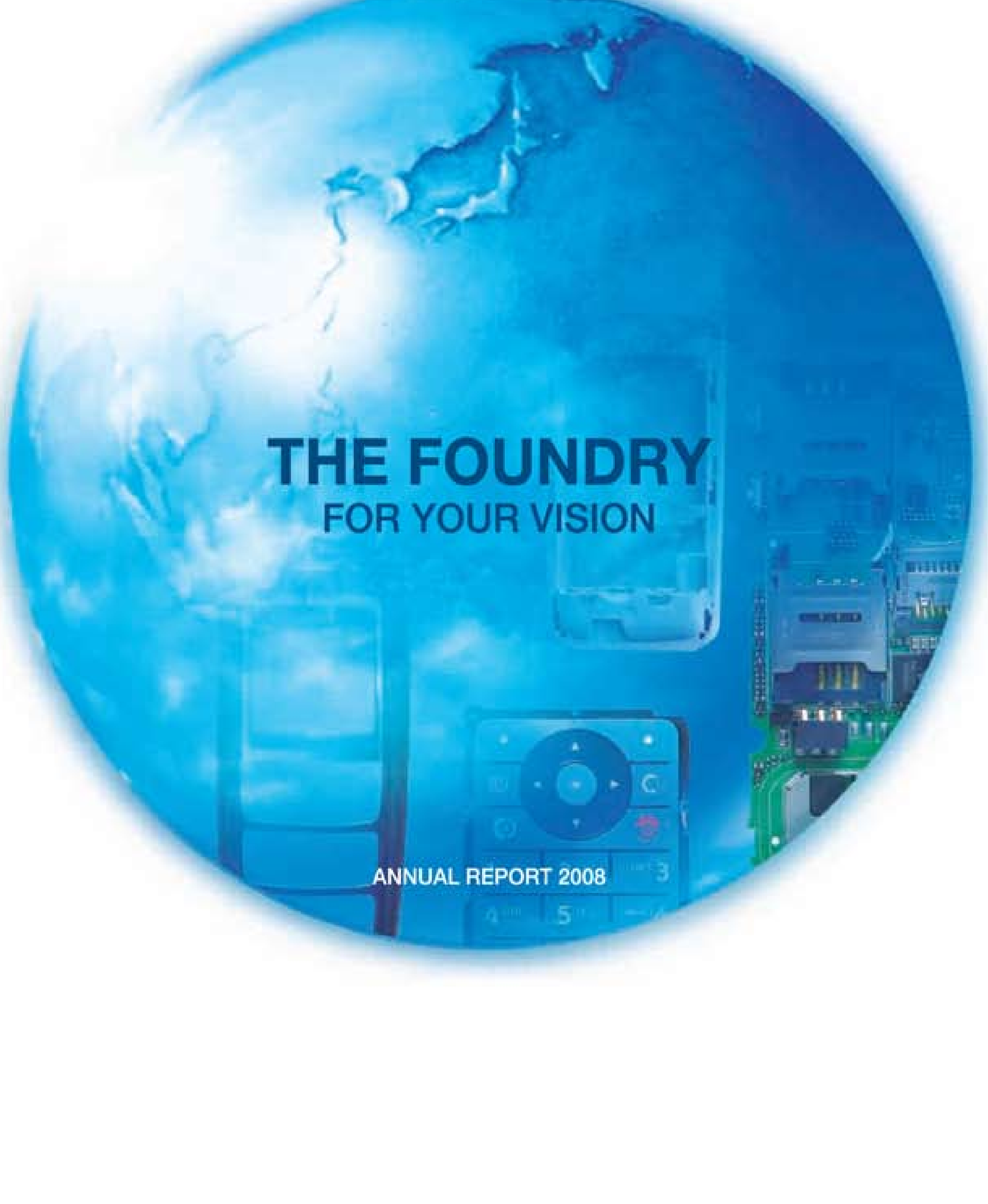
比亞迪電子(國際)有限公司
BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED

(Stock Code 股份代號: 285)



BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company"; together with its subsidiaries known as the "Group"; stock code: 0285) was spun off from BYD Company Limited ("BYD", stock code: 1211) and listed on the Main Board of the Stock Exchange Hong Kong Limited on 20 December 2007. It is a world-leading vertically integrated provider of handset components and modules as well as assembly services. The Company provides services to brand name vendors of handset as original equipment manufacturers ("OEMs"). Its highly vertically integrated production process enhances its ability to provide customers with a full range of services, broad product portfolio, quick and efficient respond to changing demands.

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

CONTENTS

FINANCIAL HIGHLIGHTS

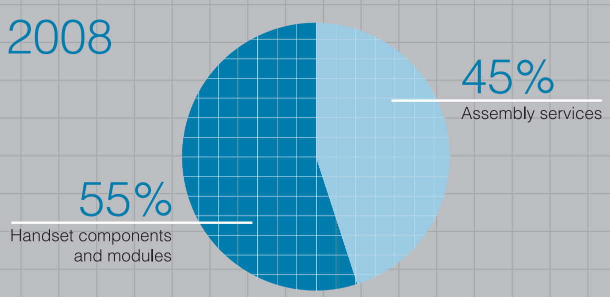
FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

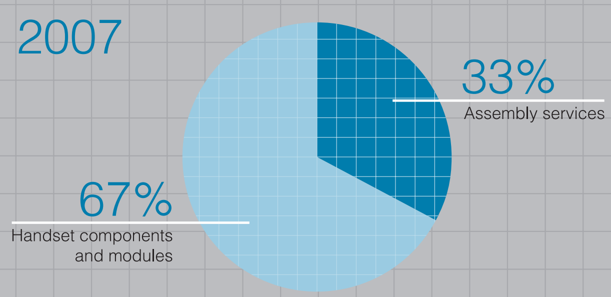
	For the year ended 31 December				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Turnover	**8,555,112**	5,767,256	3,043,966	600,813	362,605
Gross profit	**1,709,547**	1,527,925	952,496	140,391	93,973
Gross profit margin (%)	**20**	26	31	23	26
Profit attributable to equity holders of the parent	**765,825**	1,093,289	731,089	45,468	43,777
Net profit margin (%)	**9**	19	24	8	12

	For the year ended 31 December				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Net assets	**5,837,536**	4,891,788	860,611	229,122	164,149
Total assets	**8,418,186**	8,237,272	3,200,659	858,497	394,573
Gearing ratio (%) (Note)	**-19**	-39	-44	11	-1
Current ratio (times)	**1.87**	1.89	0.91	0.89	0.88
Account receivable turnover (days)	**71**	77	60	140	75
Inventory turnover (days)	**77**	66	54	82	64

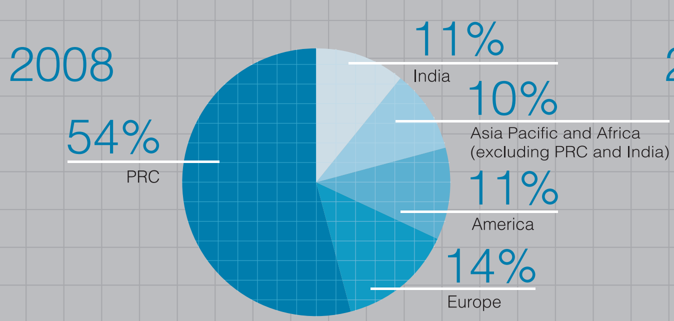
Note: Gearing ratio = Total interest-bearing bank borrowings net of cash and bank balances/equity

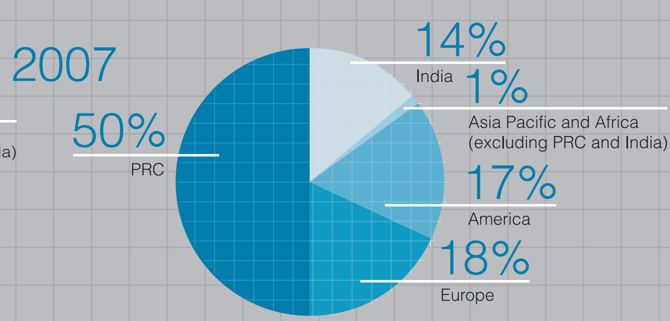
Turnover Breakdown by Products





Turnover Breakdown by Geographical Segments





CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Li Ke
Sun Yi-zao

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

INDEPENDENT NON-EXECUTIVE DIRECTORS
Chan Yuk-tong
Feng Xu-chu (resigned on 19 December 2008)
Liang Ping (appointed on 16 February 2009)
Antony Francis MAMPILLY

COMPANY SECRETARIES
Cheung Hon-wan
Li Qian

AUDIT COMMITTEE
Chan Yuk-tong (Chairman)
Liang Ping
Antony Francis MAMPILLY
Wang Chuan-fu
Wu Jing-sheng

REMUNERATION COMMITTEE
Chan Yuk-tong
Liang Ping
Antony Francis MAMPILLY
Wang Chuan-fu (Chairman)
Li Ke

NOMINATION COMMITTEE
Chan Yuk-tong
Liang Ping
Antony Francis MAMPILLY
Wang Chuan-fu (Chairman)
Sun Yi-zao

AUTHORIZED REPRESENTATIVES
Li Ke
Wu Jing-sheng

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iPR Ogilvy Ltd.
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WEBSITE
www.byd-electronic.com

STOCK CODE
0285

Turnover RMB

8,555 million

Gross Profit RMB

1,710 million

ONE-STOP

HANDSET COMPONENT SUPPLIER IN THE WORLD

CHAIRMAN'S STATEMENT



Dear shareholders,

On behalf of the Board of Directors of BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the annual report of the Company for the year ended 31 December 2008.

In 2008, economic growth of all nations around the world slowed down remarkably under the impact of global financial crisis. Consumers' purchasing desire was affected by the economic downturn, and the impact on the consumer sector was severest among all by such an unfavourable economic condition. For the year ended 31 December 2008 ("the Year"), the global handset output decreased significantly, and the average selling price also declined. In the course of industry consolidation where only the fittest would survive, international leading handset brands became more cost sensitive in order to enhance market competitiveness and expand market share, the operating environment for upstream suppliers became more difficult. Nevertheless, capitalizing on its highly vertical integrated capability and global manufacturing and service platforms, BYD Electronic continued to optimize product mix and customer profile. With the maturing assembly business, it captured the opportunity to form cooperative partnership with handset manufacturers during the tough times.

During the Year, the Company's two major businesses, including the handset component and module business and the handset assembly services, achieved satisfactory results. In 2008, the Group's turnover was approximately RMB8,555 million, representing an increase of 48% as compared to 2007, which was mainly driven by the growth of the two major businesses during the Year. Profit attributable to equity holders was approximately RMB766 million. The Board of Directors did not recommend the distribution of dividend for the year ended 31 December 2008.

BYD Electronic has been pursuing the operation strategy of optimizing a highly vertical integrated one-stop service, providing handset components and modules and assembly services respectively. During the Year, the assembly services of the Company recorded rapid growth. However, the increasing price sensitivity of international leading handset manufacturers to the products supplied by handset component producers, increase in raw material prices, as well as increase in research and development and operation management fees necessary for enhancing product mix of the Company during the Year, created pressure to the profitability of the Company. Nevertheless, we are confident that the investment in research and development would help the expansion of market share and the establishment of a solid foundation for future growth of the handset component and module business of the Company.

Turnover increased

48%

In addition, as the assembly services were gradually matured, the Group expanded the operations of the business during the Year and recorded one-fold growth in turnover. Facing a downturn of the market conditions, the Group continued to strengthen its capabilities of vertically integrated production, research and development, technology innovations and operational management, as well as to improve the operation of after-sales support service for customers, in order to retain relationship with existing customers and attract new customers while further consolidate the Group's market position as a "one-stop handset component supplier" of international famous handset brands.

During the Year, the Company has been actively establishing its global production platform, with production facilities covering various regions including Shenzhen and Huizhou in China, Chennai in India and Komaron in Hungary, etc. Leveraging the global production platform, we exerted more efforts in enhancing our product design capabilities, in particular for the research and development of mid- to high-end products, in order to satisfy customers' demand for high efficiency and quality service.

Looking ahead, the global economy will be further affected by the financial tsunami, while the operating environment for every sector will definitely be exposed to increasing risks and uncertainties. In respect of the handset market, there will be more challenges in the coming year. It is anticipated that demand in the handset market will be further slackened facing persistent price-cutting pressure and the pace of consolidation in the handset industry will be notably accelerated. Under intense market competition, the Group will expand its market share continuously and to optimse cost structure for reducing production cost. Meanwhile, we believe that "opportunities" always come with "crisis". The downturn of market condition may alleviate the pressure from rising costs and may also slower the pace of Renminbi appreciation. Together with the market position of the Group as a "one-stop handset component supplier", competitive pricing strategy and global production and sales platforms, the Group will still have room for development. The Group will pay close attention to the development trend of the global financial crisis and the changes in the handset market in order to enhance research and development capabilities actively, increase the turnover of mid- to high-end products and high value-added assembly services, strive to enlarge market share and establish a solid foundation for future growth of the Group.

Finally, on behalf of BYD Electronic, I would like to thank our loyal customers, business partners, investors and shareholders for their long-term support and trust in our Group. And I would also like to thank all the staff members for their dedicated efforts over the years. We are confident that the Group will continue to achieve strong business growth, and become an international leading manufacturer of handset components and modules with highly vertical integrated capability as well as supplier of handset assembly services, hence sharing the returns with our shareholders.

Wang Chuan-fu
Chairman

Hong Kong, 27 March 2009

Handset component and module business recorded sales of approximately RMB

4,685 million

Assembly service recorded sales of approximately RMB

3,870 million.

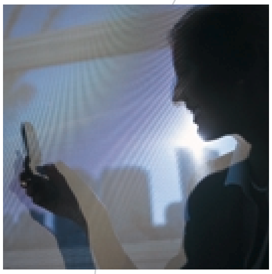
WITH HIGH CAPABILITY FOR VERTICAL INTEGRATION AND

GLOBAL MANUFACTURING AND SERVICE PLATFORMS

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of handset component and module business increased

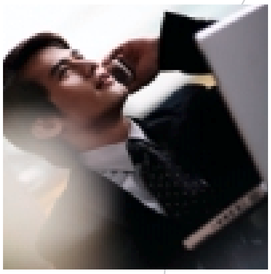
21%

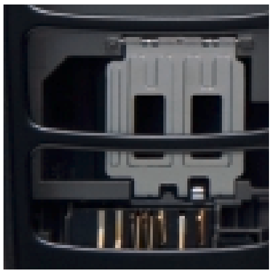


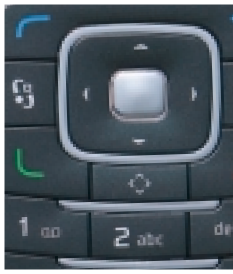
OPERATING ENVIRONMENT REVIEW

For the year ended 31 December 2008 (the "Year"), the world went through a turbulent year. The global financial tsunami triggered by the United State sub-prime crisis causing a slow down in economic growth around the world, which slackened the consumer confidence towards future and weakened the overall purchasing power. According to the estimation from leading handset manufacturers in the industry, the global output of handsets during the Year was approximately 1.213 billion units, representing an increase of approximately 8.3% as compared to 1.12 billion units in the previous year. The growth was obviously slowed down compared with the double digit growth recorded in past years. Owing to the increased price sensitivity of handsets in the market, the operational pressure on the upstream handset component manufacturers increased notably in order to maintain market competitiveness.

During the Year, the downturn of market conditions incurred risks and uncertainties to the operating environment. The global financial tsunami in the fourth quarter accelerated the process of industry consolidation through elimination of weaker players. International leading handset brands strived to enhance market competitiveness and expand market shares while facing various kinds of cost pressure from cost of raw materials, labour costs and finance costs. Therefore, they inclined to exercise a more stringent control on production cost and became more prudent in the selection of suppliers, with a tendency to select those with global manufacturing and service platforms and high capability for vertical integration as cooperative partners. By making use of the professional techniques and comparative advantages from such suppliers in production and supply chain management, their competitiveness would be enhanced by shortening new product launch cycle, achieving better flexibility, lowering capital investment and production costs, as well as shortening capital turnover. Hence, for one-stop supplier with high capability for vertical integration and global manufacturing and service platforms such as BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company"), it was a good opportunity for forming partnership with international leading handset brands.







BUSINESS REVIEW

The major businesses of the Group are handset component and module business and the provision of handset assembly services. During the Year, the Group recorded sales of approximately RMB8,555 million, representing an increase of approximately 48% year-on-year. Profit attributable to shareholders for the Year was approximately RMB766 million, representing a decrease of approximately 30% year-on-year.

Handset Component and Module Business

BYD Electronic is one of the manufacturers in the industry with the most competitive cost structure. The Group's handset component and module business includes the manufacture and sale of handset casings, handset keypads and handset modules. Handset modules are semi-finished handsets equipped with various mechanical components such as handset casings, microphones and connectors.

During the Year, with the slackening global handset market, the handset component and module business of the Group achieved a favourably performance and recorded sales of approximately RMB4,685 million, representing a year-on-year increase of approximately 21%. Handset component and module business represented approximately 55% of the Group's total sales (2007: 67%). Confronting the tightened economy incurred by the global financial crisis, the international leading handset manufacturers were more price sensitive towards the supplies from the upstream handset component manufacturers. During the Year, the increase in price of raw materials, as well as the increase in investment in research and development and operational management for transforming our product range to mid-to-high end, had formed pressure to the Group's profitability. The investment in product research and development by the Group would further enhance the market share in the global handset market and also strengthen the Group's solid foundation in the handset component and module business in the future.

The Company actively established its global manufacturing platform and strived to enhance product design capability and production capacity, in particular for the research and development of mid-to-high end products, in order to satisfy customers' demand for efficient and quality services. The Company's Phase 1 production base in Chennai, India, was completed and commenced production during the Year, and the Phase 2 production base is currently under construction. In February 2008, the Company successfully acquired the equity interest of a Korean enterprise in Komaron, Hungary, the integration was completed and mass production was resumed in the second half of 2008.

Sales of assembly services increased

104%

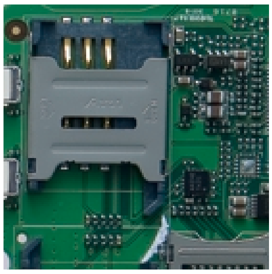
Assembly Services

BYD Electronic adopts the strategy of providing one-stop vertical integration supply services to customers through improving the Group's highly vertical integrated production process. During the Year, the assembly services of the Company grew rapidly with sales recorded approximately RMB3,870 million, representing a year-on-year increase of approximately 104%. Assembly services represented approximately 45% of the Company's total sales (2007: 33%). Capitalising on its competitive edges including strong design capabilities, software and hardware engineering capabilities as well as high operational efficiency, BYD Electronic has been successfully providing a more sophisticated one-stop service for customers. By offering tailor-made products to customers in a faster and more cost effective manner, the Company is able to attract international leading handset manufacturers.

During the Year, the Company further extended its vertically integrated capability by launching new handset design and development services to customers. On the other hand, the Company continued to strengthen its after sales services by providing on-site quality control support and collecting customer opinions regarding product and service quality. Quality-oriented and reliable operations enabled the Company to enhance competitiveness, further reinforce the cooperative relationship with existing customers and attract more new customers from other brands.

FUTURE STRATEGY

Looking ahead in 2009, impact on the global economy from the global financial tsunami will persist and the operating environment will be full of challenges. The contracting macro-economy will intensify the consolidation of the handset industry. Some handset brands will gradually reduce their production volume and will reduce the demand for handset components and assembly services. Facing such an unfavourable market condition, the Company will further strengthen the strategic partnership with customers and strive to achieve growth in market shares amid the keen competition in the handset market. With persistent pressure of lowering product prices, the Company will further improve the design of the production process, enhance the production techniques, optimize the cost structure, in order to reduce production costs and strengthen its competitive advantages. The Group believes that adjustment of the handset industry will provide more opportunities and room for the development of the Group. Leveraging its cost advantages, quality control and good customer relationship, the Group is able to stand out from the serve competition in the future. The excellent research and development capability, module capability, technical workflow process and sophisticated factory management of the Group will continue to lower the production cost effectively as well as enhance product quality. On the other hand, the vertically integrated strategy facilitates the Company to provide a one-stop service for customers, better satisfy customers' demand and the growth in



demand and market shares. Moreover, following the slowdown of increasing in the price of raw materials and the appreciation of Renminbi, the cost pressures of the Company will be alleviated in future, offsetting the price-cutting pressures brought by the decrease in demand. Capitalising on the leading position of the Company in the industry, as well as its competitiveness such as research and development capabilities and competitive pricing strategies, there will be greater room for development inspite of the difficult market condition.

BYD Electronic's development strategies and objectives are to provide customers with products and services in a vertically integrated, more cost effective and more efficient model. In order to further expand its market share and existing technical capabilities, procedures and core technology amid the slackening global market, the Company will prudently expand its global production bases, further expand customer network, diversify service categories, develop new markets as well as establish and strengthen customer relationships. The Company aims to develop an integrated global manufacturing and service platform to maintain the market leading position as well as to become a leading handset component and assembly services manufacturer in the globe, and to seek business opportunities actively for other electronic products to create maximum value for shareholders.

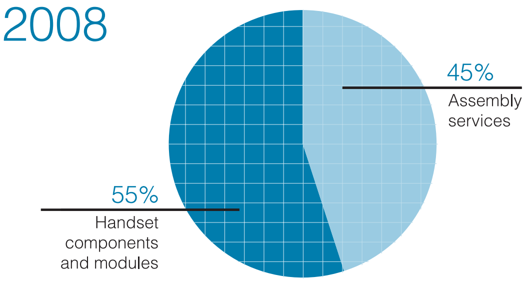
FINANCIAL REVIEW

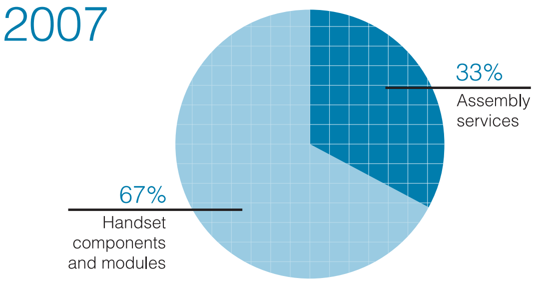
Turnover and Profit Attributable to Equity Holders of the Parent

Benefiting from the growth recorded in the two major businesses during the Year, the turnover for the Year increased year-on-year. The Group's handset component and module business, which includes the sales of handset casings, keypads and modules, recorded a growth of approximately 21% during the Year. The business of assembly services, which includes the provision of printed circuit board assembly services and high level of assembly services, recorded a significant growth of approximately 104% during the Year. Profit attributable to equity holders of the parent decreased year-on-year, which was mainly attributable to the decrease in the gross profit margin of the Group, an increase in research costs and administrative expenses, and the appreciation in Renminbi, etc.

Product Information

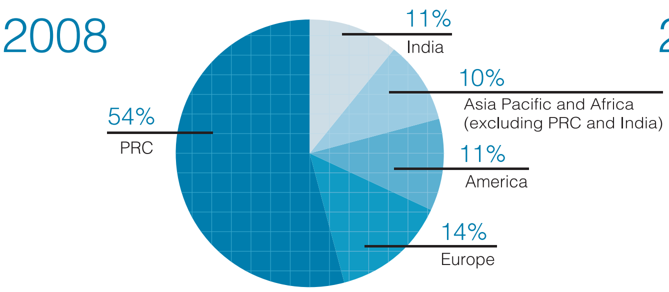
Set out below are the Group's revenue on handset components and modules and assembly services and their respective proportions in aggregated revenue for the two years ended 31 December 2007 and 2008:

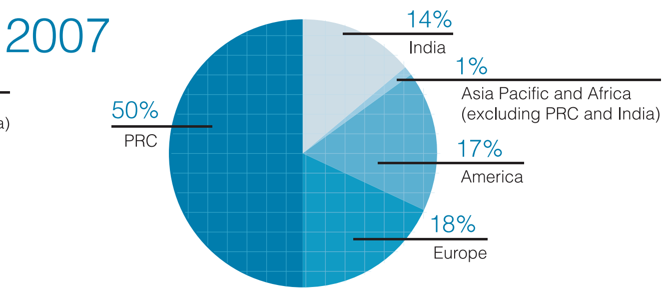




During the Year, the proportions of turnover contributed by handset components and modules and assembly services changed significantly when compared with the previous year. As the scale of the assembly services was relatively small in 2007, thus the revenue derived from such services increased significantly by approximately 104% in 2008, and also led to a significant growth in the proportion of this business in turnover.

Set out below are the Group's comparison analysis by geographical segments on the basis of the location of customers for the years ended 31 December 2007 and 2008:





Gross Profit and Margin

The Company's gross profit for the Year increased by approximately 12% to approximately RMB1,710 million. Gross profit margin declined from approximately 26% in 2007 to approximately 20% during the Year. The decrease in gross margin was mainly attributed to the following reasons, including: (1) significant increase in the proportion of revenue from the assembly services of the Company with lower gross profit margin to the overall revenue during the Year; (2) difficult industry environment with a number of adverse factors such as high prices of raw materials and appreciation in the value of Renminbi, decline in the gross profit margin of the handset component and module business.

Liquidity and Financial Resources

During the Year, BYD Electronic recorded cash inflow from operations of approximately RMB676 million, as compared to approximately RMB187 million recorded in 2007. During the Year, funds were obtained from the net cash derived from the Company's operations and bank loans. Bank loans mainly included short-term secured and unsecured bank loans. Total borrowings as at 31 December 2008 were bank advances of approximately RMB14 million, as compared to RMB1,297 million as at 31 December 2007. The decrease in total borrowings was attributable to the repayment of some bank loans by part of the fund proceeds received from the initial public offer of the Company's shares in

December 2007. The Company maintained sufficient daily liquidity management and capital expenditure requirements, so as to control internal operating cash flows.

During the Year, the number of turnover days of accounts and bills receivables was approximately 71 days, while for the year ended 31 December 2007 the number was 77 days. The decrease in the turnover of accounts and bills receivables was due to further strengthening in the management and control over accounts and bills receivables during the year as compared to the same period of the previous year. Inventory turnover increased from approximately 66 days for the year ended 31 December 2007 to approximately 77 days for the year ended 31 December 2008. The increase in inventory turnover was mainly attributable to the significant increase in the inventory reserves at the end of the year to meet the demand from customer orders.

Capital Structure

The duty of the Company's financial division is to oversee the Company's financial risk management, and to operate in accordance with the policies approved and implemented by the senior management. As at 31 December 2008, loans were mainly settled in US dollars, while its cash and cash equivalents were mainly held in Renminbi and US dollars. The Company planned to maintain an appropriate combination of share capital and indebtedness, so as to ensure an effective capital structure. Outstanding foreign currency loans were floating interest rate loans. The Company's current bank deposits and cash balances and fixed deposits as well as the Company's bank facilities and net cash derived from operating activities will be sufficient to satisfy the Company's material commitments and working capital, capital expenditures, business expansions, investments and expected debt repayment requirements for at least the next six months.

Exposure to Foreign Exchange Risk

Most of the Company's income and expenditure are denominated in Renminbi and US dollars. During the Year, the Company did not have any significant difficulties or impact on its operations or liquidity due to fluctuations in currency exchange rates. The directors believe that the Company will have sufficient foreign exchange to meet its own foreign exchange requirements.

Employment, Training and Development

In 2008, the Company had approximately 39,000 employees, representing an addition of approximately 5,000 employees when compared with 2007. During the Year, total staff cost accounted for approximately 12% of the Company's turnover. Employee remuneration is determined on the basis of performance, experience and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission may also be awarded to employees based on their annual performance evaluation. In addition, incentives may be offered for personal drive and encouragement.

Share Capital

As at 31 December 2008, the share capital of the Company was as follows:
Number of shares issued: 2,254,009,000 shares

Purchase, Sale or Redemption of Shares

In July 2008, the Company repurchased 18,237,000 shares of its ordinary shares from the Stock Exchange of Hong Kong Limited for cancellation.

Capital Commitments

As at 31 December 2008, the Company had capital commitment of approximately RMB226 million (31 December 2007: approximately RMB422 million).

Contingent Liabilities

Please refer to note 31 to the consolidated financial statements for details of contingent liabilities.

Litigation

The ultimate holding company, the intermediate holding company, direct holding company and certain subsidiaries of the Company were involved in a legal action commenced by certain affiliates of Foxconn International Holdings Limited as plaintiffs in the High Court of the Hong Kong SAR. It was alleged in the legal action that the Company had unauthorised use of confidential information. The litigation was still in progress. The Group will continue to defend the case vigorously. For relevant details, please refer to the announcement published by the Company on 30 June 2008.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Li, Ke

Ms. Li, aged 39, was appointed as an executive Director and the Chief Executive Officer of our Company. Ms. Li joined our Group in January 2003 and is responsible for the overall strategic planning and business management. She has also been actively participating in the marketing, human resources and general administration of our Group's business. Ms. Li joined the BYD Group in September 1996 as a manager in the marketing division. From June 2002 to December 2006, Ms. Li was the general manager responsible for marketing and sale of handset components and modules at the BYD Group. Prior to joining the BYD Group, Ms. Li worked at Global Resources (亞洲資源), a business-to-business, or B2B, media company which facilitates two-way trade between the PRC and other parts of the world by providing sourcing information to large volume purchasers and integrated marketing services to suppliers, for the period from June 1994 to August 1996 and was primarily responsible for market research and analysis. Ms. Li received her Bachelor Degree in Statistics from Fudan University (復旦大學), the PRC, in 1992. Ms. Li officially terminated her employment with the BYD Group in April 2007.

Sun, Yi-zao

Mr. Sun, aged 45, was appointed as an executive Director and the Chief Operation Officer of our Company. Mr. Sun joined our Group in December 2002 and is responsible for various aspects of our operations such as production, procurement and quality control. Mr. Sun served as the general manager of the third business division (Precision Manufacturing Business division) of the BYD Group from December 2002 to December 2006. From November 1994 to December 2002, Mr. Sun served several positions in the BYD Group, including the manager of the design department, the engineering department and the spare parts sub-plant, responsible for equipment purchase, maintenance, engineering and component procurement etc. Mr. Sun graduated with a Diploma in Mechanics from Jiangxi Radio and TV University (江西廣播電視大學), the PRC, in 1990. Mr. Sun officially terminated his employment with the BYD Group in April 2007.

NON-EXECUTIVE DIRECTORS

Wang, Chuan-fu

Mr. Wang, aged 43, was appointed as a non-executive Director and the Chairman of our Company. Mr. Wang co-founded the BYD Group with Mr. Xia Zuo-quan and Mr. Lu Xiang-yang in February 1995. Mr. Wang is and will continue to be the chairman and an executive director of BYD Company Limited, shares of which are listed on the Main Board. He is responsible for the overall direction and business strategies for the BYD Group. Prior to joining the BYD Group, Mr. Wang worked as a deputy supervisor in the Beijing General Research Institute for Non-ferrous Metals (中國北京有色金屬研究總院), the PRC from September 1990 to January 1995 and worked as the general manager of Shenzhen Bi Ge Battery Company Limited (深圳市比格電池有限公司) from June 1993 to November 1994. Mr. Wang was awarded "The 2008 CCTV Man of the Year China Economy Innovation Award" in 2009. Mr. Wang received the "Shenzhen Mayor's Award of the Year" in 2004 and was selected as the "Stars of Asia" by Business Week magazine in 2003. In 2002, Mr. Wang was awarded the "Bauhinia Cup Outstanding Entrepreneur Award" (紫荊花杯傑出企業家獎) by the Hong Kong Polytechnic University to recognize his outstanding entrepreneurship and contributions to the society. In recognition of the achievements of BYD Company Limited and Shenzhen BYD Lithium Batteries Company Limited, the two entities in the BYD Group which engage in manufacture of batteries, Mr. Wang was also granted several awards, including the "Young Technology Expert in Shenzhen Award", the first prize of "Pengnian Technology Medal" and the "Pengcheng Young Creative Medal". Mr. Wang received his Master Degree in Metallurgical Physical Chemistry from the Beijing General Research Institute for Non-ferrous Metals (中國北京有色金屬研究總院), the PRC, in 1990 and his Bachelor Degree in Metallurgical Physical Chemistry from Central South University of Technology (中南工業大學) (currently known as the Central South University), the PRC, in 1987.

Wu, Jing-sheng

Mr. Wu, aged 46, was appointed as a non-executive Director of our Company in March 2007. Mr. Wu is also the vice-president, chief financial officer and company secretary of BYD, overseeing the BYD Group's supervisory, financial and administration divisions. Mr. Wu joined the BYD Group in September 1995 and served as the financial manager. He has been the chief financial officer and vice president of the BYD Group since June 2002. Prior to joining the BYD Group, Mr. Wu worked at Guangzhou Youngy Management & Investment Group Co., Ltd. (廣州融捷投資管理集團有限公司) from July 1994 to August 1995, where he was primarily responsible for financial and accounting matters. Mr. Wu graduated from the Executive MBA Program of Peking University (北京大學), PRC in July 2006, and received his Certificate of Graduation from Anhui Normal University (安徽師範大學), the PRC, in 1992. Mr. Wu obtained his qualification to practice law from the Judicial Department of Anhui Province in 1992 and was qualified as a PRC Certified Accountant in May 1995.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan, Yuk-tong

Mr. Chan, aged 47, joined as an independent non-executive Director of our Company in November 2007 and also serves as chairman of our Audit Committee. Mr. Chan has over 20 years of experience acting as an auditor, management consultant, financial adviser and reporting accountant for a variety of clients. Mr. Chan currently acts as an independent non-executive director of Daisho Microline Holdings Limited, Global Sweeteners Holdings Limited, Jia Sheng Holdings Limited (formerly known as "Carico Holdings Limited"), Kam Hing International Holdings Limited and Sichuan Xinhua Winshare Chainstore Co., Ltd., which are listed in Hong Kong. Mr. Chan currently also acts as an independent non-executive director of Anhui Conch Cement Company Limited, which is listed in Hong Kong and Shanghai. He also acts as an executive director of Asia Cassava Resources Holdings Limited and a non-executive director of Vitop Bioenergy Holdings Limited (which are listed in Hong Kong). Mr. Chan was also an independent non-executive director of China Pipes Limited (formerly known as World Trade Bun Kee Limited) (which is listed in Hong Kong) from January 2007 to July 2007. Mr. Chan received a Bachelor of Commerce Degree from the University of Newcastle, Australia in 1985, as well as a Master of Business Administration from the Chinese University of Hong Kong in 2005. He is also a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

Liang, Ping

Mr. Liang, aged 57, joined as an independent non-executive Director of our Company in February 2009. He is a senior engineer. He was the general manager of Shaanxi Yanchang Petroleum (Group) Co., Ltd. (陝西延長石油(集團)有限責任公司) from 1998 to 2005. He served as the deputy supervisor of the Industry and Transportation Office of the Shaanxi Economic Committee* (陝西省經濟委員會（工業交通辦公室）) from September 2005 to August 2006. He joined Shaanxi Provincial Investment Group Co. 陝西省投資集團(有限)公司 in August 2006 and served as general manager until June 2008, as chairman and general manager from June 2008 to January 2009, and as chairman from January 2009 until present.

Mr. Liang currently also serves as chairman of Shaanxi Provincial Hydropower Development Company Limited* (陝西省水電開發有限責任公司), Shaanxi Qing Shui Chuan Electric Co., Ltd. (陝西青水川發電有限公司) and Shaanxi Renmin Daxia Company Limited* (陝西人民大廈有限公司). Mr. Liang is also currently the Deputy to the National People's Congress. Mr. Liang obtained a Master Degree in Executive Business Administration from the School of Economics and Management of Tsinghua University in 2007.

Mampilly, Antony Francis

Mr. Mampilly, aged 59, joined as an independent non-executive Director of our Company in November 2007. Mr. Mampilly worked at Motorola, Inc., a company listed on the New York Stock Exchange and the shares of which are components of S&P 500 index in the United States, from May 1976 to June 2006 and has 30 years of general management experience in telecommunication industry. Motorola, Inc. principally engages in, among others, segment designs, manufacturing and sales of wireless handsets with integrated software and accessory products. During his years at Motorola, Inc., Mr. Mampilly served as the company's corporate vice president and chief procurement officer and was responsible for materials procurement, establishing relationships with suppliers of such materials and components. Prior to becoming Motorola, Inc.'s corporate vice president, Mr. Mampilly also served in the same company as the general manager of its automotive electronics business and as the general manager of its Energy Systems Group. Throughout his career, Mr. Mampilly has established long-term working relationships with many reputable handset components suppliers and modules manufacturers. Accordingly, Mr. Mampilly has the appropriate experience and knowledge in the Group's handset components and modules manufacturing industry and is also equipped with the relevant management expertise. Mr. Mampilly holds both Bachelor Degree and Master Degree in Physics from Kerala University, India in 1970.

SENIOR MANAGEMENT

Dong, Ge-ning

Mr. Dong, aged 37, joined the Group in March 2003 and is responsible for the day-to-day management of the research and development, design and manufacture of molds and products, and the purchasing of materials of our business. Mr. Dong joined the BYD Group in March 2003 and held various responsibilities, including management of manufacturing and planning from June 2003 to April 2007. Prior to joining the BYD Group, Mr. Dong worked as a product development engineer and a supervisor of the product development department for Foxconn International Holdings Limited from 1997 to 2003. Mr. Dong received his Bachelor Degree in Engineering, specializing in Agricultural Mechanization, from Southwest Agricultural University (presently known as Southwest University) (西南農業大學) in 1993.

Wang, Bo

Mr. Wang, aged 37, joined the Group in September 2001 and is one of the managers of our Company and is responsible for the day-to-day management of marketing and sales, commercial and customer service aspects of our business. Since April 2007, Mr. Wang has been specifically focusing on the marketing and sales, commercial and customer service for one of our biggest customers. Prior to joining the BYD Group, Mr. Wang was a process engineer resource development manager at Motorola (China) Ltd. from February 1995 to June 2001. Mr. Wang also worked as an assistant engineer at No. 18 Research Institute of China Electronics Technology Group Corporation (天津電源研究所) from 1993 to 1995. Mr. Wang received his Bachelor Degree in Engineering, specializing in Electrochemical Engineering, from Harbin Institute of Technology in 1993.

Wang, Jiang

Mr. Wang, aged 38, joined the Group in July 2004 and is responsible for the day-to-day management of production, quality control, and planning of our business. Mr. Wang performed various responsibilities, including management of planning, production and quality control, of the BYD Group from July 2004 to April 2007. Prior to joining the BYD Group, Mr. Wang served several positions, including as a quality control manager and a supplier quality control certification manager, at Shenzhen Sang Fei Consumer Communications Co. Ltd., which was at that time a manufacturer of mobile phones for Philips Electronics Limited. Mr. Wang graduated from Tongji University with a Master Degree in Business Administration in 2008, and from Liang Shan University with a Bachelor Degree in Integration of Mechanical and Electrical Industry in 1992.

Zhu, Ai-yun

Ms. Zhu, aged 44, joined the Group in April 1997 and was appointed the Chief Financial Officer of our Company responsible for supervising financial and accounting, human resources and general administrative matters. Ms. Zhu joined the BYD Group in 1997 as an accountant and acted as the manager of financial department of the BYD Group from March 2002 to December 2006. Ms. Zhu served as the senior manager of financial department for the BYD Group from December 2006 to April 2007. Prior to joining the BYD Group, Ms. Zhu worked as an accountant for Yantai, Marine Salvage Bureau, under the Ministry of Communication. Ms. Zhu has over 10 years of experience in financial management. Ms. Zhu graduated from the Executive MBA Program of Peking University (北京大學), PRC in January 2008, and received her Bachelor Degree in Engineering Financial Accounting (工程財務會計) from Changsha Communications University, the PRC, in 1988.

Li, Qian

Mr. Li, aged 36, joined the Group in August 2005 and was appointed as one of our joint company secretaries in November 2007. Mr. Li served as the head of the investor relations department of the BYD Group from August 2005 to April 2007. Mr. Li was responsible for dealing with relationships with investors of the BYD Group and assisting the company secretary of the BYD Group. Prior to joining the BYD Group, Mr. Li worked as an auditor and business consultant at PricewaterhouseCoopers and Arthur Andersen from July 1998 to August 2001. From August 2001 to September 2005, Mr. Li served as the manager of securities affairs in ZTE Corporation, which is publicly listed on the Main Board in December 2004. Mr. Li has over ten years of experience in investment, finance and information technology. Mr. Li received his Bachelor Degree in Real Property Management from Jiangxi University of Finance and Economics, China, in 1997. Mr. Li officially terminated his employment with the BYD Group in April 2007.

Cheung, Hon-wan

Mr. Cheung, aged 52, is one of our joint company secretaries and resigned as the qualified accountant of the Company on 5th March 2009. Mr. Cheung is a member of the Hong Kong Institute of Certified Public Accountants. He has over 20 years working experience in accounting and financial matters and prior to joining the Group in June 2007, worked in various Hong Kong listed companies. Mr. Cheung received a Master Degree in Accounting and Finance from the University of Lancaster in the United Kingdom in 1983.

Handset component and module business represented approximately

55%

of the Company's total sales

Assembly services represented approximately

45%

of the Company's total sales

CORPORATE GOVERNANCE REPORT

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

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

BOARD OF DIRECTORS

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

THE DIRECTORS

As of the date of this report, the Board comprises seven Directors. There are two Executive Directors, two Non-Executive Directors and three Independent Non-Executive Directors. Detailed biographies outlining each individual Director's range of specialist experience and suitability of the successful long-term running of the Group are set out on pages 16 to 17 of this annual report.

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

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

The Board met four times this year to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matter is specifically addressed to the Board for its decision. Topics discussed at these Board meetings include overall strategy; interim and annual results; recommendations on Directors' appointment(s); approval of connected transactions; and other significant operational and financial matters.

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

In accordance with Article 106 of the Company's Articles of Association (the "Articles") at each annual general meeting, one-third of the Directors, or if their number is not three (3) or a multiple of three (3), the number which is nearest to and is at least one-third, shall retire from office by rotation at least every three (3) years. A retiring director shall be eligible for re-election. In addition, in accordance with Article 111 of the Articles, Mr. Liang Ping, who was appointed after the annual general meeting held on 10 June 2008, shall retire at the forthcoming annual general meeting and shall be eligible for re-election. Accordingly, Mr. Chan Yuk-tong, Mr. Liang Ping and Mr. Antony Francis Mampilly shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

BOARD MEETINGS

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a board meeting. The meeting agenda is set in consultation with members of the Board. The Board held four meetings in 2008. The attendance of individual Director at the Board meetings is set out below:

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

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

— the Audit Committee;

— the Remuneration Committee; and

— the Nomination Committee

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

AUDIT COMMITTEE

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

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

The Company established the Audit Committee on 29 November 2007 and has held two meetings during the year to review the audited consolidated financial statements of the Group for the year ended 31 December 2007 and the financial statements for the six months ended 30 June 2008 and the effectiveness of the financial reporting process and internal control system of the Company.

REMUNERATION COMMITTEE

The Company has also set up a remuneration committee on 29 November 2007 which consists of five directors of the Company, namely CHAN Yuk-tong, LIANG Ping, Antony Francis MAMPILLY, WANG Chuan-fu (Chairman) and LI Ke as of the date of this report. The remuneration committee considers and recommends to the Board or approves (after authorization by the shareholders' meeting) the remuneration and other benefits paid by the Company to the Directors, Senior Management and Staff. The remuneration of all Directors, Senior Management and Staff is subject to regular monitoring by the remuneration committee to ensure that levels of their remuneration and compensation are appropriate.

Remuneration Policy for Directors

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

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

Directors do not participate in decisions on their own remuneration.

The emoluments paid to each Director of the Company for the year ended 31 December 2008 are set out in note 8 to the financial statements.

NOMINATION COMMITTEE

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

INDEPENDENT INTERNATIONAL AUDITORS AND THEIR REMUNERATION

For the year ended 31 December 2008, the total remuneration paid and payable by the Company to the independent international auditors, Ernst & Young, were RMB1,780,000 for audit services (review of financial statements for the six months ended 30 June 2008 and audit of financial statements for the year ended 31 December 2008). The audit fee was approved by the Audit Committee.

During the year ended 31 December 2008, the Company appointed Ernst & Young as auditors of the Company. The re-appointment of Ernst & Young as auditors of the Company has been recommended and endorsed by the Board and is subject to approval by shareholders at the forthcoming annual general meeting.

INTERNAL CONTROL

Internal Control System

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

Internal Audit

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

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

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

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2008.

SHAREHOLDERS' RIGHTS

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

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

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

INVESTOR RELATIONS

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

DIRECTORS' REPORT

The board of directors (the "Board") of BYD Electronic (International) Company Limited would like to present its 2008 annual report and audited consolidated financial statements for the year ended 31 December 2008.

CORPORATE REORGANISATION

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are manufacture of handset components and modules. It also provides assembly services for handsets to its customers. The principal activities of its major subsidiaries are set out in note 19 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements on pages 32 to 79 to this annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2008.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statements of changes in equity and note 29 to the financial statements, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL/PAID-IN CAPITAL

Details of the movements during the year in the share capital are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

During the year, details of the Company's reserves and changes in reserves are set out in Note 29(b) to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

Chan Yuk-tong (Appointed on 29 November 2007)
Feng Xu-chu (Appointed on 29 November 2007 and resigned on 19 December 2008)
Liang Ping (Appointed on 16 February 2009)
Antony Francis Mampilly (Appointed on 29 November 2007)

Pursuant to Article 106 of the Articles of Association, at each annual general meeting, one-third of the Directors, or if their number is not three (3) or a multiple of three (3), the number which is nearest to and is at least one-third, shall retire from office by rotation at least once every three (3) years. A retiring director shall be eligible for re-election.

Each of the executive Directors has entered into a service contract with the Company to act as executive Directors for an initial term of three years with effect from 1 December 2007. Either party has the right to give not less than three months' written notice to terminate the agreement. The particulars of these agreements are in all material respects identical and that each of the executive Directors is entitled to a salary and, at the discretion of the Board, a bonus payment.

Each of the non-executive Directors and independent non-executive Directors has entered into an appointment letter with the Company. None of them has entered into any service contract with the Group. Apart from Mr. Liang Ping whose term of office is from 16 February 2009 to 31 November 2010, the term of office of the non-executive Director and independent non-executive Directors is for a period of three years with effect from December 1, 2007 and in each case, either the Company or the relevant Director can give three months' prior notice at any time to terminate the appointment without payment of compensation, and the appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 16 to 19.

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

As at 31 December 2008, the relevant interests or short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or its associated corporations (with the meaning of Part XV of the Securities and Future Ordinance ("SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO)) or were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Name of corporation	Capacity	Number of issued shares held	Approximate percentage of total issued share capital of the corporation
Ms. LI Ke	Company	Beneficiary	8,602,000[1] (long position)	0.38%
	BYD	Personal	11,884,500[2] (long position)	0.58%
Mr. SUN Yi-zao	Company	Beneficiary	5,797,000[1] (long position)	0.26%
	BYD	Personal	10,824,680[2] (long position)	0.53%
Mr. WU Jing-sheng	Company	Beneficiary	8,602,000[1] (long position)	0.38%
	BYD	Personal	11,675,880[2] (long position)	0.57%
Mr. WANG Chuan-fu	BYD	Personal	570,642,580[3] (long position)	27.83%
			11,177,700[4] (long position)	0.55%

Notes

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

2. These are the domestic shares of BYD held by Ms Like, Mr Sun Yi-zao and Mr Wu Jing-sheng, which represented approximately 0.80%, 0.73% and 0.79% of the total issued domestic shares of BYD as of 31 December 2008.

3. These are the domestic shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 38.5% of total issued domestic shares of BYD as of 31 December 2008.

4. These are the H shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 1.97% of total issued H shares of BYD as of 31 December 2008.

Save as disclosed above, none of the Directors or chief executive or their associates had or was deemed to have any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2008.

SHARE OPTIONS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares" above, at no time during the year ended 31 December 2008 was the Company, its holding company or any of its fellow subsidiaries and subsidiaries, a party to any arrangements to enable the Directors or the chief executive of the Company or their associates to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, so far as is known to the Directors and chief executive of the Company, the following persons or corporations (other than directors or chief executive of the Company) had interests or short positions in the ordinary shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of issued ordinary shares/ underlying held	Approximate percentage of the issued share capital of the Company
Golden Link Worldwide Limited ("Golden Link")	Beneficial interest	1,481,700,000 (long position)	65.74%
BYD (H.K.) Co., Limited ("BYD H.K.")	Controlled corporation[1]	1,481,700,000 (long position)	65.74%
BYD Company Limited ("BYD")	Controlled corporation[1]	1,481,700,000 (long position)	65.74%
HSBC Trustee (Hong Kong) Limited	Trustee[2]	168,300,000 (long position)	7.47%

Notes

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

Save as disclosed above, as at 31 December 2008, the Company had not been notified by any persons (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on page 21 to 24 of this annual report.

REMUNERATIONS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2008, the total remunerations of the Directors and the five highest paid employees are set out in note 8 and 9 to the consolidated financial statements. The Company has established an audit committee, a nomination committee, a remuneration committee.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The top five largest customer groups and the largest customer group of the Group, represent approximately 94% and 60% of the Group's total sales of the year respectively. The top five largest suppliers and the largest supplier of the Group represent approximately 29% and 21% of the Group's total purchases of the year respectively.

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

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2008.

NON-COMPETE UNDERTAKING

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

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

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in note 34 to the consolidated financial statements. The independent non-executive Directors are of the view that the related party transactions were carried out in the ordinary and usual course of business and on normal commercial terms.

CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions are as follows:

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

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

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

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

Details of the above arrangements are set out in the Prospectus

The annual cap set for the exclusive processing services provided by the Group to the BYD Group for the year ending 31 December 2008 is RMB7,258,000. The actual aggregate amount (including value-added tax) of the exclusive processing services provided by the Group to the BYD Group for the year ended 31 December 2007 is RMB7,034,000.

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

Pursuant to four lease agreements each dated 1 January 2007 and entered into between BYD Precision and BYD, whereby BYD has agreed to lease to BYD Precision the factory and office premises situated at Baolong Industrial Park, Longgang District, Shenzhen, the PRC from 1 January 2007 to 31 December 2009 for an aggregate annual rental of RMB24,017,000 calculated on pro rata basis. The actual aggregate annual rental for the year ended 31 December 2008 is RMB24,017,000.

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

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

Details of the above arrangements are set out in the Prospectus

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

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

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

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total expenditure for acquiring the Ancillary Services for the year ending 31 December 2008 is RMB8,852,000. The actual aggregate amount of the expenditure for acquiring the Ancillary Services for the year ended 31 December 2008 is RMB8,841,000.

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

(i) *Supplying products to the BYD Group*

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

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

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total purchases of products by the BYD Group for the year ending 31 December 2008 is RMB103,431,000. The actual aggregate amount (including value-added tax) of the purchases of products by the BYD Group for the year ended 31 December 2007 is RMB91,846,000.

(ii) *Purchasing products from the BYD Group*

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

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

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total purchases of products from the BYD Group for the year ending 31 December 2008 is RMB823,614,000. The actual aggregate amount (including value-added tax) of the purchases of products from the BYD Group for the year ended 31 December 2008 is RMB471,656,000.

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

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

Details of the above arrangements are set out in the Prospectus

The annual cap set for the total expenditure for receiving the water and electricity from the BYD Group for the year ending 31 December 2008 is RMB298,350,000. The actual aggregate amount (including value-added tax) of the expenditure for receiving the water and electricity from the BYD Group for the year ended 31 December 2008 is RMB289,417,000.

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

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

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

(2) on normal commercial terms; and

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF SHARES

In July 2008, the Company repurchased 18,237,000 Shares at prices ranging from HK$3.92 to HK$4.40 per share on the Stock Exchange. The aggregate consideration paid for that is approximately HK$75,830,000.

DIRECTORS' INTEREST IN CONTRACTS

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

SUFFICIENT PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float during the year end 31 December 2008.

CONFIRMATION OF INDEPENDENCE

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

INDEPENDENT INTERNATIONAL AUDITORS

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

By the order of the Board

LI KE
Director

27 March 2009

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of BYD Electronic (International) Company Limited set out on pages 32 to 79, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profits and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central, Hong Kong

27 March 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	**8,555,112**	5,767,256
Cost of sales		**(6,845,565)**	(4,239,331)
Gross profit		**1,709,547**	1,527,925
Other income and gains	5	**152,689**	64,295
Research and development costs		**(355,722)**	(175,542)
Selling and distribution costs		**(90,720)**	(54,138)
Administrative expenses		**(270,098)**	(152,073)
Other expenses		**(302,782)**	(58,401)
Finance costs	6	**(39,510)**	(66,182)
PROFIT BEFORE TAX	7	**803,404**	1,085,884
Tax	10	**(37,579)**	7,405
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**765,825**	1,093,289
DIVIDENDS	12		
Proposed final		**—**	340,837
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic	13	**RMB0.34**	RMB0.58

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,031,354**	1,643,129
Prepaid land lease payments	15	**151,511**	136,661
Prepayment for property, plant and equipment	16	**332,486**	119,208
Goodwill	17	**—**	—
Other intangible assets	18	**12,959**	13,546
Deferred tax assets	27	**56,426**	9,706
Total non-current assets		**3,584,736**	1,922,250
CURRENT ASSETS			
Inventories	20	**1,824,003**	1,062,926
Trade and bills receivables	21	**1,526,898**	1,794,005
Prepayments, deposits and other receivables	16	**216,463**	88,937
Derivative financial instruments	25	**—**	6,530
Due from fellow subsidiaries	34	**57,175**	92,677
Due from the intermediate holding company	34	**64,075**	14,257
Due from the ultimate holding company	34	**—**	39,000
Cash and bank balances	22	**1,141,478**	3,194,906
Pledged bank deposit	22	**836**	19,924
Restricted bank deposit	22	**2,522**	1,860
Total current assets		**4,833,450**	6,315,022
CURRENT LIABILITIES			
Trade and bills payables	23	**1,467,518**	1,416,141
Other payables and accruals	24	**557,813**	489,689
Tax payable	10	**23,428**	—
Interest-bearing bank borrowings	26	**14,256**	1,296,983
Derivative financial instruments	25	**—**	7,280
Due to fellow subsidiaries	34	**218,078**	135,391
Due to immediate holding company	34	**1,052**	—
Due to the ultimate holding company	34	**298,505**	—
Total current liabilities		**2,580,650**	3,345,484
NET CURRENT ASSETS		**2,252,800**	2,969,538
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,837,536**	4,891,788
EQUITY			
Issued capital	28	**217,070**	211,929
Reserves	29(a)	**5,620,466**	4,679,859
Total equity		**5,837,536**	4,891,788

Director　　　　　　　　　　Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Issued capital RMB'000 (Note 28)	Share premium account RMB'000	Contributed Surplus RMB'000	Statutory Surplus reserve RMB'000 (Note (a))	Exchange fluctuation reserve RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2007	181,036	–*	(181,036)*	72,589*	–*	300,000*	488,022*	860,611
Issue of shares	30,893	3,318,312	–	–	–	–	–	3,349,205
Final 2006 dividend	–	–	–	–	–	(300,000)	–	(300,000)
Exchange realignment recognised directly in equity	–	–	–	–	(1,542)	–	–	(1,542)
Total income and expense recognised directly in equity	–	–	–	–	(1,542)	–	–	(1,542)
Profit for the year	–	–	–	–	–	–	1,093,289	1,093,289
Proposed final 2007 dividend (Note 12)	–	–	–	–	–	340,837	(340,837)	–
Transfer to statutory surplus	–	–	–	28,912	–	–	(28,912)	–
Share issue expense	–	(109,775)	–	–	–	–	–	(109,775)
Acquisition of a business division ("Precision Manufacturing Division")	–	–	134,713	–	–	–	(134,713)	–
At 31 December 2007 and at 1 January 2008	211,929	3,208,537*	(46,323)*	101,501*	(1,542)*	340,837*	1,076,849*	4,891,788
Exchange realignment recognised directly in equity	–	–	–	–	(113,011)	–	–	(113,011)
Total income and expense recognised directly in equity	–	–	–	–	(113,011)	–	–	(113,011)
Profit for the year	–	–	–	–	–	–	765,825	765,825
Issue of shares (Note 28(a))	6,740	694,016	–	–	–	–	–	700,756
Repurchase of shares (Note 28(b))	(1,599)	(65,386)	–	–	–	–	–	(66,985)
Final 2007 dividend	–	–	–	–	–	(340,837)	–	(340,837)
Transfer to statutory surplus	–	–	–	98,508	–	–	(98,508)	–
	217,070	3,837,167*	(46,323)*	200,009*	(114,553)*	–*	1,744,166*	5,837,536

Notes:

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

* These reserve accounts comprise the consolidated reserves of RMB5,620,466,000 in the consolidated balance sheet as at 31 December 2008 (2007: RMB4,679,859,000).

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**803,404**	1,085,884
Adjustments for:			
Finance costs	6	**39,510**	66,182
Bank interest income	5	**(70,471)**	(7,470)
(Gain)/loss on disposal of items of property, plant and equipment	7	**(415)**	1,912
Depreciation	7	**364,292**	171,015
Fair value (gain)/loss on derivative instruments	7	**(1,474)**	1,727
Amortisation of intangible assets	7	**4,101**	1,987
Recognition of prepaid land lease payments	7	**2,862**	831
Impairment of trade receivables	7	**—**	(14,000)
Provision against obsolete inventories	7	**29,542**	24,296
Impairment for goodwill	7	**4,875**	—
		1,176,226	1,332,364
Increase in inventories		**(784,637)**	(606,009)
(Increase)/decrease in trade and bills receivables		**270,734**	(1,143,594)
Increase in prepayments, deposits and other receivables		**(127,290)**	(64,271)
Increase in trade and bills payables		**51,377**	907,192
Decrease in factored trade receivables		**—**	309,139
Repayment on factored trade receivables		**—**	(309,139)
(Increase)/decrease in amount due from fellow subsidiaries		**35,502**	(18,507)
Increase in an amount due from the intermediate holding company		**(49,818)**	(212,237)
Decrease in an amount due from the ultimate holding company		**39,000**	—
Increase in other payables and accruals		**53,444**	165,483
Increase in an amount due to the ultimate holding company		**298,505**	124,248
Increase in an amount due to fellow subsidiaries		**82,687**	60,863
Increase in an amounts due to the immediate holding company		**1,052**	—
Cash generated from operations		**1,046,782**	545,532
Interest received		**70,471**	7,470
Interest paid		**(39,510)**	(66,182)
Dividend paid		**(340,837)**	(300,000)
PRC tax paid		**(60,871)**	(96)
Net cash inflow from operating activities		**676,035**	186,724

continued/...

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash inflow from operating activities		**676,035**	186,724
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(1,735,125)**	(876,368)
Prepaid land lease payments	15	**(19,506)**	(140,118)
(Increase)/decrease in long term prepayments	16	**(213,278)**	6,478
Acquisition of a subsidiary	30	**(121,278)**	—
Additions to other intangible assets	18	**(3,050)**	(9,505)
Proceeds from settlement of derivative instruments		**724**	1,727
Proceeds from disposal of items of property, plant and equipment		**35,323**	43,852
(Increase)/decrease in a pledged deposit	22	**19,088**	(19,924)
Net cash outflow from investing activities		**(2,037,102)**	(993,858)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	**700,756**	3,239,430
Repurchase of the shares	28	**(66,985)**	—
New bank loans		**1,675,207**	1,543,628
Repayment of bank loans		**(2,957,934)**	(479,840)
Decrease in an amount due to the ultimate holding company		**—**	(555,448)
Decrease in an amount due to the intermediate holding company		**—**	(351,927)
Net cash inflow/(outflow) from financing activities		**(648,956)**	3,395,843
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,010,023)**	2,588,709
Cash and cash equivalents at beginning of year		**3,196,766**	609,599
Effect of foreign exchange rate changes, net		**(42,743)**	(1,542)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,144,000**	3,196,766
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance		**1,141,478**	3,194,906
Restricted bank deposit with maturity of less than three months		**2,522**	1,860
	22	**1,144,000**	3,196,766

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**1,926,000**	1,926,000
CURRENT ASSETS			
Prepayments, deposits and other receivables		**1,043**	—
Due from a subsidiary	19	**3,868,386**	3,263,278
Due from fellow subsidiaries		**43**	—
Cash and bank balances	22	**1,922**	20
Total current assets		**3,871,394**	3,263,298
CURRENT LIABILITIES			
Due to the ultimate holding company	34	**831**	22,288
Due to a fellow subsidiary		**661**	—
Other payables and accruals	24	**1,580**	1,580
Total current liabilities		**3,072**	23,868
NET CURRENT ASSETS		**3,868,322**	3,239,430
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,794,322**	5,165,430
EQUITY			
Issued capital	28	**217,070**	211,929
Reserves	29(b)	**5,577,252**	4,953,501
Total equity		**5,794,322**	5,165,430

Director

Director

NOTE TO FINANCIAL STATEMENTS

31 December 2008

1. CORPORATE INFORMATION

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

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

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

The Group was principally engaged in 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 British Virgin Islands, and the ultimate holding company of the Company is BYD Company Limited, which is incorporated in the PRC.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7 Amendments	*Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The principal effects of adopting these new and interpretation and amendment to HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 – *Group and Treasury Share Transactions*

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

(c) HK(IFRIC)-*Int 12 Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 1 (Revised)	*First-time Adoption of Hong Kong financial Standards* [2]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendment to HKFRS 7 *Financial instruments: Disclosure* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to *HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and* HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* [6]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [5]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Apply prospectively to transfers of asset from customers received on or after 1 July 2009
6 Effective for annual periods beginning on or after 30 June 2009

* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and jointly-controlled entity, after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

	Estimated useful lives	Residual value
Freehold land	Not depreciated	—
Buildings	50 years	—
Leasehold improvements	2 years	—
Plant and machinery	5 to 10 years	5%
Furniture and fixtures	5 years	5%
Motor vehicles	5 years	5%

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

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

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

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

Intangible assets (other than goodwill)

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Computer software

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

Research and development costs

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

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

Operating leases

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

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

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss or loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment and other financial assets (Continued)

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

Derecognition of financial assets

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

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

— the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

— the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

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

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

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

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

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

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

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

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

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Revenue recognition

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

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

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

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

Employee benefits

Employees' leave entitlements

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

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

Retirement benefit obligations

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

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

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

Medical benefits

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

Borrowing costs

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

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Determination of functional currency

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

Withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries levied in the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividends. The Group considered that if the profits will not be probable of being distributed in the foreseeable future, then no deferred tax on such withholding tax should be provided. Further details are included in note 27 to the financial statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of property, plant and equipment

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2008 was RMB nil (2007: RMB nil). Further details are contained in note 27 to the financial statements.

4. SEGMENT INFORMATION

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

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

	PRC RMB'000	**America** RMB'000	**Europe** RMB'000	**India** RMB'000	**Asia Pacific and Africa (excluding PRC and India)** RMB'000	**Total** RMB'000
Year ended 31 December 2008						
Revenue from external customers	**4,623,393**	**936,316**	**1,194,728**	**922,346**	**878,329**	**8,555,112**
Segment assets	**6,801,533**	**195,294**	**598,241**	**756,501**	**66,617**	**8,418,186**
Capital expenditure	**1,526,288**	**—**	**93,207**	**331,525**	**—**	**1,951,020**
Year ended 31 December 2007						
Revenue from external customers	2,867,533	953,468	1,024,859	820,043	101,353	5,767,256
Segment assets	4,062,631	335,804	277,798	488,972	3,072,067	8,237,272
Capital expenditure	896,813	—	1,942	178,848	—	1,077,603

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2008 RMB'000	2007 RMB'000
Revenue		
Sale of mobile handset components and modules	**4,684,855**	3,869,150
Assembly services income	**3,870,257**	1,898,106
	8,555,112	5,767,256
Other income		
Bank interest income	**70,471**	7,470
Sale of scrap materials	**60,982**	34,698
Sale of materials	**3,725**	883
Subcontracting income	**547**	5,708
Others	**15,075**	15,536
	150,800	64,295
Gains		
Net fair value gains on derivative instruments-transaction not qualifying as hedges	**1,474**	—
Gain on disposal of items of property, plant and equipment	**415**	—
	1,889	—
	152,689	64,295

6. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on bank loans, wholly repayable within one year	**39,313**	48,058
Interest on bills discounted	**197**	95
Interest on trade receivables factored and other bank charges	**—**	7,737
Finance charge on an amount due to the ultimate holding company	**—**	4,992
Finance charge on an amount due to the intermediate holding company	**—**	5,300
	39,510	66,182

7. PROFIT BEFORE TAX

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold		**3,051,024**	1,899,352
Cost of services provided		**3,764,999**	1,835,500
Depreciation	14	**364,292**	171,015
Minimum lease payments under operating leases – buildings		**38,300**	28,047
Auditors' remuneration		**2,314**	1,580
Recognition of prepaid land lease payments#	15	**2,862**	831
Amortisation of intangible assets#	18	**4,101**	1,987
Employee benefit expense (including directors' remuneration (note 8))			
Wages and salaries		**927,900**	567,793
Retirement benefit scheme contributions		**72,038**	65,451
		999,938	633,244
Impairment for goodwill##	17	**4,875**	—
Impairment loss reversed for trade receivables##	21	**—**	(14,000)
Provision against obsolete inventories		**29,542**	24,296
(Gain)/loss on disposal of items of property, plant and equipment###		**(415)**	1,912
Fair value (gain)/loss on derivative instruments###		**(1,474)**	1,727
Foreign exchange differences, net##		**289,149**	67,045

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

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

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

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Fees	**400**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**6,150**	4,114
Retirement benefit scheme contributions	**2**	19
	6,152	4,133
	6,552	4,133

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	Group	
	2008 RMB'000	2007 RMB'000
Mr. Mampilly, Antony Francis	**200**	—
Mr. Feng, Xu-chu (resigned on 19 December 2008)	**—**	—
Mr. Chan Yuk-tong	**200**	—
	400	—

There were no other emoluments payable to the independent non-executive directors during the year (2007:Nil).

(b) Executive directors and non-executive directors

	Fees RMB'000	**Salaries, allowances and benefits in kind** RMB'000	**Performance related bonuses** RMB'000	**Retirement benefit scheme contributions** RMB'000	**Total remuneration** RMB'000
31 December 2008					
Executive directors:					
Ms. Li Ke	**—**	**3,310**	**—**	**—**	**3,310**
Mr. Sun Yi-zao	**—**	**2,840**	**—**	**2**	**2,842**
	—	**6,150**	**—**	**2**	**6,152**
Non-executive directors:					
Mr. Wang Chuan-fu	**—**	**—**	**—**	**—**	**—**
Mr. Wu Jing-sheng	**—**	—	—	—	—
	—	**—**	**—**	**—**	**—**
31 December 2007					
Executive directors:					
Ms. Li Ke (appointed on 29 June 2007)	—	2,448	—	15	2,463
Mr. Sun Yi-zao (appointed on 29 June 2007)	—	1,666	—	4	1,670
	—	4,114	—	19	4,133
Non-executive directors:					
Mr. Wang Chuan-fu (appointed on 29 June 2007)	—	—	—	—	—
Mr. Wu Jing-sheng (appointed on 29 June 2007)	—	—	—	—	—
	—	—	—	—	—

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2007: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2007: three) non-director, highest paid employees for the year were as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,230**	1,994
Retirement benefit scheme contributions	**7**	6
	3,237	2,000

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

	Number of employees	
	2008	2007
Nil to RMB1,000,000	**1**	3
RMB 1,000,001 to RMB 1,500,000	**2**	—
	3	3

10. TAX

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

BYD Precision Manufacture Company Ltd. ("BYD Precision"), a wholly-owned subsidiary of the Company, was accredited as a high and new technology enterprise on 16 December 2008 and its income tax is calculated at a rate of 15% of the estimated assessable profit for the year. BYD Precision is also entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation and thereafter, entitled to a 50% relief from income tax for the next three years. Current year was its third profitable year and the company was subject to a reduced enterprise income tax of 9%.

BYD (Huizhou) Electronic Co., Limited ("BYD Huizhou") and BYD (Tianjin) Co., Limited ("BYD Tianjin"), wholly-owned subsidiaries of the Company, are entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation and thereafter, entitled to a 50% relief from income tax for the next three years. The year of 2008 is the first and second profit-making year for BYD Huizhou and BYD Tianjin, respectively.

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

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

10. TAX (Continued)

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

	2008 RMB'000	2007 RMB'000
Group:		
Current - PRC	**84,299**	—
Deferred (note 27)	**(46,720)**	(7,405)
Total tax charge/(credit) for the year	**37,579**	(7,405)

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

	Group			
	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit before tax	**803,404**		1,085,884	
Tax at the applicable tax rates	**200,851**	**25.0**	358,342	33.0
Expenses not deductible for tax	**6,666**	**0.9**	16,299	1.5
Effect of tax exemption and concessionary rates granted to the PRC subsidiaries	**(192,624)**	**(24.0)**	(388,080)	(35.8)
Super-deduction of research and development costs	**(12,848)**	**(1.6)**	—	—
Tax losses not recognized	**35,534**	**4.4**	6,034	0.6
Tax charge at the Group's effective rate	**37,579**	**4.7**	(7,405)	(0.7)

11. LOSS/(PROFIT) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a loss of RMB4,879,000 (2007: profit of RMB340,837,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDEND

	Group	
	2008 **RMB'000**	2007 RMB'000
Proposed final - Nil (2007: RMB0.15) per ordinary share	**—**	340,837

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the shares buyback during the year.

Diluted earnings per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during the two years.

The calculation of basic earnings per share is based on:

	2008 **RMB'000**	2007 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**765,825**	1,093,289

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,261,757,000**	1,880,849,000

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008							
At 31 December 2007 and at 1 January 2008:							
Cost	51,720	4,039	1,669,752	100,262	7,069	81,800	1,914,642
Accumulated depreciation	(279)	(2,196)	(254,730)	(12,830)	(1,478)	—	(271,513)
Net carrying amount	51,441	1,843	1,415,022	87,432	5,591	81,800	1,643,129
At 1 January 2008, net of accumulated depreciation	51,441	1,843	1,415,022	87,432	5,591	81,800	1,643,129
Additions	8,663	2,630	1,043,545	109,710	3,157	547,481	1,715,186
Acquisition of a subsidiary (note 30)	53,341	—	82,401	3,701	1,091	415	140,949
Disposals	(19,506)	—	(12,134)	(3,218)	(50)	—	(34,908)
Depreciation provided during the year	(2,614)	(1,419)	(331,913)	(25,918)	(2,428)	—	(364,292)
Exchange realignment	(21,040)	—	(46,121)	(589)	(217)	(743)	(68,710)
Transfers	11,710	—	161,077	7,618	3	(180,408)	—
At 31 December 2008, net of accumulated depreciation	81,995	3,054	2,311,877	178,736	7,147	448,545	3,031,354
At 31 December 2008:							
Cost	84,680	3,321	2,890,017	215,411	10,863	448,545	3,652,837
Accumulated depreciation	(2,685)	(267)	(578,140)	(36,675)	(3,716)	—	(621,483)
Net carrying amount	81,995	3,054	2,311,877	178,736	7,147	448,545	3,031,354

* The land situated in Hungary with a cost of approximately RMB10,186,000 (2007: Nil) is freehold and not depreciated.

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

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	**139,287**	—
Additions	**19,506**	140,118
Recognised during the year	**(2,862)**	(831)
Exchange realignment	**(1,558)**	—
Carrying amount at 31 December	**154,373**	139,287
Current portion included in prepayments, deposits and other receivables	**(2,862)**	(2,626)
Non-current portion	**151,511**	136,661

The leasehold land situated in Mainland China is held under medium term lease with a carrying amount of RMB116,639,000 and those situated in India are held under long term lease with a carrying amount of RMB34,872,000.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2008 RMB'000	2007 RMB'000
Non-current portion:		
Prepayment for property, plant and equipment	**332,486**	119,208
Current portion:		
Prepayments	**28,127**	18,828
Deposits and other receivables	**188,336**	70,109
	216,463	88,937

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

17. GOODWILL

Group

	RMB'000
Cost at 1 January 2008, net of accumulated impairment	—
Acquisition of a subsidiary (note 30)	4,875
Impairment during the year	(4,875)
Cost and carrying amount at 31 December 2008	—

18. OTHER INTANGIBLE ASSETS

Group

	Computer software RMB'000
31 December 2008	
Cost at 1 January, net of accumulated amortisation	**13,546**
Additions	**3,050**
Acquisition of a subsidiary (note 30)	**464**
Amortisation provided during the year	**(4,101)**
At 31 December 2008	**12,959**
At 31 December 2008	
Cost	**19,633**
Accumulated amortisation	**(6,674)**
Net carrying amount	**12,959**

	Computer software RMB'000
31 December 2007	
Cost at 1 January, net of accumulated amortisation	6,028
Additions	9,505
Amortisation provided during the year	(1,987)
At 31 December 2007	13,546
At 31 December 2007	
Cost	16,119
Accumulated amortisation	(2,573)
Net carrying amount	13,546

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	**1,926,000**	1,926,000

The amount due from a subsidiary included in the Company's current assets of RMB3,868,386,000 (2007: RMB3,263,278,000) is unsecured, interest-free and is repayable on demand. The carrying amount of the amount due from a subsidiary approximates to its fair value.

19. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation or registration	Paid-up/ registered capital	Percentage of equity attributable to the Group Direct	Indirect	Principal activities
BYD Electronic Company Limited ("BYD Electronic") (比亞迪電子有限公司)	Cayman Islands	HK$1	100	–	Investment holding
Lead Wealth International Limited ("Lead Wealth") (領裕國際有限公司)	British Virgin Islands	US$1	–	100	Investment holding
BYD Precision Manufacture Company Ltd. ("BYD Precision") (比亞迪精密製造有限公司) *	PRC/ mainland China	US$145,000,000	–	100	Manufacture and sale of mobile handset components and modules
BYD (Tianjin) Co., Limited ("BYD Tianjin") (天津比亞迪電子有限公司) *	PRC/ mainland China	US$40,000,000	–	100	High-level assembly and PCB assembly
BYD (Huizhou) Electronic Co., Limited ("BYD Huizhou") (惠州比亞迪電子有限公司) **	PRC/ mainland China	US$110,000,000	–	100	High-level assembly
BYD Hungary Guarto, Szolgaltato es Kereskedelmi Korlatolt Felelossegu Tarsasag ("BYD Hungary ")	Hungary	HUF3,000,000	–	100	Manufacture, assembly and sale of mobile handset components and modules
BYD Electronics India Private Limited ("BYD India ")	India	Rs. 2,407,193,624	–	100	Manufacture and sale of mobile handset components and modules
BYD Electronic Hungary Kft***	Hungary	HUF967,890,000	–	100	Manufacture and sale of mobile handset components

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

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

*** During the year, the Group acquired BYD Electronic Hungary Kft from Mirae Industry Co.Ltd ("Mirae Industry"). Further details of this acquisition are disclosed in notes 30 to the financial statements.

All subsidiaries above, except for BYD India, are not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

20. INVENTORIES

	Group	
	2008 **RMB'000**	2007 RMB'000
Raw materials	**927,083**	388,749
Work in progress	**60,510**	1,636
Finished goods	**682,841**	562,217
Moulds held for production	**153,569**	110,324
	1,824,003	1,062,926

21. TRADE AND BILLS RECEIVABLES

	Group	
	2008 **RMB'000**	2007 RMB'000
Trade and bills receivables	**1,552,502**	1,825,882
Impairment	**(25,604)**	(31,877)
	1,526,898	1,794,005

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of two to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise its credit risk. Overdue balances are reviewed regularly by senior management. At the balance sheet date, the Group had certain concentration of credit risk as 69% (2007: 57%) and 94% (2007: 97%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. Trade receivables are non-interest-bearing.

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

	Group	
	2008 **RMB'000**	2007 RMB'000
Within 90 days	**1,478,658**	1,785,047
91 to 180 days	**45,614**	8,081
181 to 360 days	**2,626**	877
	1,526,898	1,794,005

21. TRADE AND BILLS RECEIVABLES (Continued)

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

	Group	
	2008 **RMB'000**	2007 RMB'000
At 1 January	**31,877**	45,877
Impairment losses reversed (note 7)	**—**	(14,000)
Write-off as uncollectible	**(6,273)**	—
	25,604	31,877

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB25,604,000 (2007: RMB31,877,000) with a carrying amount of RMB147,589,000 (2007: RMB72,296,000). The individually impaired trade receivables mainly related to balances in disputation. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group	
	2008 **RMB'000**	2007 RMB'000
Neither past due nor impaired	**1,215,388**	1,652,761
Less than one year past due	**189,525**	125,270
	1,404,913	1,778,031

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

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

22. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

		Group		Company	
	Notes	**2008** **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 RMB'000
Cash and bank balances		**1,142,314**	3,214,830	**1,922**	20
Restricted bank deposit	(i)	**2,522**	1,860	**—**	—
		1,144,836	3,216,690	**1,922**	20
Less: Pledged bank deposit	(ii)	**(836)**	(19,924)	**—**	—
Cash and cash equivalent	(iii)	**1,144,000**	3,196,766	**1,922**	20

22. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS (Continued)

Notes:

(i) The restricted bank balance as at 31 December 2008 represented a guarantee deposit as required by the PRC customs in relation to importing materials for assembling uses. The amount will be released when the assembled products are exported within a time limit predetermined by the customs.

(ii) At 31 December 2008, the pledged bank deposit of RMB836,000 (2007: RMB19,924,000) was pledged for letters of credits. In 2007, the pledged bank deposits was mainly for forward contracts which have been fully exercised in the year ended 31 December 2008.

(iii) At 31 December 2008, the cash and cash equivalents of the Group denominated in RMB amounted to RMB862,007,000 (2007: RMB56,526,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	Group	
	2008 RMB'000	2007 RMB'000
Within 90 days	**1,331,804**	1,328,202
91 to 180 days	**93,893**	85,278
181 to 360 days	**31,727**	2,107
1 to 2 years	**9,752**	554
Over 2 years	**342**	—
	1,467,518	1,416,141

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amount of trade and bills payables approximates to their fair values.

24. OTHER PAYABLES AND ACCRUALS

	Group		**Company**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Other payables	**292,996**	409,144	**—**	—
Accruals	**264,817**	80,545	**1,580**	1,580
	557,813	489,689	**1,580**	1,580

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008 RMB'000	2007 RMB'000
Assets		
Forward currency contracts	**—**	6,530
Liabilities		
Forward currency contracts	**—**	7,280

26. INTEREST-BEARING BANK BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2008 RMB '000	2007 RMB '000
Current				
Bank loans - secured			**—**	107,948
Bank loans - unsecured	LIBOR+125bps	2009	**14,256**	1,189,035
			14,256	1,296,983

The carrying amounts of the current bank borrowings approximate to their fair values.

27. DEFERRED TAX

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

Deferred tax assets

Group	Depreciation in excess of depreciation allowance RMB'000	Impairment of inventories RMB'000	Unrealised profits from intercompany transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	**9,706**	**—**	**—**	**—**	**9,706**
Deferred tax credited to the income statement during the year (note 10)	**12,426**	**12,445**	**20,385**	**1,464**	**46,720**
At 31 December 2008	**22,132**	**12,445**	**20,385**	**1,464**	**56,426**
At 1 January 2007	2,301	—	—	—	2,301
Deferred tax credited to the income statement during the year (note 10)	7,405	—	—	—	7,405
At 31 December 2007	9,706	—	—	—	9,706

27. DEFERRED TAX (Continued)

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

	Group	
	2008 RMB'000	2007 RMB'000
Deductible temporary differences	**—**	44,912
Tax losses	**128,535**	17,751
	128,535	62,663

The group has tax losses arising in Hungary of RMB45,334,000 (2007: Nil) that are available indefinitely for offsetting against future taxable profit of the company in which the loss arose. The Group also has tax losses arising in India of RMB83,201,000 (2007: RMB17,751,000) that will expire in one to eight years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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

At 31 December 2008, no provision has been made for the potential deferred tax arising on the future distribution of retained profits of these subsidiaries as the Company controls the dividend policy of these subsidiaries and it is of the opinion that the profits will not be distributed in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB887,038,000 at 31 December 2008 (2007: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

Shares

	2008 RMB'000	2007 RMB'000
Authorised: 4,400,000,000 (2007: 4,400,000,000) ordinary shares of HK$0.10 each	**425,964**	425,964
Issued and fully paid 2,254,009,000 (2007: 2,200,000,000) ordinary shares of HK$0.10 each	**217,070**	211,929

During the year, the movements in share capital were as follows:

(a) During the year, in connection with the Company's initial public offering, an over-allotment of 72,246,000 additional shares of HK$0.1 each was exercised by the Company at a price of HK$10.75 per share for a total cash consideration, after expenses, of RMB700,756,000. Dealings in these shares on the Stock Exchange commenced on 16 January 2008.

(b) In July 2008, the Company repurchased and cancelled 18,237,000 ordinary shares of HK$0.1 each on the Stock Exchange for a total cash consideration of RMB 66,985,000. The repurchase resulted in the reduction in the par value of the shares cancelled of approximately RMB1,599,000.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 34 of the financial statements.

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

(b) Company

	Note	**Share premium account** RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At incorporation		—	—	—
Issue of shares		5,063,276	—	5,063,276
Share issue expenses		(109,775)	—	(109,775)
Profit for the year		—	340,837	340,837
Proposed final 2007 dividend	12	—	(340,837)	(340,837)
At 31 December 2007		4,953,501	—	4,953,501
Over-Allotment of shares		694,016	—	694,016
Buy back of shares		(65,386)	—	(65,386)
Loss for the year		—	(4,879)	(4,879)
At 31 December 2008		**5,582,131**	**(4,879)**	**5,577,252**

30. BUSINESS COMBINATION

On 12 February 2008, the Group acquired a 100% interests in Mirae Hungary Industrial Manufacturer Ltd. ("Mirae Hungary") from Mirae Industry, at a consideration of EUR15,500,000 (equivalent to approximately RMB165 million) and change the name Mirae Hungary as BYD Electronic Hungary Kft ("Hungary Electronic"). Hungary Electronic was engaged in manufacturing handset housing for Nokia Komarom Kft.

The fair value of the identifiable assets and liabilities of Hungary Electronic as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on 12 February 2008** RMB'000	**Carrying amount as at 12 February 2008** RMB'000
Property, plant and equipment	14	140,949	145,787
Other intangible asset	18	464	464
Cash and bank balances		9,173	9,173
Inventories		5,982	5,982
Trade receivables		3,627	3,627
		160,195	165,033
Goodwill on acquisition	17	4,875	
Satisfied by cash		165,070	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(165,070)
Payable to Mirae Industry	34,619
Cash and bank balances acquired	9,173
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(121,278)

Since its acquisition, Hungary Electronic contributed RMB62,743,000 to the Group's turnover and a loss of RMB45,334,000 to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB8,561,895,000 and RMB763,150,000, respectively.

31. CONTINGENT LIABILITIES

In June 2007, the High Court of the Hong Kong Special Administrative Region (the "Court") action (the "June 2007 Action") was commenced by a subsidiary and an affiliate of Foxconn International Holdings Limited (the "Plaintiffs") against the ultimate holding company, the intermediate holding company, the immediate holding company and subsidiaries of the Group (the "Defendants") for using confidential information obtained improperly from the Plaintiffs. The Plaintiffs alleged that the Defendants have directly or indirectly through the assistance of certain employees of the Plaintiffs, induced and procured certain former employees of the Plaintiffs (some of whom were subsequently employed by the holding companies of the Group) to breach their contractual and fiduciary duties with their former employer, the Plaintiffs, by disclosing to the Defendants confidential information that such employees have acquired through their employment with the Plaintiffs. In addition, it was alleged that the Defendants knew or ought to have known the confidential nature of such information and that the Defendants allowed or acquiesced its misuse in establishing a handset production system that is highly similar to the Plaintiffs' handset production system and using the Plaintiffs' confidential information with respect to their suppliers and customers. The Plaintiffs discontinued the June 2007 Action on 5 October 2007 with the effect that the June 2007 Action has been wholly discontinued against all the Defendants named in the action and that this finally disposed of the June 2007 action without any liability to the ultimate holding company, the intermediate holding company, the immediate holding company and subsidiaries of the Group. 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 allegations arising in the June 2007 Action. In essence, the Plaintiffs allege that the Defendants have misappropriated and misused confidential information belonging to the Plaintiffs. The remedies sought by the Plaintiffs in the October 2007 Action include an injunction restraining the Defendants from using the alleged confidential information, an order for the disgorgement of profit made by the Defendants through the use of the confidential information, damages based on the loss suffered by the Plaintiffs and exemplary damages.

The Plaintiffs have quantified part of their claim for damages, consisting of the estimated cost of producing the alleged confidential information of RMB2,907,000, and an amount of RMB3,600,000 which allegedly represents compensation paid by the plaintiffs to other parties to whom they owed a duty to keep confidential the alleged confidential information. The damages otherwise sought by the Plaintiffs in the October 2007 Action have not been quantified.

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

On 2 November 2007, the ultimate holding company and the intermediate holding company, the Defendants which had been served with the writ at that time, applied for a stay of the legal proceedings. The hearing of the stay took place on 11 and 12 June 2008 and the judgement in respect of the stay application was handed down on 27 June 2008. The stay application was dismissed and an order was also made that the cost of the stay application to the Plaintiffs, to be assessed by the Court, if not agreed. The Group is seeking legal advice in light of the judgment and reserve the right to appeal against the decision of the Court of First Instance. The Group also reserves the right to file counterclaims against the Plaintiffs.

Based on legal opinions issued by the Group's litigation legal counsels to the ultimate holding company of the Group, the ultimate outcome of the litigation is not yet determinable given the early stage of the proceedings. Accordingly, no liability accrual has been recorded by the Group.

32. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Within one year	**39,160**	28,137
In the second to fifth years, inclusive	**36,650**	28,177
	75,810	56,314

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
Plant and machinery	**204,419**	421,612
Building	**21,231**	—
	225,650	421,612

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

34. RELATED PARTY TRANSACTIONS

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

Nature of transactions	Notes	Related Parties	Year ended 31 December 2008 RMB'000	2007 RMB'000
Purchases of plant and machinery	(i)	Ultimate holding company	**6,113**	49,034
		Fellow subsidiaries	**53,923**	4,207
Purchases of inventories	(ii)	Ultimate holding company	**83,324**	17,684
		Fellow subsidiaries	**319,801**	181,297
Sales of inventories	(ii)	Ultimate holding company	**28,898**	11,747
		Fellow subsidiaries	**49,603**	64,716
Leasing and ancillary expenses paid to	(iii)	Ultimate holding company	**248,338**	178,802
		Fellow subsidiary	**31,884**	694
Exclusive processing services provided	(iv)	Ultimate holding company	**1,234**	1,167
		Fellow subsidiaries	**4,778**	—
Exclusive processing services received	(iv)	Ultimate holding company	**1,350**	2,050

Notes:

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

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

(iii) Expenses were charged on an 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 services fee charged for the depreciation of relevant machinery and equipment during the year ended 31 December 2008.

(b) Outstanding balances with related parties:

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

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

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

The related party transactions in respect of items set out in note 34(a) above also constitute connected transactions or continuing connected transactions as defined in chapter 14A of the Listing Rules.

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2008

	Group	
	Loans and receivables RMB'000	**Total** RMB'000
Trade and bills receivables	1,526,898	1,526,898
Financial assets included in prepayments, deposits and other receivables (note 16)	188,336	188,336
Due from fellow subsidiaries	57,175	57,175
Due from the intermediate holding company	64,075	64,075
Restricted bank deposit	2,522	2,522
Pledged bank deposit	836	836
Cash and bank balances	1,141,478	1,141,478
	2,981,320	2,981,320

	Company **Loans and receivables** RMB'000
Financial assets included in prepayments, deposits and other receivables	1,043
Due from a subsidiary	3,868,386
Due from fellow subsidiaries	43
Cash and bank balances	1,922
	3,871,394

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets (Continued)

2007

	Group		
	Financial assets at fair value through profit or loss held for trading RMB'000	**Loans and receivables** RMB'000	**Total** RMB'000
Trade and bills receivables	—	1,794,005	1,794,005
Financial assets included in prepayments, deposits and other receivables (note 16)	—	70,109	70,109
Due from fellow subsidiaries	—	92,677	92,677
Due from the intermediate holding company	—	14,257	14,257
Due from the ultimate holding company	—	39,000	39,000
Derivative financial instruments	6,530	—	6,530
Restricted bank deposit	—	1,860	1,860
Pledged bank deposit	—	19,924	19,924
Cash and bank balances	—	3,194,906	3,194,906
	6,530	5,226,738	5,233,268

	Company
	Loans and receivables RMB'000
Due from a subsidiary	3,263,278
Cash and bank balances	20
	3,263,298

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

2008

	Group	
	Loans and liabilities at amortised cost RMB'000	**Total** RMB'000
Trade and bills payables	1,467,518	1,467,518
Financial liabilities included in other payables and other accruals (note 24)	292,996	292,996
Interest-bearing bank borrowings	14,256	14,256
Due to fellow subsidiaries	218,078	218,078
Due to immediate holding company	1,052	1,052
Due to the ultimate holding company	298,505	298,505
	2,292,405	2,292,405

	Company Financial liabilities at amortised cost RMB'000
Due to the ultimate holding company	831
Due to a fellow subsidiary	661
	1,492

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities (Continued)

2007

	Group		
	Financial liabilities at fair value through profit or loss held for trading RMB'000	**Loans and liabilities at amortised cost** RMB'000	**Total** RMB'000
Trade and bills payables	—	1,416,141	1,416,141
Financial liabilities included in other payables and other accruals (note 24)	—	409,144	409,144
Derivative financial instruments	7,280	—	7,280
Interest-bearing bank borrowings	—	1,296,983	1,296,983
Due to fellow subsidiaries	—	135,391	135,391
	7,280	3,257,659	3,264,939

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

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

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

		Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000	**Increase/ (decrease) in equity*** RMB'000
2008			
United States dollar	**20**	**(29)**	**—**
United States dollar	**(15)**	**21**	**—**
2007			
RMB	20	(350)	—
United States dollar	20	(490)	—
RMB	(15)	263	—
United States dollar	(15)	368	—

* Excluding retained profits.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

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

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

		Group	
	Increase/ (decrease) in United States dollar exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
	%	RMB'000	RMB'000
2008			
If RMB weakens against United States dollar	**5%**	**35,863**	**—**
If RMB strengthens against United States dollar	**(5%)**	**(35,863)**	**—**
2007			
If RMB weakens against United States dollar	5%	167,910	—
If RMB strengthens against United States dollar	(5%)	(167,910)	—

* Excluding retained profits.

Credit risk

The Group trades only with recognised and creditworthy customers. Concentrations of credit risk are managed by customers. At the balance sheet date, the Group had certain concentrations of credit risk as 69% (2007: 57%) and 94% (2007: 97%) of the Group's trade receivables were due from the Group's largest customers and the five largest customers, respectively. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 21 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks and related companies to meet its commitments over the foreseeable future in accordance with its strategic plan. As at 31 December 2008, 100% of the Group's debts would mature in less than one year.

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

Group **2008**

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Interest-bearing bank borrowings	**—**	**14,294**	**—**	**14,294**
Trade and bills payables	**121,232**	**1,240,051**	**106,235**	**1,467,518**
Other payables (note 24)	**121,197**	**159,947**	**11,852**	**292,996**
Due to fellow subsidiaries	**218,078**	**—**	**—**	**218,078**
Due to immediate holding company	**1,052**	**—**	**—**	**1,052**
Due to ultimate holding company	**298,505**	**—**	**—**	**298,505**
	760,064	**1,414,292**	**118,087**	**2,292,443**

Group 2007

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	558,512	758,619	1,317,131
Trade and bills payables	356,740	922,633	136,768	1,416,141
Other payables (note 24)	111,142	171,005	126,997	409,144
Due to fellow subsidiaries	135,391	—	—	135,391
Derivative financial instruments	—	7,280	—	7,280
	603,273	1,659,430	1,022,384	3,285,087

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

Company — **2008**

	On demand RMB'000	**Less than 3 months RMB'000**	**Total RMB'000**
Due to the ultimate holding company	**831**	**—**	**831**
Due to a fellow subsidiariy	**661**	**—**	**661**
	1,492	**—**	**1,492**

Company — 2007

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

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by equity. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Equity represents equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group

	2008 **RMB'000**	2007 RMB'000
Interest-bearing bank borrowings	**14,256**	1,296,983
Less: Cash and bank balances	**(1,141,478)**	(3,194,906)
Net debt	**(1,127,222)**	(1,897,923)
Equity	**5,837,536**	4,891,788
Gearing ratio	**-19%**	-39%

37. COMPARATIVE AMOUNTS

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

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2009.

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
REVENUE	**8,555,112**	5,767,256	3,043,966	600,813	362,605
Cost of sales	**(6,845,565)**	(4,239,331)	(2,091,470)	(460,422)	(268,632)
Gross profit	**1,709,547**	1,527,925	952,496	140,391	93,973
Other income and gains	**152,689**	64,295	24,640	8,337	621
Research and development costs	**(355,722)**	(175,542)	(55,873)	(26,700)	(13,053)
Selling and distribution costs	**(90,720)**	(54,138)	(35,939)	(8,084)	(3,390)
Administrative expenses	**(270,098)**	(152,073)	(80,613)	(36,755)	(23,290)
Other expenses	**(302,782)**	(58,401)	(43,656)	(12,697)	(3,575)
Finance costs	**(39,510)**	(66,182)	(31,566)	(9,076)	(3,484)
PROFIT BEFORE TAX	**803,404**	1,085,884	729,489	55,416	47,802
Tax	**(37,579)**	7,405	1,600	(9,948)	(4,025)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**765,825**	1,093,289	731,089	45,468	43,777
ASSETS AND LIABILITIES					
TOTAL ASSETS	**8,418,186**	8,237,272	3,200,659	858,497	394,573
TOTAL LIABILITIES	**(2,580,650)**	(3,345,484)	(2,340,048)	(629,375)	(230,424)
Total equity	**5,837,536**	4,891,788	860,611	229,122	164,149