carry amounts	Classification	Carry amounts
Trade receivables	Loans and receivables	8,492,325	Debt instruments at amortised cost	8,470,190
Bills receivables	Loans and receivables	64,024	Debt instruments at fair value through OCI	64,024
Other receivables	Loans and receivables	469,125	Debt instruments at amortised cost	469,099
Loan to the ultimate holding company	Loans and receivables	400,000	Debt instruments at amortised cost	398,840
Equity investment	Available-for-sale investments			
Unquoted equity shares	Cost model	13,779	Financial assets at fair value through profit or loss	13,779

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables, and Loans included under Other non-current financial assets.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under HKAS 39, the Group's quoted debt instruments were classified as available-for-sale (AFS) financial assets.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise derivative instruments and equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's unquoted equity securities were classified as available-for-sale investment.
- The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.
- The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets (i.e., other receivables, bills receivables at FVOCI and Loan to the ultimate holding company), the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings.

The statement of financial position as at 1 January 2018 was restated, resulting in decreases in trade receivables, other receivables, loan to the ultimate holding company and other reverses amounting to RMB22,135,000, RMB26,000, RMB1,160,000, and RMB23,321,000, respectively.

The Group has not early adopted any standard interpretation or amendment that was issued but not yet effective.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

4. SEGMENT INFORMATION

For management purposes, the group has only one operating segment which is the manufacture, assembly and sales of mobile handset components and modules. Since this is the only operating segment of the Group, no further analysis thereof is presented. The segment performance is evaluated based on the revenue and profit before tax which is consistent with the Group's revenue and profit before tax.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	For the six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Revenue		
Sales of mobile handset components and modules	10,911,064	7,905,580
Assembly services income	8,600,099	9,620,298
	19,511,163	17,525,878

	For the six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Other income and gains		
Bank interest income	22,236	30,773
Gain on disposal of scrap and materials	165,916	129,632
Others	46,521	57,746
	234,673	218,151

6. FINANCE COSTS

	For the six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Interest on factored trade receivables	23,902	20,396

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

7. PROFIT BEFORE TAX

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

	For the six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Cost of inventories sold	8,969,802	5,795,478
Cost of services provided	8,492,036	9,551,812
Depreciation	941,321	764,194
Amortization of other intangible assets	3,937	3,999
Impairment of receivables	21,489	11,629
Impairment losses of receivables reversed	(11,426)	(15,815)
Expected credit loss of bills receivables reversed	(98)	–
Impairment of inventories	42,544	65,006
Loss on disposal of items of property, plant and equipment	8,927	18,969

8. INCOME TAX

	For the six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Current – Mainland China	250,828	218,667
Deferred	(49,561)	(10,798)
Total tax charge for the period	201,267	207,869

Taxes on profits assessable have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Certain subsidiaries operating in Mainland China are approved to be high and new technology enterprises and are entitled to enjoy reduced enterprise income tax rates of 15% of the estimated assessable profits for the period.

No provision for profits tax in Hong Kong, United States of America, Finland, Romania and India have been made for the periods as the Group did not generate any assessable profits in these countries during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

	For the six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the Company, as in the basic earnings per share calculation	1,134,653	1,322,159

	Number of shares	
	30 June 2018	30 June 2017
Shares		
Number of ordinary shares in issue during the period	2,253,204,500	2,253,204,500

No diluted earnings per share amount has been presented for the period as no diluting events existed during these period.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired assets with a cost of RMB1,246,323,000 (six months ended 30 June 2017: RMB1,167,140,000) on additions to property, plant and equipment.

Assets with a net book value of RMB11,975,000 were disposed of by the group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB44,860,000) resulting in a net loss on disposal of RMB8,927,000 (six months ended 30 June 2017: RMB18,969,000).

11. INVENTORIES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Raw materials	1,815,011	1,651,891
Work-in-progress	117,433	118,665
Finished goods	2,870,635	2,809,971
Mould held for production	27,253	27,318
	4,830,332	4,607,845

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

12. TRADE AND BILLS RECEIVABLES

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

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 90 days	7,527,906	8,268,592
91 to 180 days	315,326	274,226
181 to 360 days	63,853	13,531
	7,907,085	8,556,349

The directors are of the opinion that the carrying amounts of trade and bills receivables approximate to their fair values.

13. TRADE AND BILLS PAYABLES

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 90 days	5,145,423	6,948,227
91 to 180 days	1,236,013	988,718
181 to 360 days	594,804	372,276
1 to 2 years	591,780	670,930
Over 2 years	2,994	2,837
	7,571,014	8,982,988

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

14. 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.

15. COMMITMENTS

The Group had the following capital commitments as at the end of reporting period:

	30 June 2018 (Unaudited) RMB’000	31 December 2017 (Audited) RMB’000
Contracted, but not provided for:		
Plant and machinery	223,328	246,446
Buildings	73,608	40,905
	296,936	287,351

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

16. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had the following material transactions with related parties:

Nature of Transaction	Note	Related parties	For the six months ended	
			30 June 2018	30 June 2017
			(Unaudited) RMB'000	(Unaudited) RMB'000
Purchases of plant and machinery	(i)	Ultimate holding company	-	66
		Fellow subsidiaries	-	49,988
Sales of plant and machinery	(i)	Ultimate holding company	-	5,110
		Fellow subsidiaries	-	3,035
Purchases of inventories	(ii)	Ultimate holding company	10,342	6,700
		Intermediate holding company	13,504	-
		Fellow subsidiaries	338,430	281,674
Sales of inventories	(ii)	Ultimate holding company	8,317	18,779
		Fellow subsidiaries	309,455	76,480
Leasing and ancillary expenses paid	(iii)	Ultimate holding company	88,441	62,891
		Fellow subsidiaries	353,869	272,665
Exclusive Processing Service received	(iv)	Ultimate holding company	151,913	173,278
		Fellow subsidiaries	21,353	22,061
Exclusive Processing Service provided	(iv)	Ultimate holding company	15,429	26,475
		Fellow subsidiaries	8,223	4,835
Agent fee for procurement service	(v)	Intermediate holding company	11,024	20,465
		Fellow subsidiaries	6,053	4,071
Interest received from	(vi)	Ultimate holding company	9,606	11,545

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

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 at the then prevailing market prices 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 reporting period.
 - (v) The agent fee for procurement service is charged on certain percentage of the total amount of procurement provided by the intermediate holding company (BYD H.K. Co., Ltd.) and fellow subsidiaries on behalf of the Group. For the period ended 30 June 2018, the total amount of procurement conducted is RMB6,635,339,000 (For the six months ended 30 June 2017: RMB6,077,105,000).
 - (vi) On 28 November 2014, BYD Precision Manufacture Co., Ltd., a wholly-owned subsidiary of the Company extended entrusted loans of RMB400,000,000 to BYD Company Ltd. ("BYD"), through China Construction Bank, in order to satisfy the need for further working capital of BYD. The loans was a three-year term from 28 November 2014 to 27 November 2017. And the loan extended another three years from 28 November 2017 to 27 November 2020, bearing interest at 4.75% per annum.
- (b) Compensation of key management personnel of the Group:

	For the six months ended	
	30 June 2018 (Unaudited) RMB'000	30 June 2017 (Unaudited) RMB'000
Short term employee benefits	7,130	6,243
Pension scheme contributions	39	39
	7,169	6,282

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

17. 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:

30 June 2018

	Carry amounts RMB'000	Fair values RMB'000
Financial assets		
Loan to the ultimate holding company	398,840	398,840
Other non-current financial assets – Quoted equity shares	11,670	11,670
Bills receivables	71,215	70,946
	481,725	481,456

31 December 2017

	Carry amounts RMB'000	Fair values RMB'000
Financial assets		
Loan to the ultimate holding company	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 approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2018

Fair value hierarchy

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

Assets and liabilities measured at fair value:

As at 30 June 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets				
Bills receivables	-	70,946	-	70,946
Quoted equity shares	11,670	-	-	11,670
	11,670	70,946	-	82,616

During the six months ended 30 June 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

Assets and liabilities for which fair values are disclosed:

As at 30 June 2018

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets				
Loan to the ultimate holding company	-	398,840	-	398,840

As at 31 December 2017

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

18. APPROVAL OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors on 29 August 2018.