宁波屹东电子股份有限公司

NINGBO YIDONG ELECTRONIC COMPANY LIMITED *

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 8249)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the "Directors") of Ningbo Yidong Electronic Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Ningbo Yidong Electronic Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *for identification purpose only*

RESULTS

The Board of Directors (the "Board") of Ningbo Yidong Electronic Company Limited (the "Company") is pleased to present the audited consolidated income statement of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 and the audited consolidated balance sheet of the Group as at 31 December 2007, together with the audited comparative figures for the corresponding previous period as follows:

CONSOLIDATED INCOME STATEMENT

		2007	2006
	NOTES	***RMB'000***	*RMB'000*
Revenue	*4*	**362,378**	317,274
Cost of sales		**(327,057)**	(274,311)
Gross profit		**35,321**	42,963
Other income	*4*	**6,186**	10,049
Selling and distribution costs		**(4,850)**	(5,625)
Administrative expenses		**(179,139)**	(56,895)
Finance costs		**(31,862)**	(17,638)
Gain on disposal of subsidiaries		**5,915**	–
Loss before income tax	*6*	**(168,429)**	(27,146)
Income tax (expense)/credit	*7*	**(23,155)**	3,901
Loss for the year		**(191,584)**	(23,245)
Attributable to :			
Equity holders of the Company		**(190,476)**	(21,087)
Minority interests		**(1,108)**	(2,158)
		(191,584)	(23,245)
Dividends	*8*	**–**	–
Loss per share	*9*		
Basic		**RMB(38.10 cents)**	RMB(4.22 cents)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

	NOTES	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**264,949**	242,877
Prepaid lease payments		**36,341**	37,282
Deferred tax assets		**–**	8,542
Construction deposits		**744**	1,588
		302,034	290,289
CURRENT ASSETS			
Inventories		**55,899**	116,824
Loan receivable		**1,000**	2,480
Trade and bills receivables	*10*	**9,622**	99,332
Prepayments, deposits and other receivables		**17,970**	43,041
Prepaid lease payments		**941**	941
Amount due from a shareholder		**7,798**	7,819
Amount due from a minority shareholder		**721**	1,072
Amounts due from directors		**600**	1,512
Amounts due from related companies		**34,292**	378
Tax recoverable		**–**	8,098
Held–for–trading investments		**475**	505
Pledged bank deposits		**96,171**	101,479
Bank balances and cash		**106,105**	121,458
		331,594	504,939
CURRENT LIABILITIES			
Trade and bills payables	*11*	**70,507**	229,160
Other payables and accruals		**160,649**	75,372
Receipt in advance		**11,442**	–
Amount due to a shareholder		**107,291**	–
Amounts due to minority shareholders		**1,871**	280
Amount due to a director		**9,500**	–
Amounts due to related companies		**18,169**	–
Amount due to an associate		**19,311**	–
Dividends payable		**4,440**	4,440
Income tax payable		**769**	–
Bank borrowings		**225,840**	291,570
Current portion of deferred revenue		**657**	1,657
		630,446	602,479

	NOTES	2007 RMB'000	2006 RMB'000
NET CURRENT LIABILITIES		**(298,852)**	(97,540)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,182**	192,749
NON–CURRENT LIABILITY			
Deferred revenue		**(4,553)**	(5,209)
NET (LIABILITIES)/ASSETS		**(1,371)**	187,540
CAPITAL AND RESERVES	*12*		
Share capital		**50,000**	50,000
Reserves		**(53,614)**	134,140
		(3,614)	184,140
MINORITY INTERESTS		**2,243**	3,400
DEFICIENCY OF SHAREHOLDERS' FUNDS		**(1,371)**	187,540

Notes

1. GENERAL INFORMATION

The Company is a joint stock limited liability company established in the People's Republic of China (the "PRC") and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The principal activities of the Group are the design, manufacture and sale of intelligent controller systems for consumer electrical and electronic appliances and the assembly of mobile phones in the PRC.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which also includes Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Material uncertainties in respect of going concern

In preparing the consolidated financial statements, the directors have given careful consideration to the future liquidity of the Group in light of its net current liabilities of RMB298,852,000 as at 31 December 2007 and a net loss attributable to the shareholders of approximately RMB190,476,000 for the year ended 31 December 2007. The Group financed its capital intensive operations by short-term bank borrowings and shareholders' equity. It tends to maintain a fair level of short-term bank borrowings which are renewed on a regular basis, as the borrowing costs of such arrangement are relatively lower. The directors are of the opinion that, after taking into account the presently available banking facilities and internal financial resources, the Group has sufficient working capital for its present requirements and will be able to meet in full its liabilities as they fall due in the foreseeable future. The opinion is based on the following:

(i) The amounts of banking facilities available to the Group granted by various banks at 31 December 2007 was RMB387,012,000, in which RMB183,740,000 was utilised as at 31 December 2007. Approximately RMB102,850,000 of the unutilised banking facilities will expire one year after the balance sheet date. The directors of the Company are in ongoing negotiations with the Group's bankers to seek their ongoing support to the Group.

(ii) A substantial shareholder has undertaken to provide the financial support to the Group.

(iii) The directors of the Company continue to take action to tighten cost controls over factory overheads and various general and administrative expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

(iv) Various products with higher profit margin, such as PCBA(WMS) and bluetooth products, have been introduced by the Group with the aim to diversify the Group's products and improve profitability. The directors expected that PCBA(WMS) would become a major contributor to the Group's turnover and net profit in the future.

(v) On 20 December 2006, the Company entered into a provisional sale and purchase agreement with local government ("the Purchaser") for the disposal of the land use right together with buildings right (collectively referred to "the Property") for a preliminary consideration of approximately RMB120,000,000. On 17 August 2007, a supplementary agreement was signed between the Company and the Purchaser, the aforesaid total consideration was amended to RMB80,000,000 which is subject to valuation about market value of the Property at Sale Completion Date by independent valuers jointly appointed by the Company and the Purchaser.

The Company has received a provisional payment of RMB80,000,000 in respect of the proceed from disposal of the Property from the Purchaser in August 2007. In respect of the provisional payment received to date, RMB58,850,000 will be used in repaying mortgage loan of Bank of China with the balance of RMB21,150,000 being used as working capital of the Company.

The sale constitutes a very substantial disposal for the Company under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). To date, the sale is not completed and subject to the approval of extraordinary general meeting. More details of this sale are set out in the Company's announcement dated 30 May 2008.

Due to the reasons above, the consolidated financial statements have been prepared on a going concern basis.

In the opinion of the directors, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis, notwithstanding the Group's financial position and liquidity position as at 31 December 2007.

Should the Group be unable to implement the above measures and fail to continue in business as a going concern, adjustment would have to made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

(a) Initial application of Hong Kong Financial Reporting Standards

In the current year, the Group initially applied the following Hong Kong Financial Reporting Standards :

HKAS 1 (Amendment)	Presentation of Financial Statements, Paragraphs 124A to 124C
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

(b) Hong Kong Financial Reporting Standards in issue but not yet effective

The following Hong Kong Financial Reporting Standards in issue at 31 December 2007 have not been applied in the preparation of the consolidated financial statements for the year ended 31 December 2007 since they were not yet effective for the annual period beginning on 1 January 2007 :

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

The Group is required to initially apply HK(IFRIC)-Int 11, HK(IFRIC)-Int 12 and HK(IFRIC)-Int 14 in its annual financial statements beginning on 1 January 2008, and to initially apply HKAS 1 (Revised), HKAS 23 (Revised), HKFRS 8 and HK(IFRIC)-Int 13 in its annual financial statements beginning on 1 January 2009.

4. REVENUE AND OTHER INCOME

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, net of discounts and sales related taxes, during the year.

An analysis of the Group's revenue and other income are as follows :

	2007	2006
	RMB'000	*RMB'000*
Revenue		
Sales of controller systems for consumer electrical and electronic appliances and income from sales of small electrical appliances	**17,509**	17,192
Sales of controller systems for mobile phones and income from sales and assembly of mobile phones	**344,869**	300,082
	362,378	317,274
Other income		
Processing fee income	**–**	2,850
Bank interest income	**2,285**	1,845
Subsidy income	**153**	1,959
Sales of scrap materials	**40**	1,571
Government grants received recognised as income	**1,656**	657
Exchange gain	**137**	–
Others	**1,915**	1,167
	6,186	10,049

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into two operating divisions, namely, sales of controller systems for consumer electrical and electronic appliances and income from sales of small electrical appliances, and sales of controller systems for mobile phones and income from sales and assembly of mobile phones. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2007

	Sales of controller systems for consumer electrical and electronic appliances and income from sales of small electrical appliances	Sales of controller systems for mobile phones and income from sales and assembly of mobile phones	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	17,509	344,869		362,378
Segment results	2,751	4,610		7,361
Unallocated revenue				6,186
Unallocated corporate expenses				(156,029)
Finance costs				(31,862)
Gain on disposal of subsidiaries				5,915
Loss before income tax				(168,429)
Income tax expense				(23,155)
Loss for the year				(191,584)
At 31 December 2007				
BALANCE SHEET				
ASSETS				
Consolidated total assets	37,731	187,590	408,307	633,628
LIABILITIES				
Consolidated total liabilities	4,225	284,369	346,405	634,999
OTHER INFORMATION				
Capital additions	–	37,425	–	37,425
Depreciation	632	12,463	27	13,122
Amortisation of prepaid lease payments	20	353	106	479
Impairment loss on amount due from a related company	–	16,795	–	16,795
Write-down of inventories and provision for obsolete stock	9,142	44,854	107	54,103
Impairment loss on trade receivables, deposits and other receivables	–	62,137	–	62,137
Bad debts written off	–	1,286	148	1,434

For the year ended 31 December 2006

	Sales of controller systems for consumer electrical and electronic appliances and income from sales of small electrical appliances	Sales of controller systems for mobile phones and income from sales and assembly of mobile phones	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	17,192	300,082		317,274
Segment results	(3,594)	11,938		8,344
Unallocated revenue				5,015
Unallocated corporate expenses				(22,867)
Finance costs				(17,638)
Loss before income tax				(27,146)
Income tax credit				3,901
Loss for the year				(23,245)
At 31 December 2006				
BALANCE SHEET				
ASSETS				
Consolidated total assets	59,935	405,681	329,612	795,228
LIABILITIES				
Consolidated total liabilities	18,898	129,508	459,282	607,688
OTHER INFORMATION				
Capital additions	5,433	20,477	14,058	39,968
Depreciation	2,021	10,266	1,998	14,285
Amortisation of prepaid lease payments	20	353	106	479
Impairment loss on amounts due from associates	–	–	4,012	4,012
Impairment loss on amounts due from minority shareholders	–	792	–	792
Impairment loss on goodwill arising from acquisition of a subsidiary	–	103	–	103
Impairment loss on property, plant and equipment	–	106	–	106
Impairment loss on trade receivables, deposits and other receivables	725	13,513	154	14,392
Loss on disposal of property, plant and equipment	–	10	48	58
Write-down of inventories	1,150	3,405	–	4,555

(b) Geographical segments

The Group's sales of controller systems for consumer electrical and electronic appliances and controller systems for mobile phones and income from sales of small electrical appliances and sales and assembly of mobile phones are located in the PRC and Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services.

	2007	2006
	RMB'000	*RMB'000*
The PRC, excluding Hong Kong	**50,841**	183,536
Hong Kong	**310,733**	131,526
Others	**804**	2,212
	362,378	317,274

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment, by geographical area in which the assets are located has not been presented as they are substantially located in the PRC.

6. LOSS BEFORE INCOME TAX

	2007	2006
	RMB'000	*RMB'000*
Loss before income tax has been arrived at after charging/(crediting):		
Staff costs, including directors' remuneration:		
– Salaries, wages and other benefits	**19,458**	26,027
– Retirement benefit scheme contributions	**1,027**	650
Total staff costs	**20,485**	26,677
Depreciation of property, plant and equipment	**13,122**	14,285
Amortisation of prepaid lease payments	**941**	941
Less: Amount capitalised in buildings under construction	**(462)**	(462)
Total depreciation and amortisation	**13,601**	14,764
Auditor's remuneration	**2,010**	1,364
Cost of inventories recognised as an expense	**326,355**	252,955
Impairment loss on amount due from a related company	**16,795**	–
Impairment loss on amounts due from associates	**–**	4,012
Impairment loss on amounts due from minority shareholders	**–**	792
Impairment loss on goodwill arising from acquisition of subsidiaries	**–**	103
Impairment loss on property, plant and equipment	**–**	106
Impairment loss on trade receivables, deposits and other receivables	**62,137**	14,392
Bad debts written off	**1,434**	–
Loss on disposal of property, plant and equipment	**–**	58
Net foreign exchange (gain)/losses	**(137)**	1,807
Research and development costs	**7,261**	7,008
Write-down of inventories included in cost of sales	**1,238**	4,555
Write-down of inventories included in administrative expenses	**52,865**	–
Minimum lease payment paid under operating leases	**643**	840

7. INCOME TAX EXPENSE/(CREDIT)

	2007	2006
	RMB'000	*RMB'000*
The income tax expense/(credit) comprises:		
Current tax		
– Hong Kong profits tax	**737**	–
– PRC income tax	**350**	1,322
– Tax recoverable written off	**13,526**	–
– Over-provision in prior years	**–**	(1)
	14,613	1,321
Deferred tax	**8,542**	(5,222)
	23,155	(3,901)

Hong Kong profits tax is calculate at 17.5% on the estimated assessable profits for the year. PRC income tax is calculated at 33% of the estimated taxable profit in accordance with the income tax law in the PRC for both years. A subsidiary operating in the PRC is entitled to a tax exemption for two years commencing from its first profit-making year followed by a 50% reduction in the PRC income tax for three years. The PRC income tax for this subsidiary was 50% exempted in both years.

The income tax expense/(credit) for the year can be reconciled to the loss before tax per the income statement as follows:

	2007	2006
	RMB'000	*RMB'000*
Loss before income tax	**(168,429)**	(27,146)
Tax at the domestic income tax rate of 33%	**(55,582)**	(8,958)
Tax effect of expenses not deductible for tax purpose	**18,278**	4,622
Tax effect of recognition of deductible temporary difference recognised	**(2,256)**	–
Tax effect of income not taxable for tax purpose	**(2,809)**	(1,158)
Tax effect of tax losses not recognised	**9,623**	1,181
Utilisation of tax losses previously not recognised	**(34)**	(321)
Tax effect of deductible temporary differences not recognised	**44,603**	947
Income tax on concessionary rate	**(350)**	(76)
Tax effect on different tax rate	**827**	–
Tax recoverable written off	**13,526**	–
Over-provision in prior years	**–**	(1)
Others	**(2,671)**	(137)
Income tax expense/(credit) for the year	**23,155**	(3,901)

8. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2007.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of RMB190,476,000 (2006: RMB21,087,000) and 500,000,000 shares (2006: 500,000,000 shares) in issue during the year.

10. TRADE AND BILLS RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Trade and bills receivables	**84,501**	112,044
Less: Accumulated impairment losses	**(74,879)**	(12,712)
	9,622	99,332

The Group allows an average credit period of 60 to 180 days to its trade customers.

The impairment losses on trade and bills receivables charged to the income statement and set off against the trade and bills receivables during the year are RMB53,024,000 and RMB6,837,000 respectively.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date, and net of impairment losses, is as follows:

	2007	2006
	RMB'000	*RMB'000*
0 to 90 days	**5,833**	45,535
91 to 180 days	**865**	2,864
181 to 365 days	**2,805**	12,288
Over 365 days	**119**	38,645
	9,622	99,332

Trade receivables of approximately RMB901,000 (2006: RMB61,000) are denominated in US dollars, which is different from the functional currency of the relevant group entity.

11. TRADE AND BILLS PAYABLES

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

	2007	2006
	RMB'000	*RMB'000*
0 to 90 days	**26,305**	207,967
91 to 180 days	**13,736**	1,767
181 to 365 days	**11,841**	6,222
Over 365 days	**18,625**	13,204
	70,507	229,160

Trade and bills payables of approximately RMB6,877,000 (2006: RMB34,861,000) are denominated in US dollars, which is different from the functional currency of the relevant group entity.

12. CAPITAL AND RESERVES

	Attributable to equity holders of the Company								
	Share capital	Capital reserve (Note a)	Statutory surplus reserve (Note b)	Statutory public welfare reserve (Note c)	Translation reserve	Accumulated losses	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	50,000	40,449	15,530	7,021	340	90,312	203,652	6,863	210,515
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	1,575	–	1,575	–	1,575
Loss for the year	–	–	–	–	–	(21,087)	(21,087)	(2,158)	(23,245)
Total recognised income and expenses for the year	–	–	–	–	1,575	(21,087)	(19,512)	(2,158)	(21,670)
Acquisition of a subsidiary	–	–	–	–	–	–	–	281	281
Establishment of a subsidiary	–	–	–	–	–	–	–	5	5
Dividend paid to a minority shareholder	–	–	–	–	–	–	–	(1,591)	(1,591)
Appropriations	–	–	2,221	–	–	(2,221)	–	–	–
Transfer	–	–	7,021	(7,021)	–	–	–	–	–
At 31 December 2006 and 1 January 2007	50,000	40,449	24,772	–	1,915	67,004	184,140	3,400	187,540
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	–	–	–	–	2,722	–	2,722	–	2,722
Loss for the year	–	–	–	–	–	(190,476)	(190,476)	(1,108)	(191,584)
Total recognised income and expenses for the year	–	–	–	–	2,722	(190,476)	(187,754)	(1,108)	(188,862)
Appropriations	–	–	226	–	–	(226)	–	–	–
Release on disposal of a subsidiary	–	–	–	–	–	–	–	(49)	(49)
At 31 December 2007	50,000	40,449	24,998	–	4,637	(123,698)	(3,614)	2,243	(1,371)

Note:

(a) Capital reserve
Capital reserve includes the share premium arising from the issue of H shares after deduction of the respective share issuance costs of the Company.

(b) Statutory surplus reserve

The Articles of Association of the Company and its subsidiaries established in the PRC require the appropriation of 10% of their profit after income tax determined under the PRC accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, under normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

(c) Statutory public welfare reserve

Pursuant to the PRC Company Law, the Company and its subsidiaries established in the PRC shall make allocation from its profit after income tax determined under the PRC accounting standards at the rate of 5% to 10% to the statutory public welfare reserve. The statutory public welfare reserve can only be utilised on capital items for employees' collective welfare. Individual employees have the right to use these facilities, but the titles to which will remain with these companies. In accordance with the relevant PRC laws and regulations, the unutilised statutory public welfare reserve at 31 December 2005 has been transferred to statutory surplus reserve and no appropriation of statutory public welfare reserve is required effective from 2006.

13. INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the consolidated financial statements of Ningbo Yidong Electronic Company Limited (the "Company") and its subsidiaries (collectively known as the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

(1) *Scope limitation – Inventories*
We did not observe the counting of the physical inventory stated at RMB116,824,000 as at 31 December 2006, since the date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures.

(2) *Scope limitation – Plant and machinery*
In respect of the plant and machinery with a carrying amount of RMB12,637,000 included in the Group's property, plant and equipment as at 31 December 2007, in the absence of sufficient evidences available for our inspection, we have not been able to verify its existence and carrying amount.

(3) *Scope limitation – Impairment loss on trade receivables, deposits and other receivables*
Included in the impairment loss on trade receivables, deposits and other receivables of RMB62,137,000 recognised in the current year as stated in note 10 to the consolidated financial statements was an amount of RMB55,783,000 in relation to the opening balances brought forward from 31 December 2006. We were unable to obtain sufficient information and explanations from the directors regarding the assessment of the reasonableness of the aforementioned basis of allowance and accordingly unable to satisfy ourselves as to whether the impairment loss related to the opening balances should have been recognised during the current year.

(4) *Scope limitation – Impairment loss on amount due from a related company*
The impairment loss on amount due from a related company of RMB16,795,000 recognised in the current year as stated in note 10 to the consolidated financial statements was in relation to an amount of RMB28,720,000 included in the opening balance brought forward from 31 December 2006. The Group provided such allowance due to the quality problem of the products sold to the related company. We were unable to obtain sufficient information and explanations from the directors regarding the assessment of the reasonableness of the aforementioned basis of allowance and were unable to satisfy ourselves as to whether any further allowance was required to be made during the year ended 31 December 2007.

(5) *Scope limitation – Tax recoverable written off*
In respect of the tax recoverable written off of RMB13,526,000, which is related to opening balance brought forward from 31 December 2006, included in the income tax expense in the current year, we have not been provided with tax clearance letter issued by the Tax Bureau and other evidence for inspection and accordingly unable to satisfy ourselves as to whether it should have been expensed in the current year.

(6) Going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(b) to the consolidated financial statements concerning the basis of preparation of the consolidated financial statements made by the directors. As explained in note 2(b) to the consolidated financial statements, the Group is currently undertaking a number of measures to relieve the current profitability and liquidity problem of the Group.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support of the Group's bankers and/or the financial institutions, the undertaken financial support by a substantial shareholder and the attainment of profitable and positive cash flow operations of the Group to meet its future working capital and financial requirements. The consolidated financial statements do not include any adjustments that might be necessary should the implementation of such measures become unsuccessful. Details of the circumstances relating to this fundamental uncertainty are described in note 2(b) to the consolidated financial statements.

Although disclosures have been made, we consider that there exists certain extreme inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis. Thus, we have disclaimed our opinion in respect of this issue.

(7) Contingent liabilities in respect of disposal of properties interest

As explained in notes 2(b)(v) and 36(e) to the consolidated financial statements, the Company has signed an agreement with the local government for the potential disposal of its existing factory premises for a preliminary consideration of approximately RMB80,000,000. In this regard, the Company failed to deliver the possession of the existing factory premises before a pre-agreed date pursuant to the terms of the agreement. As a consequence, a daily compensation of 0.005% on the basis of total consideration will be levied and the percentage will be double if overdue for more than one month (the "Alleged Penalty") according to the agreement.

This potential disposal constitutes a very substantial disposal and will be subject to the approval from the extraordinary general meeting to be held according to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). As at 31 December 2007, the Alleged Penalty has not been accrued in the books of the Group as the directors of the Company are of the opinion, with the advice from a legal adviser, that the aforesaid agreement may not be enforceable on the ground that the Company had breached the GEM Listing Rules.

We consider that appropriate disclosures concerning the contingent liabilities in respect of aforesaid disposal of a leasehold land and buildings have been made, but the fundamental uncertainty is so extreme that we are unable to form an opinion as to whether the Group has obligation to pay the Alleged Penalty and whether the Alleged Penalty should be provided for in the consolidated financial statements.

Any adjustments that might have been found to be necessary in respect of the matters set out in points (1) to (7) above may have a consequential and significant effect on the financial positions of the Group as at 31 December 2007, the Group's loss and cash flows for the year ended 31 December 2007 and the related disclosures in the consolidated financial statements.

Disclaimer of opinion: disclaimer of view given by consolidated financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financials statements as to whether they give a true and fair view of the state of affairs of the Group at 31 December 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Report on matters under sections 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work as set out in the "Basis for disclaimer of opinion" section of this report:-

(i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

(ii) we were unable to determine whether proper books of account had been kept.

PKF
Certified Public Accountants
Hong Kong, 30 June 2008

14. MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

In view of a substantial shareholder, China Ruilian Holding Corp., has undertaken to provide the financial support to the Group, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis, notwithstanding the Group's financial position and liquidity position as at 31 December 2007.

CLOSURE OF H SHARE REGISTER

The H share register of shareholders of the Company will be closed from 25 July 2008 to 25 August 2008 (both days inclusive), during the period no transfer of H shares will be registered.

BUSINESS AND OPERATIONS REVIEW

For the year ended 31 December 2007, the Group recorded revenue of approximately RMB362,378,000 (2006: RMB317,274,000), representing an increase of approximately 14.2% over the previous year. The increase in the Group's revenue is due to increases in sales of both controllers systems and mobile phones during the year.

Gross profit margin was 9.7% (2006: 13.5%) and there is a mild decrease in the profit margin due to keen competition. The Group continues to procure cost control to mitigate the impact of price competition caused by intense competition in the mobile phone industry.

Other revenues mainly include processing income and recorded a decrease of 38.4% over the previous year. Selling expenses recorded a mild decrease of 13.8%, while administrative expenses rose by 214.9% over the previous year. For the year ended 31 December 2007, finance costs amounted to RMB31,862,000 (2006: RMB17,638,000), which represented an increase of 80.6% over the previous year and was mainly attributable to additional bank borrowings raised for the construction of new factory premises and therising demand for other working capital.

For the year ended 31 December 2007, loss attributable to shareholders of the Group amounted to RMB190,476,000 (2006: RMB21,087,000). Emergence of loss attributable to shareholders was principally due to the increase in administrative expenses, comprising mainly impairment loss on receivables and inventories recognised for the year.

FINANCIAL REVIEW

Current assets and liabilities

As at 31 December 2007, the Group had current assets of RMB331,594,000 (2006: RMB504,939,000), representing a decrease of 34.3% compared with last year. The decrease was mainly attributable to the reduced bank balances and cash arising from repayment of bank borrowings during the year. As at 31 December 2007, the Group had current liabilities of RMB630,446,000 (2006: RMB602,479,000), which represented an increase of 4.6% and was mainly due to the increase in other payables and funds from shareholders and associates. As at 31 December 2007, the unutilised bank loan facilities and cash flow generated in the ordinary course of business were sufficient for the capital requirement of daily operations and the new facilities despite its net current liabilities status.

Finance and banking facilities

As at 31 December 2007, the Group had cash and bank balances of RMB202,276,000 (2006: RMB222,937,000), short-term bank borrowings of RMB225,840,000 (2006: RMB291,570,000), and net borrowings of RMB23,564,000 (2006: RMB68,633,000) respectively. The borrowings were secured by certain property, plant and equipments and bank deposits of the Group. The Group will seek to replace the existing short-term bank facilities by long-term bank loans and secure bank loans with lower costs of borrowings, so as to improve the Group's financial position and reduce financial costs.

Gearing ratio

The Group's gearing ratio as at 31 December 2007 was 35.6% (2006: 36.7%), which is expressed as a percentage of the total bank borrowings over the total assets.

Capital structure and financial resources

As at 31 December 2007, the Group had net liabilities of approximately RMB1,371,000 (2006: net assets RMB187,540,000). The Group's operations and investments are financed principally by its internal resources, bank borrowings and shareholders' equity.

Foreign exchange risk

The Group's income and expenses were denominated in RMB while certain procurement transactions were settled in US dollars. The Group regulated its outstanding foreign exchange balance by conducting sales settled in US dollars to reduce its foreign exchange exposure. Since the existing bank loans are repayable in RMB, there was no material foreign exchange risk. The Group will review and monitor foreign exchange risk from time to time and may enter into forward swap contracts to hedge such risks where appropriate.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had 454 employees (2006: 871 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Bonuses based on individual performance will be paid to employees in recognition and reward of their contribution. Other benefits include contributions to retirement scheme.

PROSPECTS

The expanded production capacity of the new factory premises and the possession of the 3G mobile phone production license will both enable manufacture new products launched to the market and serve production orders of group companies, related parties and external customers. Short-term plan targets at full utilization of the production capacity whilst long-term plan focuses over balanced development in mobile planes, controllers, LCD/PCBA and other products. The Group will continue leveraging on its competitive advantages of research and development know-how, well-established customer base and highly recognised product portfolio to capture larger market shares in the intelligent electronic consumer product market.

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

Neither the Company nor any of its subsidiaries has purchased, sold, or redeemed any of the Company's listed securities during the year ended 31 December 2007.

CORPORATE GOVERNANCE

During the year ended 31 December 2007, the Company had complied with the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules (the "Code") in all material aspects except that no remuneration committee had been set up as required by rule B1.1 of the Code.

The above deviations from the Code was due to the practical situations of the Company as fully described on the Annual Report of the Company for the year ended 31 December 2007.

AUDIT COMMITTEE

The principal duties of the Audit Committee are to oversee the financial reporting and internal control system of the Group. The Audit Committee comprises three independent non-executive directors, Mr. Ding Gang Yi (Chairman of the committee), Mr. Tang Zhen Ming and Mr. Ku Kin Shing (resigned on 30 April 2008). The audit committee held four meetings during the year ended 31 December 2007. The annual results of the Group for the year ended 31 December 2007 have been reviewed by the audit committee of the Company.

By Order of the Board of
Ningbo Yidong Electronic Company Limited
Liu Feng
Chairman

30 June 2008, Ningbo, the PRC

As of the date hereof, the executive Directors are Mr. Liu Feng, Mr. Gong Zhang Jun and Mr. Chen Zheng Tu, while the non-executive Directors are Mr. Zheng Yi Song and Mr. Wang Wei Shi. The independent non-executive Directors are Mr. Ding Gang Yi and Mr. Tang Zhen Ming.

This announcement, for which the Directors of the Company (the "Directors") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the "Latest Company Announcements" pages of the GEM website for at least 7 days from the date of its posting.