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

(Stock Code 股份代號: 285)

Annual Report 2009 年年報

CONTENTS

Financial Highlights

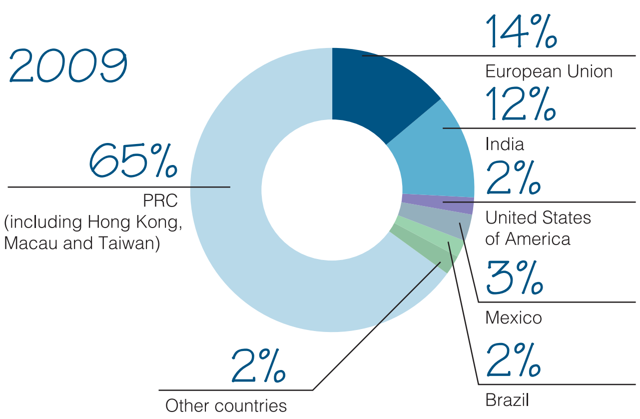
FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

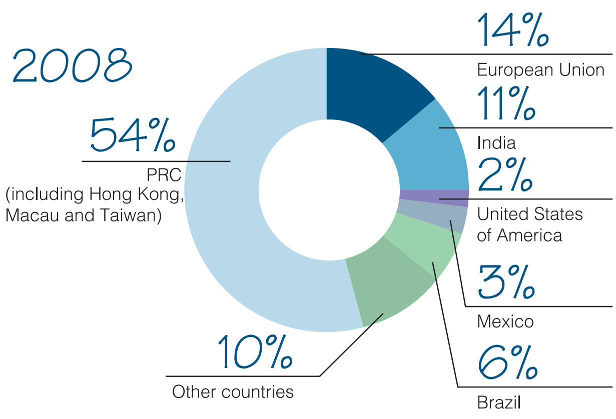
	For the year ended 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	**11,198,670**	8,555,112	5,767,256	3,043,966	600,813
Gross profit	**1,561,783**	1,709,547	1,527,925	952,496	140,391
Gross profit margin (%)	**14**	20	26	31	23
Profit attributable to equity holders of the parent	**758,856**	765,825	1,093,289	731,089	45,468
Net profit margin (%)	**7**	9	19	24	8

	For the year ended 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Net assets	**6,627,944**	5,837,536	4,891,788	860,611	229,122
Total assets	**10,276,740**	8,418,186	8,237,272	3,200,659	858,497
Gearing ratio (%) (Note)	**-18**	-19	-39	-44	11
Current ratio (times)	**1.78**	1.87	1.89	0.91	0.89
Account and bills receivable turnover (days)	**75**	71	78	62	145
Inventory turnover (days)	**72**	77	68	56	82

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

Turnover Breakdown by Location of Customers





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
Antony Francis MAMPILLY
Liang Ping (appointed on 16 February 2009)

COMPANY SECRETARIES
Li Qian
Cheung Hon-wan

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

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

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

AUTHORIZED REPRESENTATIVES
Li Ke
Wu Jing-sheng

REGISTERED OFFICE
Part of Unit 1712, 17th Floor, Tower 2
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No. 138 Shatin Rural Committee Road
Shatin
New Territories
Hong Kong

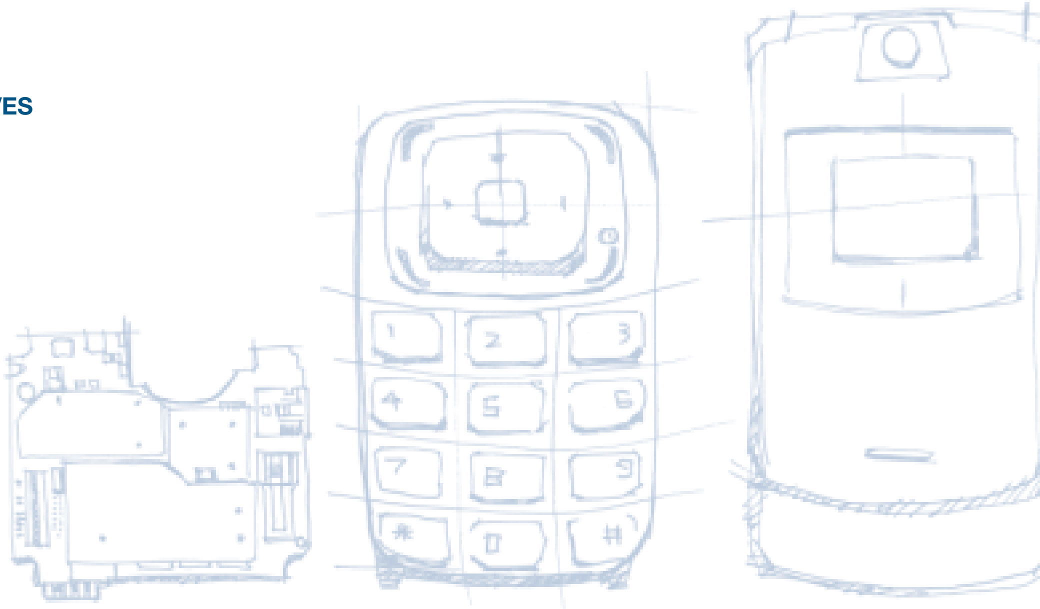
HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
No. 3001, Bao He Road
Baolong, Longgang
Shenzhen, 518116
The PRC

SHARE REGISTER AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INVESTOR AND MEDIA RELATIONS CONSULTANT
iPR Ogilvy Ltd.
Tel: (852) 2136 6185
Fax: (852) 3170 6606

WEBSITE
www.byd-electronic.com

STOCK CODE
0285



Innovative technology creates our future

Profit attributable
to shareholders
reached approximately

RMB759

million

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 2009.

In 2009, the global economy began to gradually recover from the economic contraction resulted from the financial crisis in 2008 and the macro-economy demonstrated a good development momentum. However, the general consumer confidence and consumption power has yet to recover and demand in the handset market continued to be lethargic, with global handset output decreasing for the first time since 2001. At a time of regression of the global handset industry, leading handset manufacturers around the world all took a cautious approach in their selection of suppliers and even cut their outsourced processes and strictly controlled the price of goods supplied by upstream handset component producers. With its highly vertical integrated capability, high cost effectiveness and its global manufacturing and service platform, BYD Electronic was still able to win orders from new brands and new products while the handset industry continued to integrate to further increase its market share.

For the year ended 31 December 2009 ("the Year"), the Group recorded sales of approximately RMB11,199 million, representing an increase of approximately 31% year-on-year. However, due to the decrease in global handset output, price-cutting pressure from customers continued, resulting in profitability pressure despite the general increase in sales of the Group; profit attributable to shareholders decreased slightly by approximately 1% to RMB759 million. To repay shareholders for their support, the Board recommended the distribution of a final dividend of RMB0.067 per share for the year ended 31 December 2009.

As a "one-stop handset component supplier" to internationally renowned handset brands, BYD Electronic provides handset component and module business and handset assembly services to handset manufacturers. The vertically integrated businesses of the Group can provide more cost-effective services compared to other suppliers that are limited to a specific scope of the handset manufacturing chain, therefore, the handset component and module business of the Group successfully expanded its market share during the market downturn.

BYD Electronic also provides handset assembly and design services to customers based on their needs. During the Year, the assembly business of the Group greatly benefited from the promotion of 3G services and the marketing of new products in China, resulting in a significant growth in both output and sales. In the long run, the Group believes that our handset assembly and design services will not only be able to further improve the one-stop supply chain of the Group, but will also become a momentum for the growth of the Group in the vast 3G handset market in China. The Group will continue to invest resources and deploy talents in the research and development and promotion of new products.

The Group has always adhered to its business strategies and it endeavors to expand its product and service mix and further extend its vertically integrated capability. Looking forward, as the global economy gradually recovers from the financial crisis, the Group expects that demand in the handset market will grow as it recovers thus driving the global handset output and the demand for handset components and assembly services. In order to ride this great momentum of market rebound, the Group will stick to its unfailing vertical integration strategy, continue to improve its research and development capabilities, produce handset products that are highly cost-effective, increase customer orders and expand its market share.

The Group believes that the present business environment and the restructuring of the handset industry will provide the Group with relatively more opportunities and room for development. The Group will be able to stand out by leveraging on its continuous improvement in technological standard, its strong capabilities in research and development, technical workflow process and sophisticated factory management. On the other hand, the Group will actively explore new businesses, create new opportunities for growth and gradually reduce its reliance on a single product or a single customer. BYD Electronic is determined to upgrade its technological standard, provide customers with more valuable design services and will adhere to the above development strategies in order to further promote its market status and create the greatest value for shareholders.

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 as well as supplier of handset assembly services with highly vertical integrated capability, hence sharing the returns with our shareholders.

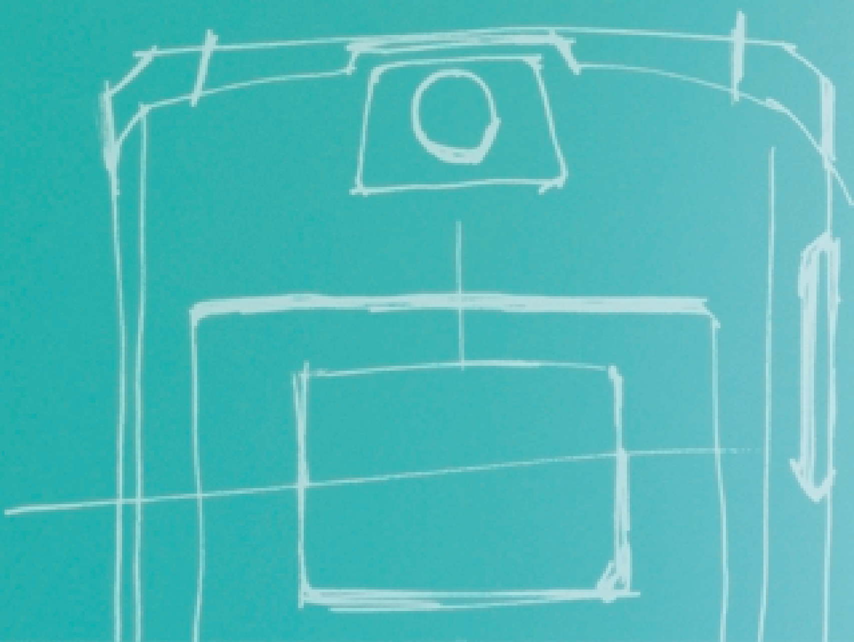
Wang Chuan-fu
Chairman

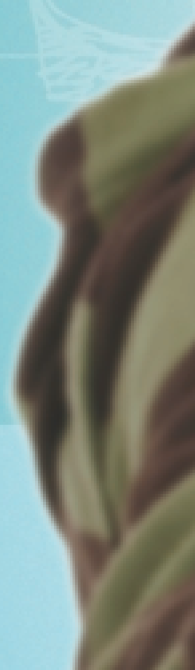
Hong Kong, 12 March 2010

Unrivalled leading position

Turnover
amounted to RMB
11,199
million,

increased by
31%
year on year





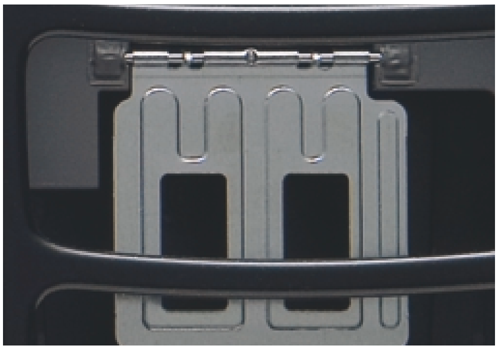
Management Discussion and Analysis

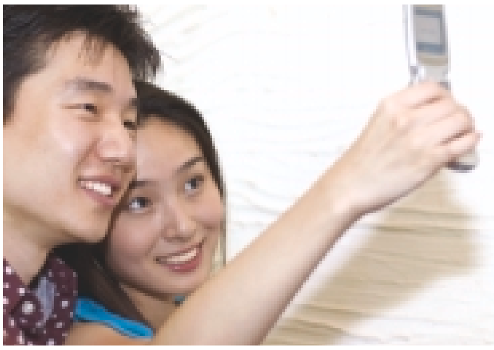
One-stop solution supplier with high capability for vertical integration and global manufacturing and service platforms

OPERATING ENVIRONMENT REVIEW

In 2009 (the "Year"), the world economy began to recover slowly from the economic downturn brought by the financial crisis that hit the globe in 2008. Encouraging signs and the macro-economy exhibited an encouraging development trend. Nevertheless, the overall consumer confidence and consumption power were yet to revive. The handset market demand remained on the weak side and the global handset industry was still under pressure, with global handset output recorded a decline for the first time since 2001. According to the statistics from leading manufacturers of the handset industry, the global handset output was approximately 1.14 billion units during the Year, representing a decrease of approximately 6% compared with approximately1.213 billion units in 2008.

During the downturn of the global handset industry, leading international handset manufacturers faced keener market competition. This forced them to exercise more stringent control over production cost to alleviate market pressure. In seeking to enhance the price competitiveness of products and expand their market shares, leading international handset manufacturers





tended to be prudent in selecting suppliers. Some even reduced outsourcing through exercising stringent controls over the prices of supplies from upstream handset component producers. In addition, as the consolidation process of the handset industry continued, leading international handset brands were inclined to lower capital investment and production costs, accelerate the launching of new products, shorten capital turnover and enhance flexibility in order to increase their branding competitiveness.

Facing the challenging operating environment, BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company"), a one-stop supplier with high capability for vertical integration and cost advantages as well as global manufacturing and service platforms, still managed to enhance its market share in the ongoing consolidation process of the handset industry.

BUSINESS REVIEW

BYD Electronic provides handset components, module business and handset assembly services to handset manufacturers as a vertically integrated business. The Group increased sales and market share successfully amid sluggish market conditions. During the Year, the Group recorded sales of approximately RMB11,199 million, increased by approximately 31% year-on-year. However, the global handset output had declined due to mounting pressure from customers on sharp price reduction, which resulted in lower business earnings. Profit attributable to shareholders was approximately RMB759 million, representing a decrease of about 1% year-on-year.

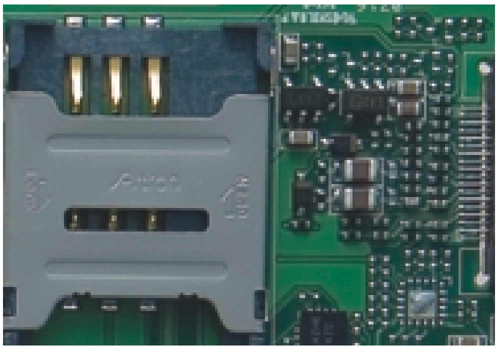
BYD Electronic is one of the manufacturers of handset components and module business in the industry with the most competitive cost structure. Its principal business includes the manufacturing and sales of handset components, including handset casings and keypads, and handset modules equipped with various mechanical components such as handset casings, microphones, connectors and other components, as well as the provision of two types of assembly services, namely, high level assembly services and printed circuit board (PCB) assembly services.

The Group strived to upkeep market competitiveness and succeeded in expanding market share amid turbulent market

During the Year, leveraging the high capability of vertical integrity and the advantage of high performance-price ratio, the Group's handset component and module business resulted in expansion of their market shares successfully despite the sluggish market conditions, winning new customer brands and new product orders successfully. Nevertheless, leading international handset manufacturers still exercised stringent controls over the prices of supplies from upstream handset component producers, and the Group inevitably faced price reduction pressure continuously from the customers, resulting in lower profitability despite achieving increases in both the handset component and module businesses.

For the global manufacturing platform of the Group, except the production base in India which maintained satisfactory business growth, the production base in Hungary was inevitably affected by the contraction of the handset market brought by the global financial crisis and the severe economic recession.

Apart from providing handset components and modules, BYD Electronic also provides handset assembly and design services according to customers' needs. During the Year, significantly benefiting from the promotion of 3G in the PRC as well as the introduction of new products, the assembly services of the Company recorded a substantial growth in output volume and sales volume. However, the profitability was relatively low, thus the impact on the overall results was negligible.

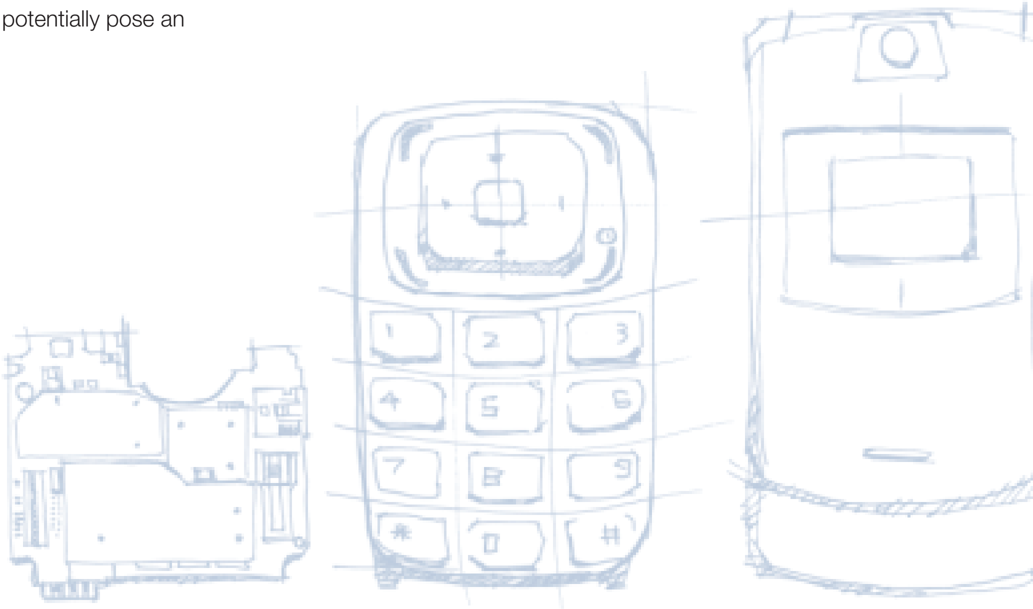


On 29 April 2009, BYD (Huizhou) Electronic Company Limited ("Huizhou Electronic"), a wholly owned subsidiary of the Company, entered into a transfer agreement with BYD (Huizhou) Company Limited ("BYD Huizhou"), a wholly owned subsidiary of BYD Company Limited ("BYD"), pursuant to which BYD Huizhou agreed to sell and Huizhou Electronic agreed to purchase the handset charger business. The transfer will expand the scope of our Group's handset component business and enhance sales and profitability of the Group. This will be in line with the business development and commercial goals of the Group and will enhance the Group's overall competitiveness. The transfer has been fully completed during the year and the handset charger business has contributed revenue and profit to the Company during the Year. Please refer to the announcement dated 29 April 2009 and the circular dated 20 May 2009 issued by the Company for details.

On 9 November 2009, Nokia announced that it will initiate a charger exchange program and recommended the users to exchange some models of the chargers for free replacement due to the plastic covers of a limited number of the Nokia-branded chargers manufactured by a subsidiary of the Company could come loose and separate, exposing the internal components of the charger and may potentially pose an electrical shock hazard. As of 4 March 2010, the registered number of replacement by final users obtained from the customers by the Company was 24,594 units and the number was showcased an obviously declining trend. Until now, such charger exchange program is still ongoing, and the Company is working closely with Nokia in relation to the matter. For details of which please refer to the announcements of the Company dated 9 November 2009 and 30 November 2009.

FUTURE STRATEGY

As the global economy gradually recovers, there will be a rebound of demand for handsets. Global handset output will increase gradually and demand for handset components and assembly services will also increase accordingly. In the face of the future market environment, the Group will continue with its vertical integration strategy, continue to enhance its research and development capability to manufacture handset products with advantage of higher performance-to-price ratio and attract new customers by high quality standards and obvious price advantages, in order to bring in more customer orders and expand the market shares. The Group believes that the current operating environment and handset industry adjustment will



provide the Group with more opportunities and greater development space in the long run. By leveraging on its continuous improvement in technological standards, excellent research and development capabilities, technical process designing capability and advanced factory management capability, the Group should outperform its peers.

Meanwhile, the Group will actively develop new business and engage more manufacturers of international brands as new customers to create new growth drivers and reduce its reliance on single product or single customer. BYD Electronic's development strategies include improving technology level, providing customers with more value-added design services and upgrading its market position in order to create maximum value for shareholders.

FINANCIAL REVIEW

Benefiting from the growth recorded in the handset component and module business segments during the Year, the turnover recorded a larger growth compared with that of the previous year. Profit attributable to owners of the parent decreased slightly year-on-year, which was mainly attributable to the decrease in the gross profit margin of the Group.

Segmental Information

Set out below is the comparison of geographical information by customer location for the two years ended 31 December 2008 and 2009:

Gross Profit and Margin

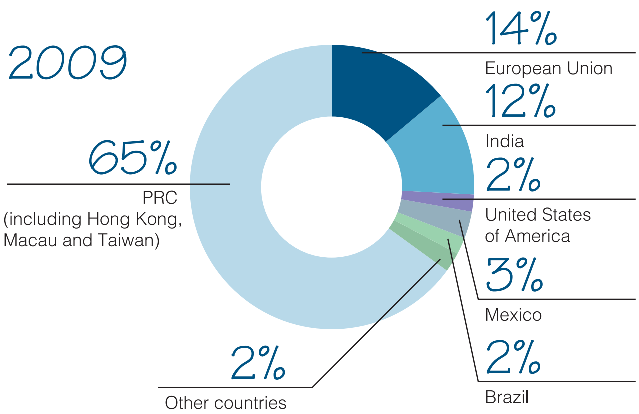
The Company's gross profit for the Year decreased by approximately 9% to approximately RMB1,562 million. Gross profit margin was down from approximately 20% in 2008 to about 14% during the Year. The decrease in gross profit margin was mainly due to the effects on the handset component and module businesses arising from the change of product structures and the increasing market competition.

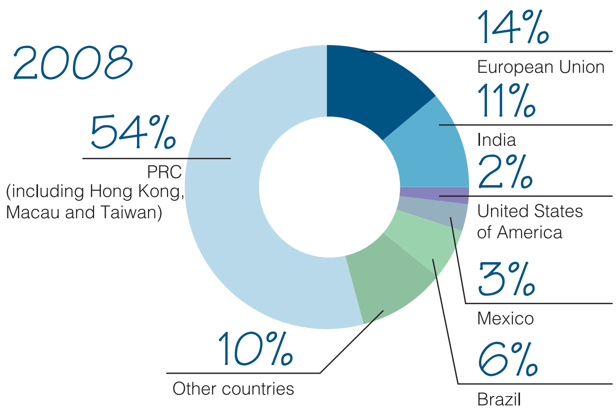
Liquidity and Financial Resources

During the Year, the Group recorded cash inflow from operations of about RMB799 million, compared with approximately RMB676 million recorded in 2008.

During the Year, funds were obtained from the net cash derived from the Company's operations. As at 31 December 2009, the amount of total borrowings was nil, compared with RMB14 million as at 31 December 2008.

The Company maintained sufficient daily liquidity management and capital expenditure requirements, so as to control internal operating cash flows. During the Year, the turnover of accounts and bills receivables was approximately 75 days, while the turnover was 71 days for the year ended 31 December 2008. Inventory turnover improved from 77 days for the year ended 31 December 2008 to 72 days during the Year. The turnover of accounts and bills receivables and the inventory turnover basically maintained stable during the period.





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 2009, the Company had no borrowings and its cash and cash equivalents were mainly held in renminbi and US dollars. 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 the requirements for working capital, capital expenditure, business expansion, investments and expected debt repayment needs at least in the coming year.

Exposure to Foreign Exchange Risk

During the Year, the Group recorded a decrease in foreign exchange differences. The decrease was mainly due to the decline in the range of Renminbi appreciation. Most of the Company's income and expenditure are settled by renminbi and US dollars. During the Year, the Company did not encounter any significant difficulties or come under any impact on its operations or liquidity due to fluctuations in currency exchange rates. The directors believe that the Company will have sufficient foreign exchange to meet its own foreign exchange requirements.

Employment, Training and Development

As at 31 December 2009, the Company had over 45,000 employees. During the Year, total staff cost accounted for approximately 11% of the Company's turnover. Employee remuneration is determined on the basis of the Company employees' 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 2009, the share capital of the Company was as follows:
Number of shares issued: 2,253,204,500 shares.

Purchase, Sale or Redemption of Shares

In October 2009, the Company repurchased and cancelled 804,500 shares of its ordinary shares on the Stock Exchange of Hong Kong Limited.

Capital Commitments

As at 31 December 2009, the Group had capital commitment of approximately RMB137 million (31 December 2008: approximately RMB226 million).

Contingent Liabilities

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

Directors and Senior Management

EXECUTIVE DIRECTORS

Li, Ke

Ms. Li Ke, born in 1970, Chinese national with right of abode in the United States, bachelor degree holder. Ms. Li graduated from Fudan University (復旦大學) where she obtained her bachelor degree in statistics in 1992. Ms. Li worked at Asia Resources (亞洲資源) and joined the BYD Group in September 1996 as a manager in the marketing division and later as general manager of sales. 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. She is an Executive Director and Chief Executive Officer of the Company.

Sun, Yi-zao

Mr. Sun Yi-zao, born in 1964, Chinese national with no right of abode overseas. Mr. Sun graduated from Jiangxi Radio and TV University (江西廣播電視大學) in 1990. Mr. Sun joined the BYD Group in November 1994 and held the positions as manager of the design department, the engineering department and the spare parts sub-plant, and general manager of Division 3. 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 is an executive Director and the Chief Operation Officer of our Company.

NON-EXECUTIVE DIRECTORS

Wang Chuan-fu

Mr. Wang Chuan-fu, born in 1966, Chinese national with no right of abode overseas, master degree holder, senior engineer. Mr. Wang graduated from Central South University of Technology (中南工業大學) (currently Central South University) in 1987 with a bachelor degree majoring in metallurgy physical chemistry, and then graduated from Beijing Non-Ferrous Research Institute (北京有色金屬研究總院) in the PRC in 1990 with a master degree majoring in metallurgy physical chemistry. Mr. Wang held positions as vice supervisor in Beijing Non-Ferrous Research Institute, general manager in Shenzhen Bi Ge Battery Co. Limited (深圳市比格電池有限公司). In February 1995, he founded Shenzhen BYD Battery Company Limited (深圳市比亞迪實業有限公司) with Lu Xiang-yang and took the position of general manager. He is a Non-Executive Director and Chairman of the Company and also the Chairman, an Executive Director and the President of the BYD Group.

Mr. Wang, being a technology expert, enjoyed special allowances from the State Council. In June 2003, he was awarded Star of Asia by BusinessWeek. He was awarded with Mayor award of Shenzhen in 2004 (二零零四年深圳市市長獎) and "The 2008 CCTV Man of the Year China Economy Innovation Award", etc.

Wu Jing-sheng

Mr. Wu Jing-sheng, born in 1963, Chinese national with no right of abode overseas, master degree holder. Mr. Wu graduated from Anhui Normal University (安徽省師範大學), majoring in Chinese language. He took part in National Examination for Lawyers (全國律師統考) and obtained qualification as a lawyer from the Department of Justice of Anhui Province (安徽省司法廳) in 1992. Mr. Wu also passed the National Examination for Certified Public Accountants (註冊會計師全國統考) and obtained qualification as a PRC Certified Public Accountant in 1995. In July 2006, he graduated from Guanghua School of Management of the Peking University (北京大學光華管理學院) with an MBA. Mr. Wu worked at Guangzhou Youngy Management & Investment Group Company Limited (廣州融捷投資管理集團有限公司) and was responsible for finance and related duties. He joined the BYD Group in September 1995 as its financial manager. He is a Non-Executive Director of the Company and a vice president, chief financial officer and secretary to the board of directors of the BYD Group and also the vice chairman of 深圳市鵬程電動汽車出租有限公司.

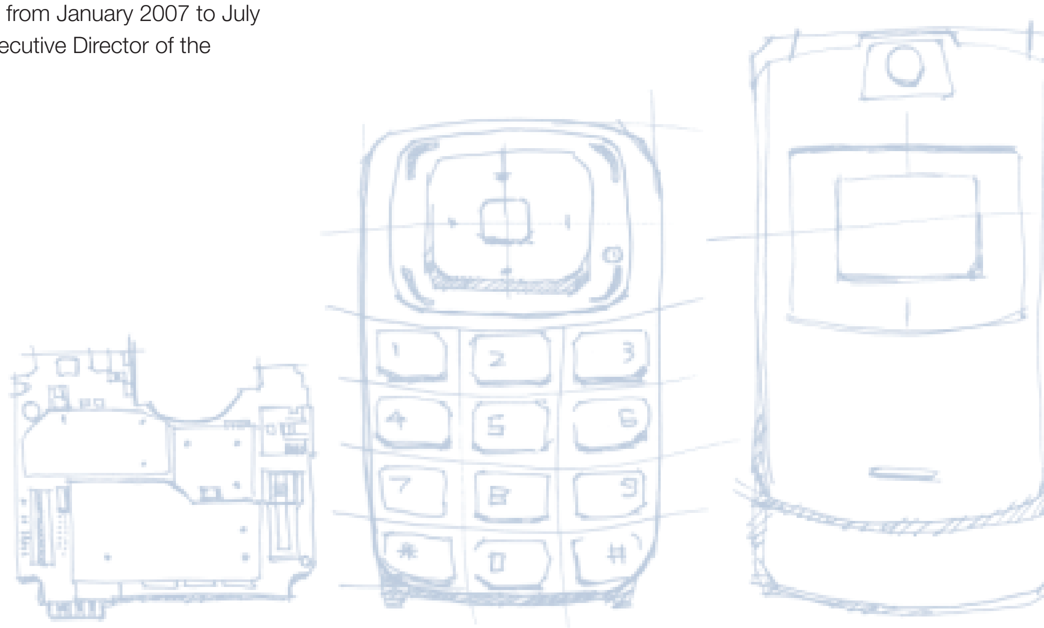
INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan, Yuk-tong

Mr. Chan Yuk-tong, born in 1962, Chinese national, permanent resident of the Hong Kong Special Administrative Region, master degree holder. Mr. Chan obtained a bachelor of commerce degree from the University of Newcastle, Australia in 1985, as well as a master of business administration degree from the Chinese University of Hong Kong in 2005. He is also a qualified fellow of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan acted as an auditor, management consultant, financial adviser and reporting accountant for a variety of clients. Mr. Chan was an independent non-executive director of China Pipe Group Limited which is listed in Hong Kong from January 2007 to July 2007. He is an Independent Non-Executive Director of the Company. He also acts as an independent non-executive director of Daisho Microline Holdings Limited, Global Sweeteners Holdings Limited, Jia Sheng Holdings Limited, Kam Hing International Holdings Limited, Sichuan Xinhua Winshare Chainstore Co., Ltd. and Ausnutria Dairy Corporation Ltd which are listed in Hong Kong and 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 (both are listed in Hong Kong).

Mampilly, Antony Francis

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



Liang, Ping

Mr. Liang Ping, born in 1951, Chinese national with no right of abode overseas, master degree holder, 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), 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）). 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. He is an Independent Non-Executive Director of the Company and also the chairman of Shaanxi Provincial Investment Group Co., 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. (陝西清水川發電有限公司) and Shaanxi Renmin Daxia Company Limited (陝西人民大廈有限公司).

SENIOR MANAGEMENT

Dong, Ge-ning

Mr. Dong Ge-ning, born in 1972, Chinese national with no right of abode overseas, bachelor degree holder. Mr. Dong graduated from Southwest Agricultural University (西南農業大學) with a bachelor degree in engineering specializing in agricultural mechanization in 1993. Mr. Dong held positions as engineer, plant manager at 湛江農墾第二機械廠 and worked at Foxconn International Holdings Limited where he was responsible for product development. He joined the BYD Group in March 2003 and was responsible various duties, including of manufacturing and planned management. Mr. Dong joined the Group in March 2003 and is responsible for the research and development, design and manufacture of molds and the development of new products, procurement of materials, etc.

Wang, Bo

Mr. Wang Bo, born in 1972, Chinese national with no right of abode overseas, bachelor degree holder. Mr. Wang graduated from the Harbin Institute of Technology (哈爾濱工業大學) with a bachelor degree in engineering specializing in electrochemical engineering in 1993. Mr. Wang worked as an assistant engineer at No. 18 Research Institute of China Electronics Technology Group Corporation (天津電源研究所第十八研究院), a process engineer and resource development manager at Motorola (China) Ltd. Mr. Wang joined the Group in September 2001 and is responsible for marketing and sales and the day-to-day management of the commercial and customer service aspects of our business.

Wang, Jiang

Mr. Wang Jiang, born in 1971, Chinese national with no right of abode overseas, master degree holder. Mr. Wang graduated from Liang Shan University (涼山大學) with a bachelor degree in integration of mechanical and electrical industry in 1992 and obtained a master degree in business administration from Tongji University (同濟大學) in 2008. Mr. Wang served as a quality control manager and a supplier quality control certification manager at Shenzhen Sang Fei Consumer Communications Co. Ltd. (深圳桑菲消費通信有限公司) and was assigned various responsibilities in the planned management, production and quality control at the BYD Group. Mr. Wang joined the Group in July 2004 and is responsible for the day-to-day management of the production, quality control, and planning of our business.

Zhu, Ai-yun

Ms. Zhu Ai-yun, born in 1965, Chinese national with no right of abode overseas, master degree holder. Ms. Zhu graduated from Changsha Communications University (長沙交通學院) with a bachelor degree in engineering financial accounting in 1988 and obtained an executive MBA degree from Peking University (北京大學) in 2008. Ms. Zhu worked as an accountant for Yantai, Marine Salvage Bureau (煙台海上救撈局), under the Ministry of Communication and joined the BYD Group in 1997 where she served as an accountant, manager and senior manager of the financial department, etc. Ms. Zhu joined our Group in April 1997 and is the Chief Financial Officer of the Company responsible for supervising financial and accounting, human resources and general administrative matters.

Li, Qian

Mr. Li Qian, born in 1973, Chinese national with no right of abode overseas, bachelor degree holder. Mr. Li graduated from Jiangxi University of Finance and Economics (江西財經大學), with a bachelor degree in property management studies in 1997. Mr. Li worked as an auditor and business consultant at PricewaterhouseCoopers and Arthur Andersen and served as a representative of securities affairs at ZTE Corporation (中興通訊股份有限公司). Mr. Li joined the BYD Group in August 2005 as head of the investor relations department. Mr. Li joined our Group in August 2005 and is a joint company secretary of the Company.

Cheung, Hon-wan

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

Commitment to transparency
and prudent corporate
governance practices

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 18 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 seven 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. Accordingly, Ms. Li Ke, Mr. Wang Chuan-fu and Mr. Wu Jing-shang 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 seven meetings in 2009. 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	7	100%
SUN Yi-zao	7	100%
WANG Chuan-fu	7	100%
WU Jing-sheng	7	100%
CHAN Yuk-tong	7	100%
Antony Francis MAMPILLY	7	100%
Liang Ping	6	86%

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), Antony Francis MAMPILLY, Liang Ping, WANG Chuan-fu and WU Jing-sheng, of whom CHAN Yuk-tong, Anthony Francis MAMPILLY and LIANG Ping 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 2008 and the financial statements for the six months ended 30 June 2009 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, Antony Francis MAMPILLY, LIANG Ping, LI Ke and WANG Chuan-fu (Chairman) 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 2009 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, Antony Francis MAMPILLY, LIANG Ping, SUN Yi-zao and WANG Chuan-fu (Chairman).

INDEPENDENT INTERNATIONAL AUDITORS AND THEIR REMUNERATION

For the year ended 31 December 2009, the total remuneration paid and payable by the Company to the independent international auditors, Ernst & Young, were RMB1,780,000 for audit services. The audit fee was approved by the Board.

During the year ended 31 December 2009, the Company appointed Ernst & Young as independent international auditors of the Company. The re-appointment of Ernst & Young as independent international 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 2009.

SHAREHOLDERS' RIGHTS

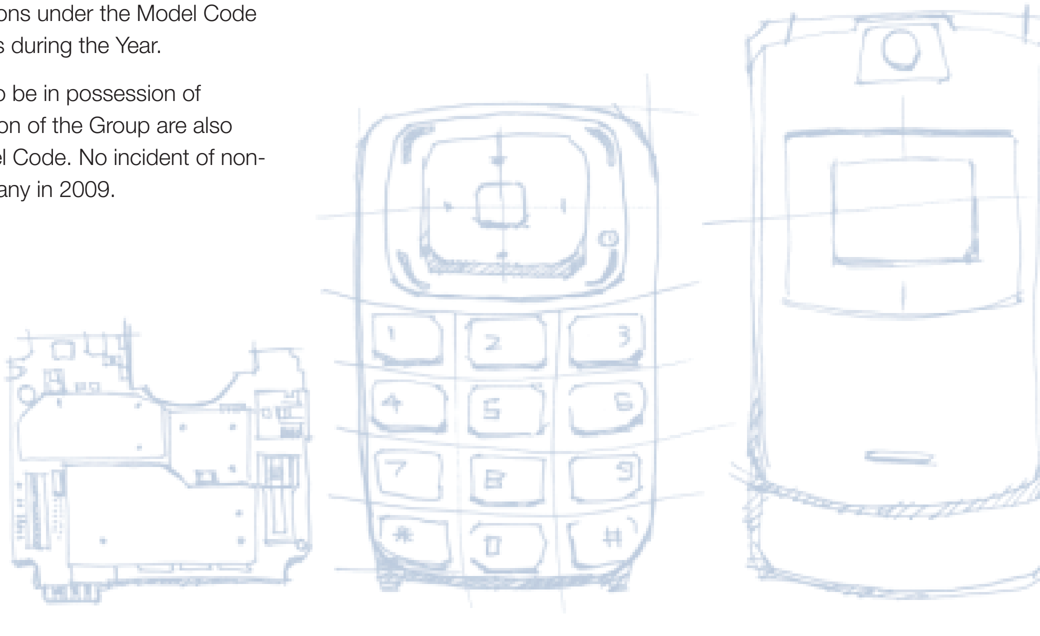
Under the Company's Articles of Association and the Companies Ordinance, the Directors shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries 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 2009 annual report and audited consolidated financial statements for the year ended 31 December 2009.

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 financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements and their notes on pages 33 to 87 in this annual report.

The Board recommends the payment of a final dividend of RMB0.067 per share for the year ended 31 December 2009.

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 28 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 financial statements.

SHARE CAPITAL/PAID-IN CAPITAL

Details of the movements during the year in the share capital are set out in note 27 to the 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 28(b) to the 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)
Antony Francis Mampilly (Appointed on 29 November 2007)
Liang Ping (Appointed on 16 February 2009)

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.

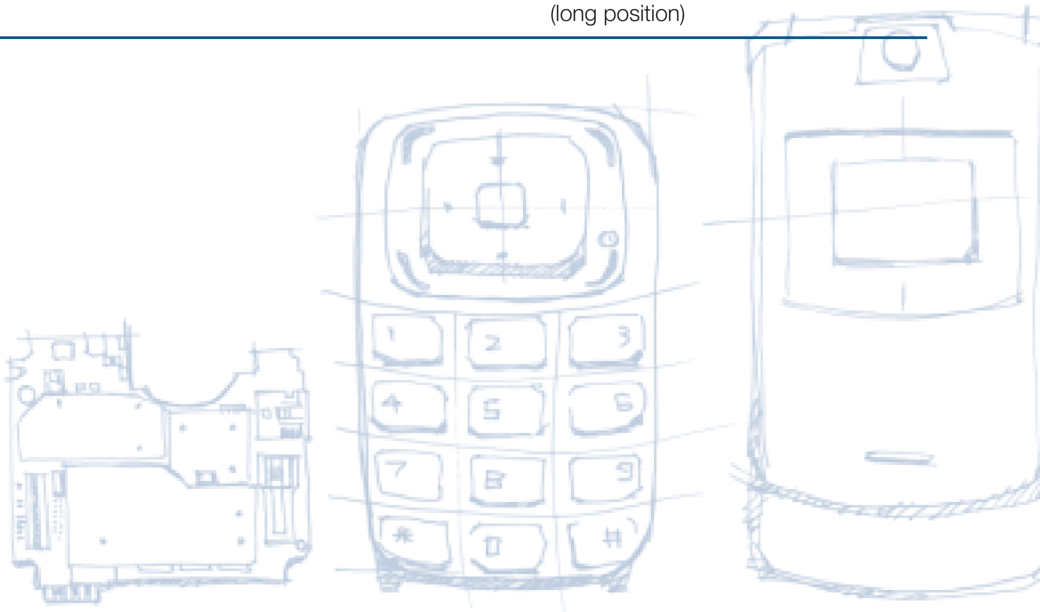
BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGMENT

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 2009, 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)	0.52%
Mr. SUN Yi-zao	Company	Beneficiary	5,797,000[1] (long position)	0.26%
	BYD	Personal	10,824,680[2] (long position)	0.48%
Mr. WU Jing-sheng	Company	Beneficiary	8,602,000[1] (long position)	0.38%
	BYD	Personal	11,675,880[2] (long position)	0.51%
Mr. WANG Chuan-fu	BYD	Personal	570,642,580[3] (long position)	25.08%



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 2009.
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 2009.

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 2009.

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 2009 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 2009, so far as was known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the ordinary shares and underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO (Cap. 571 of the Laws of Hong Kong), or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of ordinary shares in which the interested party has or is deemed to have interests or short positions	Approximate percentage of shareholding in total issued share capital
Golden Link Worldwide Limited ("Golden Link")	Beneficial interest	1,481,700,000 (long position)	65.76%
BYD (H.K.) Company, Limited ("BYD H.K.")	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
BYD Company Limited ("BYD")	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
Gold Dragonfly Limited ("Gold Dragonfly")	Beneficial interest	168,300,000 (long position)	7.47%
HSBC Trustee (Hong Kong) Limited ("HSBC Trustee")	Trustee[2]	168,300,000 (long position)	7.47%
FMR LLC	Investment manager[3]	158,104,000 (long position)	7.02%

Notes

1. BYD is the sole shareholder of BYD H.K., which in turn is the sole shareholder of Golden Link. As such, both BYD H.K. and BYD were deemed to be interested in the shares of the Company held by Golden Link.
2. The shares of the Company are held by Gold Dragonfly, a company incorporated in the British Virgin Islands and wholly owned by HSBC Trustee as trustee of BF Trust, the beneficiaries of which are 35 employees of BYD and its subsidiaries and the Group. As such, HSBC Trustee was deemed to be interested in the shares of the Company held by Gold Dragonfly.
3. FMR LLC was deemed to be interested as investment manager in 158,104,000 shares through its controlled corporations, Fidelity Management & Research Company and Fidelity Management Trust Company, Pyramis Global Advisors LLC which were interested in 157,877,600 and 226,500 shares respectively.

Save as disclosed above, as at 31 December 2009, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the ordinary shares or underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CORPORATE GOVERNANCE

Report for the corporate governance practice adopted by the Company is set out on page 22 to 25 of this annual report.

REMUNERATIONS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2009, the total remunerations of the Directors and the five highest paid employees are set out in note 8 and 9 to the 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 28% and 24% of the Group's total sales of the year respectively. The top five largest suppliers and the largest supplier of the Group represent approximately 42% and 31% 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 2009.

NON-COMPETE UNDERTAKING

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

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

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in note 33 to the 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.

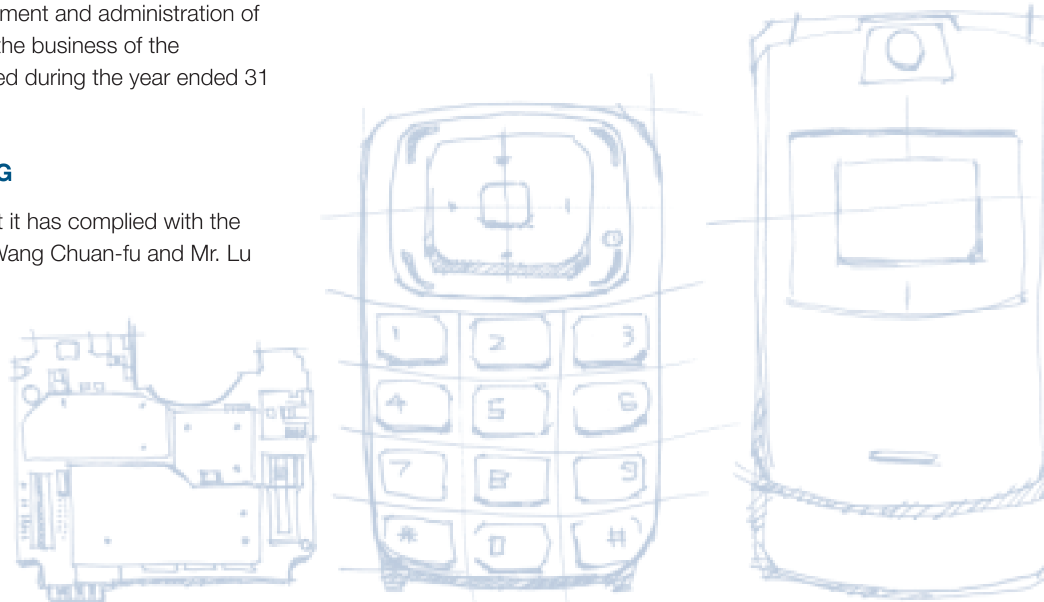
CONTINUING CONNECTED TRANSACTIONS

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.

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

The annual cap set for the exclusive processing services provided by the Group to the BYD Group for the year ending 31 December 2009 is RMB3,872,000. 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 2009 is RMB3,789,000.

(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. Pursuant to two lease agreements between BYD (Huizhou) Co., Limited and Huizhou BYD Electronic Co. Ltd., respectively on 25 December 2008 and 30 June 2009, whereby, BYD (Huizhou) Co., Limited has agreed to lease to Huizhou BYD Electronic Co. Ltd certain factory buildings situated at Xiangshuihe in the Huizhou Daya Bay Economic and Technological Development Zone. Pursuant to the lease agreement between BYD Precision and Beijing BYD Mould Company Limited and Shanghai BYD Company Limited on 1 January 2009 and 30 December 2008 respectively, whereby Beijing BYD mould Company Limited and Shanghai BYD Company Limited have agreed respectively lease to BYD Precision certain properties at No. 1 Kechuang Fifth Street East, Tongzhou District, Beijing and at Apartment 33, No. 999 Xiangjing Road, Chedun Town, Songjiang District, Shanghai, respectively.

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

For the year ended 31 December 2009, the annual cap of rental transactions of the Company amounted to RMB27,000,000. For the year ended 31 December 2009, the actual aggregate amount of rental transactions was RMB26,755,000.

(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.

The annual cap set for the total expenditure for acquiring the Ancillary Services for the year ending 31 December 2009 is RMB9,488,000. The actual aggregate amount of the expenditure for acquiring the Ancillary Services for the year ended 31 December 2009 was RMB9,282,000.

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) are the connected persons of the Company.

The annual cap set for the total purchases of products by the BYD Group for the year ended 31 December 2009 is 210,000,000. The actual aggregate amount (including value-added tax) of the purchases of products by the BYD Group for the year ended 31 December 2009 is RMB149,159,000.

(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.

The annual cap set for the total purchases of products from the BYD Group for the year ended 31 December 2009 is RMB1,471,284,000. The actual aggregate amount (including value-added tax) of the purchases of products from the BYD Group for the year ended 31 December 2009 is RMB997,305,000.

(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.

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

The annual cap set for the total expenditure for receiving the water and electricity from the BYD Group for the year ending 31 December 2009 is RMB477,360,000. 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 2009 is RMB200,711,000.

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 October 2009, the Company repurchased 804,500 Shares at prices ranging from HK$4.78 to HK$5.33 per share on the Stock Exchange. The aggregate consideration paid for that is approximately HK$4,166,395.

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 2009.

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.

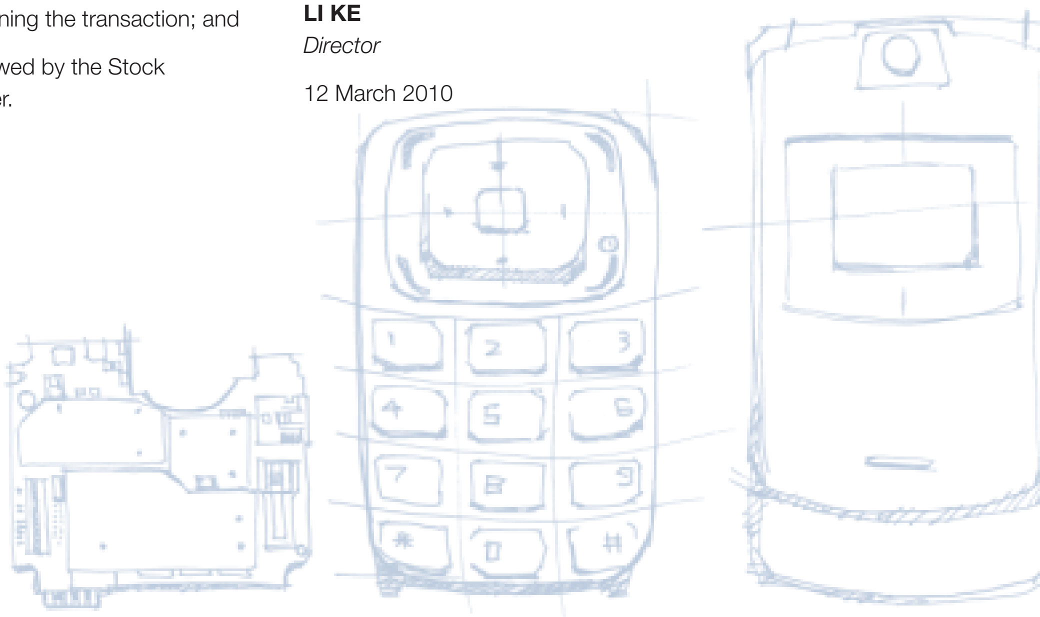
INDEPENDENT INTERNATIONAL AUDITORS

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

12 March 2010



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 33 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 2009 and of the Group's profit 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

12 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**11,198,670**	8,555,112
Cost of sales		**(9,636,887)**	(6,845,565)
Gross profit		**1,561,783**	1,709,547
Other income and gains	5	**130,414**	152,689
Research and development costs		**(423,214)**	(355,722)
Selling and distribution costs		**(92,151)**	(90,720)
Administrative expenses		**(281,865)**	(270,098)
Other expenses		**(99,667)**	(302,782)
Finance costs	6	**(594)**	(39,510)
PROFIT BEFORE TAX	7	**794,706**	803,404
Income tax expense	10	**(35,850)**	(37,579)
PROFIT FOR THE YEAR			
Attributable to owners of the parent		**758,856**	765,825
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT - Basic and diluted	13	**RMB0.34**	RMB0.34

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
PROFIT FOR THE YEAR	**758,856**	765,825
Exchange differences on translation of foreign operations	**35,231**	(113,011)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**35,231**	(113,011)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**794,087**	652,814
Attributable to owners of the parent	**794,087**	652,814

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,428,446**	3,031,354
Prepaid land lease payments	15	**150,440**	151,511
Prepayment for property, plant and equipment	16	**114,377**	332,486
Goodwill	17	**—**	—
Other intangible assets	18	**10,841**	12,959
Deferred tax assets	26	**78,224**	56,426
Total non-current assets		**3,782,328**	3,584,736
CURRENT ASSETS			
Inventories	20	**1,769,093**	1,824,003
Trade and bills receivables	21	**3,047,767**	1,526,898
Prepayments, deposits and other receivables	16	**315,735**	216,463
Due from fellow subsidiaries	33	**96,827**	57,175
Due from the intermediate holding company	33	**64,996**	64,075
Due from the ultimate holding company	33	**7,051**	—
Cash and bank balances	22	**1,192,943**	1,141,478
Pledged bank deposit	22	**—**	836
Restricted bank deposit	22	**—**	2,522
Total current assets		**6,494,412**	4,833,450
CURRENT LIABILITIES			
Trade and bills payables	23	**2,833,832**	1,467,518
Other payables and accruals	24	**556,904**	557,813
Tax payable		**18,373**	23,428
Interest-bearing bank borrowings	25	**—**	14,256
Due to fellow subsidiaries	33	**237,820**	218,078
Due to the immediate holding company	33	**1,867**	1,052
Due to the ultimate holding company	33	**—**	298,505
Total current liabilities		**3,648,796**	2,580,650
NET CURRENT ASSETS		**2,845,616**	2,252,800
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,627,944**	5,837,536

continued/...

Consolidated Statement of Financial Position (continued)

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,627,944**	5,837,536
Net assets		**6,627,944**	5,837,536
EQUITY			
Issued capital	27	**216,999**	217,070
Reserves	28(a)	**6,259,980**	5,620,466
Proposed final dividends	12	**150,965**	—
Total equity		**6,627,944**	5,837,536

Director Director

Consolidated statement of changes in equity

Year ended 31 December 2009

	Issued Capital RMB'000 (note 27)	capital redemption reserve	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 2008	211,929	—	3,208,537	(46,323)	101,501	(1,542)	340,837	1,076,849	4,891,788
Total comprehensive income for the year	—	—	—	—	—	(113,011)	—	765,825	652,814
Issue of shares (note 27)	6,740	—	694,016	—	—	—	—	—	700,756
Repurchase of shares (note 27)	(1,599)	1,599	(65,386)	—	—	—	—	(1,599)	(66,985)
Final 2007 dividend declared	—	—	—	—	—	—	(340,837)	—	(340,837)
Transfer to statutory surplus	—	—	—	—	98,508	—	—	(98,508)	—
At 31 December 2008 and at 1 January 2009	217,070	1,599	3,837,167	(46,323)	200,009	(114,553)	—	1,742,567	5,837,536
Total comprehensive income for the year	—	—	—	—	—	35,231	—	758,856	794,087
Repurchase of shares (note 27)	(71)	71	(3,608)	—	—	—	—	(71)	(3,679)
Proposed 2009 dividend (note 12)	—	—	—	—	—	—	150,965	(150,965)	—
Transfer to statutory surplus	—	—	—	—	89,509	—	—	(89,509)	—
	216,999	1,670*	3,833,559*	(46,323)*	289,518*	(79,322)*	150,965	2,260,878*	6,627,944

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 RMB6,259,980,000 (2008: RMB5,620,466,000) in the consolidated statement of financial position as at 31 December 2009.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**794,706**	803,404
Adjustments for:			
Finance costs	6	**594**	39,510
Bank interest income	5	**(11,683)**	(70,471)
(Gain)/loss on disposal of items of property, plant and equipment	7	**8,781**	(415)
Depreciation	7	**485,870**	364,292
Fair value gain on derivative instruments	7	**—**	(1,474)
Amortisation of intangible assets	7	**4,483**	4,101
Recognition of prepaid land lease payments	7	**2,832**	2,862
Impairment of trade receivables	7	**15,494**	—
Provision against obsolete inventories	7	**185,630**	29,542
Impairment for goodwill	7	**—**	4,875
Impairment of property, plant and equipment	7	**44,719**	—
Gain on acquisition of Charger Business	7	**(636)**	—
		1,530,790	1,176,226
Increase in inventories		**(77,060)**	(784,637)
(Increase)/decrease in trade and bills receivables		**(1,536,363)**	270,734
Increase in prepayments, deposits and other receivables		**(99,026)**	(127,290)
Increase in trade and bills payables		**1,366,314**	51,377
(Increase)/decrease in amounts due from fellow subsidiaries		**(33,920)**	35,502
Increase in an amount due from the intermediate holding company		**(8,535)**	(49,818)
(Increase)/decrease in an amount due from the ultimate holding company		**(1,589)**	39,000
Increase/(decrease) in other payables and accruals		**(7,203)**	53,444
Increase/(decrease) in an amount due to the ultimate holding company		**(298,505)**	298,505
Increase in an amount due to fellow subsidiaries		**14,753**	82,687
Increase in an amount due to the immediate holding company		**815**	1,052
Cash generated from operations		**850,471**	1,046,782
Interest received		**11,683**	70,471
Interest paid		**(594)**	(39,510)
Dividend paid		**—**	(340,837)
PRC tax paid		**(62,703)**	(60,871)
Net cash flows from operating activities		**798,857**	676,035

continued/...

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows from operating activities		**798,857**	676,035
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	**(689,677)**	(1,948,403)
Prepaid land lease payments	15	**—**	(19,506)
Acquisition of Charger Business	29	**(119,279)**	(121,278)
Additions to other intangible assets	18	**(2,365)**	(3,050)
Proceeds from settlement of derivative instruments		**—**	724
Proceeds from disposal of items of property, plant and equipment		**60,405**	35,323
Decrease in a pledged deposit	22	**836**	19,088
Net cash flows used in investing activities		**(750,080)**	(2,037,102)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	700,756
Repurchase of the shares	27	**(3,679)**	(66,985)
New bank loans		**—**	1,675,207
Repayment of bank loans		**(14,256)**	(2,957,934)
Net cash flows used in financing activities		**(17,935)**	(648,956)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**30,842**	(2,010,023)
Cash and cash equivalents at beginning of year		**1,144,000**	3,196,766
Effect of foreign exchange rate changes, net		**18,101**	(42,743)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,192,943**	1,144,000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and Cash equivalents as stated in the statement of financial position		**1,192,943**	1,141,478
Restricted bank deposit with maturity of less than three months	22	**—**	2,522
Cash and cash equivalents as stated in the statement of cash flows		**1,192,943**	1,144,000

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**1,926,000**	1,926,000
CURRENT ASSETS			
Prepayments, deposits and other receivables		**51**	1,043
Due from subsidiaries	19	**3,860,461**	3,868,386
Due from fellow subsidiaries		**8**	43
Cash and bank balances	22	**9,647**	1,922
Total current assets		**3,870,167**	3,871,394
CURRENT LIABILITIES			
Due to the ultimate holding company		**13**	831
Due to the immediate holding company		**815**	—
Due to the intermediate holding company		**658**	—
Due to subsidiaries	19	**7,865**	—
Due to a fellow subsidiary		**—**	661
Other payables and accruals	24	**1,580**	1,580
Total current liabilities		**10,931**	3,072
NET CURRENT ASSETS		**3,859,236**	3,868,322
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,785,236**	5,794,322
Net assets		**5,785,236**	5,794,322
EQUITY			
Issued capital	27	**216,999**	217,070
Reserves	28(b)	**5,568,237**	5,577,252
Total equity		**5,785,236**	5,794,322

Director Director

Notes to Financial Statements

31 December 2009

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 (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2009. 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. Contingent consideration is recognised if the adjustment is probable and can be measured reliably. Subsequent measurement to the contingent consideration affects goodwill.

Notes to Financial Statements
31 December 2009

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on 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*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments - Disclosure of information about segment assets* (early adopted)
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue - Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
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*
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*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOURES (Continued)

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

(a) 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*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The adoption of the amendments has had no material impact on the presentation of financial statements.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the income statement, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(f) Amendment to Appendix to HKAS 18 *Revenue - Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOURES (Continued)

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. During the year, no borrowing cost has been capitalised on qualifying assets included in construction in progress.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement - Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue - Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOURES (Continued)

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. 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.

(n) In October 2008, the HKICPA issued its *first Improvements to* HKFRSs which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.

- HKAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.

- HKAS 16 *Property, Plant and Equipment:* Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is the higher of an asset’s fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

- HKAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate “fair value less costs to sell”, additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate “value in use”.

- HKAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards - Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendments	Limited Exemption from Comparatives HKFRS 7 Disclosures for First-time Adopters [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment - Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations - Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers 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 statement of financial position 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 the end of each reporting period 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

(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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	—
Machinery and equipment	5 to 10 years	5%
Motor vehicles	5 years	5%
Office equipment and fixtures	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 financial year end.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

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

Research and development costs

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

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

Leases

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

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

Investment and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

Loans and receivables

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

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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss 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) The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing loans and borrowings.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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; a discounted cash flow analysis; and other valuation models.

Derivative financial instruments accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. 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 of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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 statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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 end of the reporting period.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries 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 end of the reporting period. 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 support the current services and to settle 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 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 26 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are 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. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Depreciation and amortisation

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be recognized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, 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 recognized tax losses at 31 December 2009 was nil (2008: Nil). Further details are contained in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group's primary business is the manufacture, assembly and sale of mobile handset components and modules. Since from management purpose, the Group is organised into one operating segment based on the industrial practice and management vertical integration strategy, no further analysis thereof is presented. The segment performance is evaluated based on the revenue and profit before tax which is consistent with the Group's revenue and profit before tax.

Geographical information

(a) Revenue from external customers

	2009 RMB'000	2008 RMB'000
PRC (Including Hong Kong, Macau and Taiwan)	**7,272,053**	4,623,393
European Union	**1,537,743**	1,194,728
India	**1,305,487**	922,346
Mexico	**367,110**	254,827
United States of America	**274,753**	162,121
Brazil	**182,170**	519,368
Other countries	**259,354**	878,329
	11,198,670	8,555,112

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

(b) Non-current assets

	2009 RMB'000	2008 RMB'000
PRC (Including Hong Kong, Macau and Taiwan)	**2,992,879**	2,878,462
India	**603,684**	460,180
European Union	**107,541**	189,668
	3,704,104	3,528,310

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

Information about a major customer

Revenue of approximately RMB5,728,968,000 (2008: RMB5,119,710,000) was derived from the sale of mobile handset components and the provision of assembly services to a single customer.

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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:

	2009 RMB'000	2008 RMB'000
Revenue		
Sale of mobile handset components and modules	**6,200,623**	4,684,855
Assembly service income	**4,998,047**	3,870,257
	11,198,670	8,555,112
Other income		
Bank interest income	**11,683**	70,471
Sale of scrap materials	**64,802**	60,982
Sale of materials	**6,353**	3,725
Subcontracting income	**1,118**	547
Others	**38,088**	15,075
	122,044	150,800
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
Exchange gain	**8,370**	—
	8,370	1,889
	130,414	152,689

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2009 RMB'000	2008 RMB'000
Interest on bank loans, wholly repayable within one year	**594**	39,313
Interest on bills discounted	**—**	197
	594	39,510

7. PROFIT BEFORE TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold		**4,620,732**	3,051,024
Cost of services provided		**4,830,525**	3,764,999
Depreciation	14	**485,870**	364,292
Research and development costs:			
Current year expenditure		**423,214**	355,722
Minimum lease payments under operating leases - buildings		**31,145**	38,300
Auditors' remuneration		**2,496**	2,314
Recognition of prepaid land lease payments#	15	**2,832**	2,862
Amortisation of intangible assets#	18	**4,483**	4,101
Employee benefit expense (including directors' remuneration (note 8))			
Wages and salaries		**1,204,863**	927,900
Retirement benefit scheme contributions		**25,975**	72,038
		1,230,838	999,938
Impairment of goodwill##	17	**—**	4,875
Impairment of trade receivables##	21	**15,494**	—
Impairment of property, plant and equipment##	14	**44,719**	—
Provision against obsolete inventories		**185,630**	29,542
(Gain)/loss on disposal of items of property, plant and equipment##		**8,781**	(415)
Fair value gain on derivative instruments		**—**	(1,474)
Gain on acquisition of Charger Business###		**(636)**	—
Bank interest income###		**(11,683)**	(70,471)
Foreign exchange (gain)/loss, net###		**(8,370)**	289,149

Included in "Administrative expenses" in the consolidated income statement.

Included in "Other expenses" in the consolidated income statement.

Included in "Other income and gains" in 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	
	2009 RMB'000	2008 RMB'000
Fees	**541**	400
Other emoluments:		
Salaries, allowances and benefits in kind	**6,058**	6,150
Retirement benefit scheme contributions	**5**	2
	6,063	6,152
	6,604	6,552

Notes to Financial Statements
31 December 2009

8. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	Group	
	2009 RMB'000	2008 RMB'000
Mr. Mampilly, Antony Francis	**200**	200
Mr. Liang Ping (appointed on 16 Feb 2009)	**141**	—
Mr. Chan Yuk-tong	**200**	200
	541	400

There were no other emoluments payable to the independent non-executive directors during the year (2008: 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 2009					
Executive directors:					
Ms. Li Ke	**—**	**3,162**	**—**	**2**	**3,164**
Mr. Sun Yi-zao	**—**	**2,896**	**—**	**3**	**2,899**
	—	**6,058**	**—**	**5**	**6,063**
Non-executive directors:					
Mr. Wang Chuan-fu	**—**	**—**	**—**	**—**	**—**
Mr. Wu Jing-sheng	**—**	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**	**—**
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	—	—	—	—	—
	—	—	—	—	—

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 (2008: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2008: three) non-director, highest paid employee for the year were as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	**3,449**	3,230
Retirement benefit scheme contributions	**12**	7
	3,461	3,237

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

	Number of employees	
	2009	2008
Nil to RMB1,000,000	**—**	1
RMB 1,000,001 to RMB 1,500,000	**3**	2
	3	3

10. INCOME TAX

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

BYD Precision Manufacture Company Ltd. ("BYD Precision") is entitled to an exemption from income tax for the two years commencing from its first profit-making year of operation and a 50% relief from income tax for the next three years thereafter. The year of 2009 was BYD Precision's fourth profit-making year. Pursuant to the transitional arrangement under the new PRC Corporate Income Tax Law, the income tax rate applicable to BYD Precision will be gradually increased from the rate of 18% to the unified rate of 25% over 5 years commencing from the year of 2008, which allowed BYD Precision to enjoy a preferential tax rate of 10% after considering the 50% relief from income tax for the fourth profit-making year.

Huizhou BYD Electronic Co., Limited ("BYD Huizhou") and BYD (Tianjin) Co., Limited ("BYD Tianjin"), wholly-owned subsidiaries of the Company, are entitled to an exemption from income tax for the two years commencing from their first profit-making years of operation and a 50% relief from income tax for the next three years thereafter. The current year was the second and third 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, United States of America and Finland as the Group had no assessable profits derived from there.

Notes to Financial Statements

31 December 2009

10. INCOME TAX (Continued)

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

	2009 RMB'000	2008 RMB'000
Group:		
Current - PRC	**57,648**	84,299
Deferred (note 26)	**(21,798)**	(46,720)
Total tax charge for the year	**35,850**	37,579

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

	Group			
	2009		2008	
	RMB'000	**%**	RMB'000	%
Profit before tax	**794,706**		803,404	
Tax at the applicable tax rate	**198,677**	**25.0**	200,851	25.0
Expenses not deductible for tax	**20,280**	**2.6**	6,666	0.9
Lower tax rate for specific provinces or local authority	**(182,174)**	**(22.9)**	(192,624)	(24.0)
Super-deduction of research and development costs	**(13,930)**	**(1.8)**	(12,848)	(1.6)
Tax losses not recognised	**12,997**	**1.6**	35,534	4.4
Tax charge at the Group's effective rate	**35,850**	**4.5**	37,579	4.7

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a loss of RMB5,407,000 (2008: loss of RMB4,879,000) which has been dealt with in the financial statements of the Company (note 28(b)).

12. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Proposed final -RMB0.067 (2008: nil) per ordinary share	**150,965**	—

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

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

The calculation of basic earnings per share amounts for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,253,875,000 (2008: 2,261,757,000), as adjusted to reflect the shares repurchase during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic and diluted earnings per share is based on:

	2009 RMB'000	2008 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**758,856**	765,825

	Number of shares	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,253,875,000**	2,261,757,000

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14. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009							
At 31 December 2008 and at 1 January 2009:							
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
At 1 January 2009, net of accumulated depreciation	81,995	3,054	2,311,877	178,736	7,147	448,545	3,031,354
Additions	—	9,212	357,773	132,253	1,272	407,276	907,786
Acquisition of Charger Business (note 29)	—	—	53,697	16,509	—	3,507	73,713
Disposals	(1,482)	—	(58,352)	(6,946)	(1,138)	(1,268)	(69,186)
Impairment	—	—	(44,719)	—	—	—	(44,719)
Depreciation provided during the year	(5,982)	(1,465)	(426,467)	(50,260)	(1,696)	—	(485,870)
Exchange realignment	1,405	—	9,179	241	83	4,460	15,368
Transfers	453,747	—	121,486	8,732	190	(584,155)	—
At 31 December 2009, net of accumulated depreciation	529,683	10,801	2,324,474	279,265	5,858	278,365	3,428,446
At 31 December 2009:							
Cost	538,361	12,533	3,353,716	368,421	9,546	278,365	4,560,942
Accumulated depreciation and impairment	(8,678)	(1,732)	(1,029,242)	(89,156)	(3,688)	—	(1,132,496)
Net carrying amount	529,683	10,801	2,324,474	279,265	5,858	278,365	3,428,446

* The land situated in Hungary with a cost of HUF283,736,000, being equivalent to RMB10,251,000 (2008: equivalent to RMB10,186,000), is freehold and not depreciated.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Office equipment and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 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 29)	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

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	**154,373**	139,287
Additions	**—**	19,506
Recognised during the year	**(2,832)**	(2,862)
Exchange realignment	**1,731**	(1,558)
Carrying amount at 31 December	**153,272**	154,373
Current portion included in prepayments, deposits and other receivables	**(2,832)**	(2,862)
Non-current portion	**150,440**	151,511

The leasehold land situated in Mainland China is held under a medium term lease with a carrying amount of RMB114,192,000 and those situated in India are held under a long term lease with a carrying amount of RMB36,248,000.

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16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2009 RMB'000	2008 RMB'000
Non-current portion:		
Prepayments for property, plant and equipment	**114,377**	332,486
Current portion:		
Prepayments	**31,279**	28,127
Deposits and other receivables	**284,456**	188,336
	315,735	216,463

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 2009, net of accumulated impairment	**—**
Cost and carrying amount at 31 December 2009	**—**

	RMB'000
Cost at 1 January 2008, net of accumulated impairment	—
Acquisition of a subsidiary (note 29)	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 2009	
Cost at 1 January, net of accumulated amortisation	**12,959**
Additions	**2,365**
Amortisation provided during the year	**(4,483)**
At 31 December 2009	**10,841**
At 31 December 2009:	
Cost	**21,998**
Accumulated amortisation	**(11,157)**
Net carrying amount	**10,841**

	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 29)	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

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**1,926,000**	1,926,000

At the end of the reporting period, the amount due from and to subsidiaries included in the Company's current assets and current liabilities of RMB3,860,461,000 (2008: RMB3,868,386,000) and RMB7,865,000 (2008: Nil) respectively, are unsecured, interest-free and are repayable on demand. The carrying amount of the amount due from and to subsidiaries approximates to its fair value.

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19. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation or registration and operations	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
Huizhou BYD 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	INR2,407,193,624	—	100	Manufacture and sale of mobile handset components and modules
BYD Electronic Hungary Kft	Hungary	HUF500,000	—	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.

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	
	2009	2008
	RMB'000	RMB'000
Raw materials	**845,611**	671,328
Work in progress	**50,172**	60,510
Finished goods	**774,163**	938,596
Moulds held for production	**99,147**	153,569
	1,769,093	1,824,003

21. TRADE AND BILLS RECEIVABLES

	Group	
	2009	2008
	RMB'000	RMB'000
Trade and bills receivables	**3,085,566**	1,552,502
Impairment	**(37,799)**	(25,604)
	3,047,767	1,526,898

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 end of the reporting period, the Group had certain concentration of credit risk as 38% (2008: 69%) and 92% (2008: 94%) 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 end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within 90 days	**2,996,162**	1,478,658
91 to 180 days	**49,448**	45,614
181 to 360 days	**2,157**	2,626
	3,047,767	1,526,898

21. TRADE AND BILLS RECEIVABLES (Continued)

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

	Group	
	2009 **RMB'000**	2008 RMB'000
At 1 January	**25,604**	31,877
Impairment losses recognised (note 7)	**15,494**	—
Amount written off as uncollectible	**(3,299)**	(6,273)
	37,799	25,604

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB37,799,000 (2008: RMB25,604,000) with a carrying amount of RMB143,618,000 (2008: RMB147,589,000). 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	
	2009 **RMB'000**	2008 RMB'000
Neither past due nor impaired	**2,817,118**	1,215,388
Less than one year past due	**124,830**	189,525
	2,941,948	1,404,913

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	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Cash and bank balances		**1,192,943**	1,142,314	**9,647**	1,922
Restricted bank deposit	(i)	**—**	2,522	**—**	—
		1,192,943	1,144,836	**9,647**	1,922
Less: Restricted bank deposit					
Pledged bank deposit	(ii)	**—**	(836)	**—**	—
Cash and cash equivalents	(iii)	**1,192,943**	1,144,000	**9,647**	1,922

Notes:

(i) The restricted bank balance represented a guarantee deposit as required by the PRC customs in relation to importing materials for assembling uses. At the end of the reporting period, the amount had been released for the assembled products which had been exported within a time limit predetermined by the customs.

(ii) The balance was pledged for letters of credit in 2008.

(iii) At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB532,778,000 (2008: RMB862,007,000). 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 end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Within 90 days	**2,740,878**	1,331,804
91 to 180 days	**63,635**	93,893
181 to 360 days	**14,225**	31,727
1 to 2 years	**15,009**	9,752
Over 2 years	**85**	342
	2,833,832	1,467,518

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.

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24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables	**195,270**	292,996	**—**	—
Accruals	**361,634**	264,817	**1,580**	1,580
	556,904	557,813	**1,580**	1,580

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

25. INTEREST-BEARING BANK BORROWINGS

			Group	
	Effective interest rate (%)	**Maturity**	**2009 RMB'000**	2008 RMB'000
Current				
Bank loans - unsecured	LIBOR+1.25	2009	**—**	14,256

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

26. 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	Accruals RMB'000	Total RMB'000
At 1 January 2009	**22,132**	**12,445**	**20,385**	**1,464**	**56,426**
Deferred tax credited/(charged) to the income statement during the year (note 10)	**19,144**	**17,721**	**(20,385)**	**5,318**	**21,798**
At 31 December 2009	**41,276**	**30,166**	**—**	**6,782**	**78,224**
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

26. DEFERRED TAX (Continued)

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

	Group	
	2009 **RMB'000**	2008 RMB'000
Tax losses	**180,524**	128,535
Deductible temporary differences	**82,204**	8,145
	262,728	136,680

The Group has tax losses arising in India of RMB34,672,000 (2008: RMB83,201,000) 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 item as it is not considered probable that taxable profits will be available against which the above item 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 the 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 2009, 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 in the opinion of the directors that it is not probable that these subsidiaries will distribute such earnings 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 recognized totalled approximately RMB1,692,619,000 at the end of the reporting period (2008: RMB887,038,000).

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

27. SHARE CAPITAL

Shares

	2009 **RMB'000**	2008 RMB'000
Authorised: 4,400,000,000 (2008: 4,400,000,000) ordinary shares of HK$0.10 each	**425,964**	425,964
Issued and fully paid 2,253,204,500 (2008: 2,254,009,000) ordinary shares of HK$0.10 each	**216,999**	217,070

In October 2009, the Company repurchased and cancelled 804,500 ordinary shares of HK$0.1 each on the Stock Exchange at a total cash consideration of RMB3,679,000. The repurchase resulted in the reduction in the par value of the shares cancelled of approximately RMB71,000.

For the year ended 31 December 2008, the movements in share capital were as follows:

(a) In January 2008, 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, after expenses, of RMB66,985,000. The repurchase resulted in the reduction in the par value of the shares cancelled of approximately RMB1,599,000.

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28. 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 7 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.

28. RESERVES (Continued)

(b) Company

	Share premium account RMB'000	**Accumulated losses** RMB'000	**Total** RMB'000
At 1 January 2008	4,953,501	—	4,953,501
Over-allotment of shares	694,016	—	694,016
Repurchase 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
Repurchase of shares	(3,608)	—	(3,608)
Loss for the year	—	(5,407)	(5,407)
At 31 December 2009	**5,578,523**	**(10,286)**	**5,568,237**

	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	—	(340,837)	(340,837)
At 31 December 2007	4,953,501	—	4,953,501
Over-Allotment of shares	694,016	—	694,016
Repurchase 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

29. BUSINESS COMBINATION

On 30 June 2009, the Group acquired the Handset Charger Business and all related business assets and liabilities ("Charger Business") from BYD Industry and Commerce Co., Limited, Huizhou, a subsidiary of BYD Company Limited at a consideration of RMB119,279,000.

The fair values of the identifiable assets and liabilities of Charger Business as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on 30 June 2009** RMB'000	**Carrying amount as at 30 June 2009** RMB'000
Property, plant and equipment	14	73,713	73,077
Inventories		53,660	53,660
Due from fellow subsidiaries		5,732	5,732
Due from the ultimate holding company		5,462	5,462
Other receivables		246	246
Due to fellow subsidiary		(4,989)	(4,989)
Due to the intermediate holding company		(7,614)	(7,614)
Accruals		(6,295)	(6,295)
		119,915	119,279
Goodwill on acquisition		(636)	
Satisfied by cash		119,279	

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

	RMB'000
Cash consideration	(119,279)
Net outflow of cash and cash equivalents in respect of the acquisition of Charger Business	(119,279)

Since its acquisition, Charger Business contributed RMB279,461,000 to the Group's turnover and a profit of RMB6,059,000 to the consolidated profit for the year ended 31 December 2009.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB11,485,660,000 and RMB793,176,000, respectively.

On 12 February 2008, the Group acquired a 100% interest 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 Ltd ("Hungary Electronic"). Hungary Electronic was engaged in manufacturing handset housing for Nokia Komarom Kft.

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29. BUSINESS COMBINATION (Continued)

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 of the Group and the profit of the Group for the year would have been RMB8,561,895,000 and RMB689,742,000, respectively.

30. CONTINGENT LIABILITIES

(a) The litigation regarding Foxconn case

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 turned down and an order was issued, of which the legal cost for the application of stay by the plaintiff is to be borne by the ultimate holding company and the intermediate holding company. The legal cost, if not agreed, will be determined by the court. On 2 September 2009, the above-mentioned Plaintiffs make an amendment to the writ with the Court for inclusion of Foxconn Precision Component (Beijing) Co., Ltd. as a Plaintiff. The ultimate holding company also filed a counterclaim on 2 October 2009 against the Plaintiffs, including Foxconn Precision Component (Beijing) Co., Ltd., the documents of which have been served on all parties of the Plaintiffs. The counterclaim mainly related to the release of defamatory remarks to prejudice of the Defendents' reputation and the interference with the Defendants' business, and the request for remedies by the Plaintiffs.

Based on legal opinions issued by the 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.

30. CONTINGENT LIABILITIES (Continued)

(b) Charger exchange program by Nokia

On 9 November 2009, Nokia announced that it would initiate a charger exchange program and recommended the users to exchange the chargers for free replacement. The reason for the program was that the plastic covers of a limited number of the Nokia-branded chargers manufactured by a subsidiary of the Company could come loose and detach, exposing the internal components of the charger and may potentially pose an electrical shock hazard. The models of the chargers announced by Nokia are AC-3E and AC-3U manufactured during the period from 15 June 2009 to 9 August 2009 and AC-4U manufactured during the period from 13 April 2009 to 25 October 2009. As at 4 March 2010, the Company obtained from its customers replacement registrations of 24,594 by the end-users, with trend of decline in number of registration for replacement.

On 28 December 2009, the subsidiary of the Company received an invoice amounted to of EUR1,539,000 from Nokia. This amount had been accrued as liability at the end of the reporting period. Due to the ongoing of the charger exchange program, the Company is still under further discussions with Nokia for further details. The potential compensation could not be reasonably estimated and accordingly, no further liability has been accrued by the Group.

31. OPERATING LEASE ARRANGEMENTS

As lessee

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

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

	Group	
	2009 **RMB'000**	2008 RMB'000
Within one year	**35,965**	39,160
In the second to fifth years, inclusive	**65,852**	36,650
	101,817	75,810

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009 **RMB'000**	2008 RMB'000
Contracted, but not provided for:		
Plant and machinery	**74,116**	204,419
Building	**62,881**	21,231
	136,997	225,650

At the end of the reporting period, the Company had no significant commitments.

33. RELATED PARTY TRANSACTIONS

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

Nature of transactions	Notes	Related Parties	Year ended 31 December **2009** **RMB'000**	 2008 RMB'000
Sales of plant and machinery	(i)	Ultimate holding company	**4,505**	3,038
		Fellow subsidiaries	**48,223**	24,027
Purchases of plant and machinery	(i)	Ultimate holding company	**6,595**	6,113
		Fellow subsidiaries	**25,142**	53,923
Purchases of inventories	(ii)	Ultimate holding company	**185,580**	83,324
		Intermediate holding company	**2,501**	7,457
		Fellow subsidiaries	**664,317**	319,801
Acquisition of Charger Business	(notes 29)	Fellow subsidiaries	**119,279**	—
Sales of inventories	(ii)	Ultimate holding company	**58,565**	28,898
		Fellow subsidiaries	**68,921**	49,603
Leasing and ancillary expenses paid	(iii)	Ultimate holding company	**170,058**	248,338
		Fellow subsidiary	**37,527**	31,884
Exclusive processing services provided	(iv)	Ultimate holding company	**538**	1,234
		Fellow subsidiaries	**2,700**	4,778
Exclusive processing services received	(iv)	Ultimate holding company	**208**	1,350

Notes:

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

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

(iii) 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 fees were charged for the depreciation of relevant machinery and equipment during the year ended 31 December 2009.

(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:

	2009 **RMB'000**	2008 RMB'000
Short-term employee benefits	**11,440**	11,235
Pension scheme contributions	**18**	15
	11,458	11,250

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

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

2009

	Group
	Loans and receivables RMB'000
Trade and bills receivables	3,047,767
Financial assets included in prepayments, deposits and other receivables (note 16)	284,456
Due from fellow subsidiaries	96,827
Due from the intermediate holding company	64,996
Due from the ultimate holding company	7,051
Cash and bank balances	1,192,943
	4,694,040

	Company
	Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	51
Due from subsidiaries	3,860,461
Due from fellow subsidiaries	8
Cash and bank balances	9,647
	3,870,167

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial assets (Continued)

2008	Group
	Loans and receivables RMB'000
Trade and bills receivables	1,526,898
Financial assets included in prepayments, deposits and other receivables (note 16)	188,336
Due from fellow subsidiaries	57,175
Due from the intermediate holding company	64,075
Restricted bank deposit	2,522
Pledged bank deposit	836
Cash and bank balances	1,141,478
	2,981,320

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

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34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

2009	Group
	Financial liabilities at amortised cost RMB'000
Trade and bills payables	2,833,832
Financial liabilities included in other payables and other accruals (note 24)	195,270
Due to fellow subsidiaries	237,820
Due to the immediate holding company	1,867
	3,268,789

	Company
	Financial liabilities at amortised cost RMB'000
Due to the ultimate holding company	13
Due to the immediate holding company	815
Due to the intermediate holding company	658
Due to subsidiaries	7,865
	9,351

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities (Continued)

2008	Group
	Financial liabilities at amortised cost RMB'000
Trade and bills payable	1,467,518
Financial liabilities included in other payables and other accruals (note 24)	292,996
Interest-bearing bank borrowings	14,256
Due to fellow subsidiaries	218,078
Due to the immediate holding company	1,052
Due to the ultimate holding company	298,505
	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 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 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 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.

35. 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 end of the reporting 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** RMB'000	**Increase/ (decrease) in equity*** RMB'000
2009			
If RMB weakens against United States dollar	**5**	**51,741**	**—**
If RMB strengthens against United States dollar	**(5)**	**(51,741)**	**—**
2008			
If RMB weakens against United States dollar	5	35,863	—
If RMB strengthens against United States dollar	(5)	(35,863)	—

* Excluding retained profits and exchange fluctuation reserve.

Credit risk

The Group trades only with recognised and creditworthy customers. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group had certain concentrations of credit risk as 38% (2008: 69%) and 92% (2008: 94%) 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.

35. 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 the end of the reporting period, all of the Group's financial instruments would mature in less than one year.

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

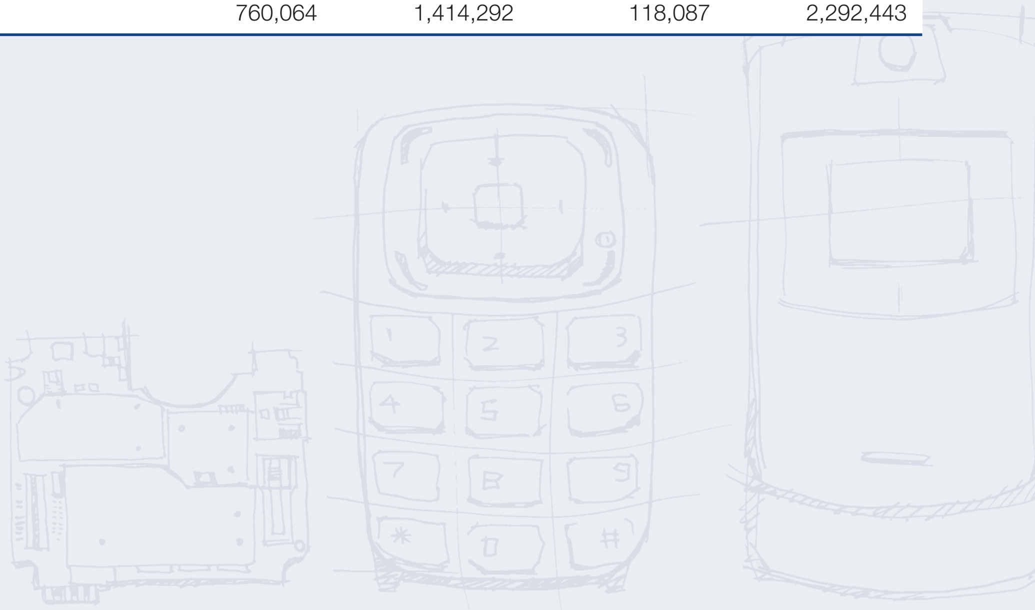
Financial Liabilities

Group **2009**

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade and bills payables	42,237	2,537,998	253,597	2,833,832
Other payables (note 24)	26,260	119,885	35,371	181,516
Due to fellow subsidiaries	237,820	—	—	237,820
Due to the immediate holding company	1,867	—	—	1,867
	308,184	2,657,883	288,968	3,255,035

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 the immediate holding company	1,052	—	—	1,052
Due to the ultimate holding company	298,505	—	—	298,505
	760,064	1,414,292	118,087	2,292,443



Notes to Financial Statements
31 December 2009

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Financial Liabilities (Continued)

Company	**2009**
	On demand RMB'000
Due to the ultimate holding company	**13**
Due to the immediate holding company	**815**
Due to the intermediate holding company	**658**
Due to subsidiaries	**7,865**
	9,351

Company	2008
	On demand RMB'000
Due to the ultimate holding company	831
Due to a fellow subsidiary	661
	1,492

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain 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 2009 and 31 December 2008.

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

Group

	2009 RMB'000	2008 RMB'000
Interest-bearing bank borrowings	**—**	14,256
Less: Cash and bank balances	**(1,192,943)**	(1,141,478)
Net debt	**(1,192,943)**	(1,127,222)
Equity attributable to owners of the parent	**6,627,944**	5,837,536
Gearing ratio	**-18%**	-19%

36. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 March 2010.

Five Year Financial Summary

RESULTS

	Year ended 31 December				
	2009 **RMB'000**	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
REVENUE	**11,198,670**	8,555,112	5,767,256	3,043,966	600,813
Cost of sales	**(9,636,887)**	(6,845,565)	(4,239,331)	(2,091,470)	(460,422)
Gross profit	**1,561,783**	1,709,547	1,527,925	952,496	140,391
Other income and gains	**130,414**	152,689	64,295	24,640	8,337
Research and development costs	**(423,214)**	(355,722)	(175,542)	(55,873)	(26,700)
Selling and distribution costs	**(92,151)**	(90,720)	(54,138)	(35,939)	(8,084)
Administrative expenses	**(281,865)**	(270,098)	(152,073)	(80,613)	(36,755)
Other expenses	**(99,667)**	(302,782)	(58,401)	(43,656)	(12,697)
Finance costs	**(594)**	(39,510)	(66,182)	(31,566)	(9,076)
PROFIT BEFORE TAX	**794,706**	803,404	1,085,884	729,489	55,416
Tax	**(35,850)**	(37,579)	7,405	1,600	(9,948)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**758,856**	765,825	1,093,289	731,089	45,468
ASSETS AND LIABILITIES					
TOTAL ASSETS	**10,276,740**	8,418,186	8,237,272	3,200,659	858,497
TOTAL LIABILITIES	**3,648,796**	(2,580,650)	(3,345,484)	(2,340,048)	(629,375)
Total equity	**6,627,944**	5,837,536	4,891,788	860,611	229,122