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

(Stock Code 股份代號: 285)

## THE FOUNDRY
FOR YOUR VISION


INTERIM REPORT 2010 中期報告

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

| | | |
|---|---|---|
| Turnover | +96.47% | To RMB7,468 million |
| Gross profit | +72.00% | To RMB908 million |
| Profit attributable to equity holders of the parent | +58.18% | To RMB362 million |
| Basic earnings per share | +58.23% | To RMB0.16 |

## HIGHLIGHTS

- BYD Electronic managed to enhance its market share in the ongoing consolidation process of the handset industry by seizing opportunities amid the market recovery
- Facing price reduction pressure continuously from the customers, lower porfitability despite achieving increase in overall sales
- During the Period, the Group actively explored its handset ODM business which has became a major growth driver of the Group.

# MANAGEMENT DISCUSSIONS AND ANALYSIS

## OPERATING ENVIRONMENT REVIEW

During the six months ended 30 June 2010 (the "Period"), the global handset industry showed signs of recovery as the confidence and consumption power of consumers in the globe revived gradually. In particular, the growth of smart phones became the engine driving the overall growth of the industry. According to the statistics from leading manufacturers of the handset industry, the global handset output was approximately 661 million units during the Period, representing a year-on-year increase of approximately 12.5%. However, as manufacturers of smart phones under new brands and new platform systems emerged amid the market recovery, manufacturers of handsets under traditional brands had to strengthen their control over production costs in face of the fierce competition so as to improve their competitive strengths and thus turned more prudent in choosing suppliers. Nevertheless, one-stop suppliers with high capability for vertical integration and global manufacturing and service platforms were able to increase their market shares steadily during the gradual recovery of the handset market by leveraging on their strong brands, cost advantages and leading market positions.

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

## 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 the market recovery. During the Period, the Group recorded sales of approximately RMB7,468 million, increased by approximately 96.47% year-on-year. However, intensified competition in the handset industry and sustained pressure from customers on price reduction had an impact on the profitability of the Group. Profit attributable to shareholders was approximately RMB362 million, representing a increase of about 58.18% 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, and the provision of parts and assembly services of other electronic products. During the Period, the Group actively explored its handset ODM business, which has became a major growth driver of the Group.

During the Period, leveraging the high capability of vertical integrity and the advantage of value for money, the Group's handset component and module business resulted in expansion of their market shares successfully amid the market recovery, winning new customer brands and new product orders. Nevertheless, in face of fierce market competition, leading international handset manufacturers 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 growths in both the handset component and module businesses.

Apart from providing handset components and modules, BYD Electronic also provides handset assembly and original design manufacturing (ODM) services according to customers' needs. During the first half of 2010, the Group's ODM business grew rapidly, securing continuous orders from international and domestic leading handset manufacturers. During the Period, benefiting from the increasing popularization of 3G handsets driven by the promotion of mass operation of 3G businesses in the PRC, the Group made an aggressive effort to explore its ODM business for 3G handsets, most notably the TD-SCDMA handsets. During the Period, the percentage occupied by 3G handsets in the revenue of ODM business increased to approximately 40%.

# MANAGEMENT DISCUSSIONS AND ANALYSIS

## 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 value for money and attract new customers by high quality standards and outstanding price advantages, in order to bring in more customer orders and expand the market share. 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 further develop its ODM business for 3G handsets. It is estimated that the 3G handset output in the PRC will increase by 4 to 5 times to 60 million units in 2010, allowing a huge room for the growth of 3G handset market. Currently, the number of qualified ODM suppliers in the PRC is limited. As one of the earliest to manufacture TD-SCDMA handsets, the Group will further explore its TD-SCDMA handset segment targeting at international and domestic leading handset manufacturers with a view to gaining market shares in the 3G market and creating greater driving forces for the growth of the Group.

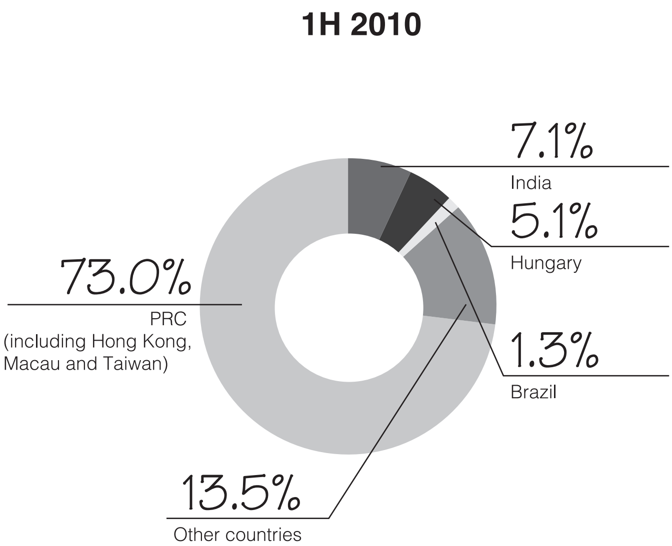
In general, BYD Electronic's development strategies include improving technology level, providing customers with more value-added design services and upgrading its market position in order to create maximum value for shareholders.

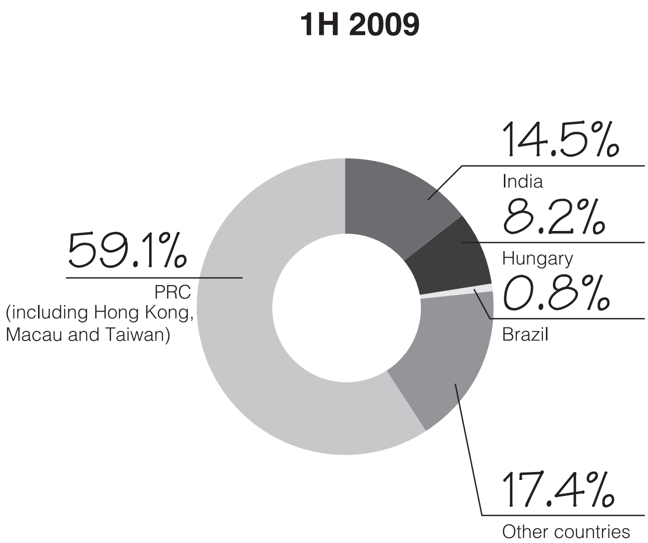
## FINANCIAL REVIEW

Benefiting from the substantial growth recorded in the handset component and module business segments during the Period, the turnover recorded a significant growth compared with the same period of the previous year. Profit attributable to owners of the parent increased significantly year-on-year, which was mainly attributable to the significant increase in turnover, which offset the pricing pressure from customers and the influence of product mix on profitability.

### Segmental Information

Set out below is the comparison of geographical information by customer location for the six months ended 30 June 2009 and 2010:



# MANAGEMENT DISCUSSIONS AND ANALYSIS

### Gross Profit and Margin

The Group's gross profit for the Period increased by approximately 72% to approximately RMB908 million. Gross profit margin declined from approximately 13.89% in the first half of 2009 to approximately 12.16% during the Period. The decrease in gross margin was mainly due to an increase in the proportion of items with lower gross profit margin in the module business and the increasing market competition.

### Liquidity and Financial Resources

During the Period, the Group recorded cash inflow from operations of about RMB373 million, compared with approximately RMB368 million recorded in the same period of 2009. During the Period, funds were obtained from the net cash derived from the Company's operations. As at 30 June 2010, the amount of total borrowings was nil, compared with nil as at 30 June 2009.

The Company maintained sufficient daily liquidity management and capital expenditure requirements, so as to control internal operating cash flows. During the Period, the turnover days of accounts and bills receivables were approximately 76 days, while the turnover days were 79 days for the six months ended 30 June 2009. The turnover days of accounts and bills receivables basically maintained stable during the Period. Inventory turnover decreased from 101 days for the six months ended 30 June 2009 to 56 days during the Period. The decrease in inventory turnover days was due to the substantial increase in sales amount and sales costs while there was little change in average inventory as compared with the same period of last year.

### 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 30 June 2010, 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 for at least the next six months.

### Exposure to Foreign Exchange Risk

During the Period, the Group recorded an increase in foreign exchange losses, which were mainly attributed to the effect arising from the depreciation of Hungarian Forints against the US dollars. Most of the Company's income and expenditure are settled by Renminbi and US dollars. During the Period, 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 30 June 2010, the Company had over 60,000 employees. During the Period, total staff cost accounted for approximately 10.92% 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.

# MANAGEMENT DISCUSSIONS AND ANALYSIS

### Share Capital

As at 30 June 2010, the share capital of the Company was as follows:

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

### Purchase, Sale or Redemption of Shares

From 1 January 2010 to 30 June 2010, the Company did not redeem any shares. During the Period, neither the Company nor any of its subsidiaries purchased or sold any shares of the Company.

### Capital Commitments

As at 30 June 2010, the Group had capital commitment of approximately RMB165 million (31 December 2009: approximately RMB137 million).

### Contingent Liabilities

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

# SUPPLEMENTARY INFORMATION

### Directors' and Chief Executive's interests and Short Positions in Shares

As at 30 June 2010, 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 30 June 2010.

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 30 June 2010.

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 30 June 2010.

# SUPPLEMENTARY INFORMATION

## SHARE OPTIONS

During the period 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 six months ended 30 June 2010 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 30 June 2010, so far as is known to the Directors of the Company, the following persons (other than directors and chief executive of the Company) had interests or short positions in the ordinary shares of the Company which fall to be disclosed to the Company 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 | Capacity | Number of issued ordinary shares/ underlying held | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Golden Link Worldwide Limited ("Golden Link") | Beneficial interest | 1,481,700,000 (long position) | 65.76% |
| BYD (H.K.) Co., Limited ("BYD H.K.") | Interest of controlled corporation[1] | 1,481,700,000 (long position) | 65.76% |
| BYD Company Limited ("BYD") | Interest of controlled corporation[1] | 1,481,700,000 (long position) | 65.76% |
| Gold Dragonfly 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] | 135,139,600 (long position) | 6.00% |

*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 168,300,000 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 135,139,600 shares (L) through its controlled corporations, Fidelity Management & Research Company and Fidelity Management Trust Company, Pyramis Global Advisors LLC which were interested in 134,942,100 and 197,500 shares respectively.

# SUPPLEMENTARY INFORMATION

## CORPORATE GOVERNANCE

### Compliance with the Code on Corporate Governance Practices (the "Code")

The board of directors of the Company (the "Board") is committed to maintaining and ensuring high standards of corporate governance practices.

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

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

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

## DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LIST ING RULES

Since the publication of the latest annual report of the Company, Mr. Chan Yuk Tong was appointed as an independent non-executive director of Great Wall Motor Company Limited (Stock Code: 2333) and Trauson Holdings Company Limited ("Trauson") (Stock Code: 325) on 18 May 2010 and 10 June 2010, respectively, whose shares of both companies are listed on the Hong Kong Stock Exchange. The shares of Trauson have been listed on the Hong Kong Stock Exchange since 29 June 2010.

Saved as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## AUDIT COMMITTEE

The audit committee consists of three independent non-executive directors and two non-executive directors. A meeting was convened by the Company's audit committee on 21 August 2010 to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including reviewing the financial statements for the Period before recommending them to the Board for approval).

## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the Period (six months ended 30 June 2009: Nil).

# CONDENSED CONSOLIDATED INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2010*

| | *Notes* | **For the six months ended 30 June 2010** (Unaudited) RMB'000 | **30 June 2009** (Unaudited) RMB'000 |
|---|---|---|---|
| REVENUE | 5 | 7,468,299 | 3,801,335 |
| Cost of sales | | (6,560,187) | (3,273,372) |
| Gross profit | | 908,112 | 527,963 |
| Other income and gains | 5 | 95,823 | 77,867 |
| Research and development costs | | (340,342) | (154,483) |
| Selling and distribution costs | | (48,310) | (32,923) |
| Administrative expenses | | (157,297) | (142,853) |
| Other expenses | | (63,159) | (11,311) |
| Finance costs | 6 | (71) | (340) |
| PROFIT BEFORE TAX | 7 | 394,756 | 263,920 |
| Income tax expense | 8 | (32,707) | (35,033) |
| PROFIT FOR THE PERIOD | | 362,049 | 228,887 |
| Attributable to: | | | |
| Owners of the parent | | 362,049 | 228,887 |
| Non-controlling interests | | — | — |
| | | 362,049 | 228,887 |
| Earnings per share attributable to equity holders of the Company | | | |
| – Basic and diluted | 9 | RMB0.16 | RMB0.10 |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2010*

| | For the six months ended | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| PROFIT FOR THE PERIOD | 362,049 | 228,887 |
| Exchange differences on translation of foreign operations | 7,237 | (13,958) |
| Total comprehensive income for the period, net of tax | 369,286 | 214,929 |
| Attributable to: | | |
| Owners of the parent | 369,286 | 214,929 |
| Non-controlling interests | — | — |
| | 369,286 | 214,929 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 30 JUNE 2010*

| | Notes | 30 June 2010 (Unaudited) RMB'000 | 31 December 2009 (Unaudited) RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 10 | 3,535,173 | 3,428,446 |
| Prepaid land lease payments | | 148,926 | 150,440 |
| Prepayment for property, plant and equipment | | 14,790 | 114,377 |
| Other intangible assets | | 13,112 | 10,841 |
| Deferred tax assets | | 77,959 | 78,224 |
| | | 3,789,960 | 3,782,328 |
| **Current Assets** | | | |
| Inventories | 11 | 1,969,909 | 1,769,093 |
| Trade and bills receivables | 12 | 3,226,348 | 3,047,767 |
| Prepayments, deposits and other receivables | | 320,337 | 315,735 |
| Due from fellow subsidiaries | | 84,145 | 96,827 |
| Due from the intermediate holding company | | 103,723 | 64,996 |
| Due from the ultimate holding company | | 13,028 | 7,051 |
| Cash and bank balances | | 1,131,127 | 1,192,943 |
| Total current assets | | 6,848,617 | 6,494,412 |
| Total assets | | 10,638,577 | 10,276,740 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 13 | 2,754,627 | 2,833,832 |
| Other payables and accruals | | 702,882 | 556,904 |
| Tax payable | | 21,020 | 18,373 |
| Interest-bearing bank borrowings | | — | — |
| Due to fellow subsidiaries | | 313,783 | 237,820 |
| Due to the immediate holding company | | — | 1,867 |
| Total current liabilities | | 3,792,312 | 3,648,796 |
| **NET CURRENT ASSETS** | | 3,056,305 | 2,845,616 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 6,846,265 | 6,627,944 |
| **EQUITY** | | | |
| Issued capital | | 216,999 | 216,999 |
| Reserves | | 6,629,266 | 6,259,980 |
| Proposed final dividends | | — | 150,965 |
| Total equity | | 6,846,265 | 6,627,944 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE SIX MONTHS ENDED 30 JUNE 2010*

| | Issued capital | Capital redemption reserve | Share premium account | Contributed Surplus | Statutory Surplus reserve | Exchange fluctuation reserve | Proposed final dividend | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 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 | — | — | — | — | — | (13,958) | — | 228,887 | 214,929 |
| At 30 June 2009 | 217,070 | 1,599 | 3,837,167 | (46,323) | 200,009 | (128,511) | — | 1,971,454 | 6,052,465 |
| At 1 January 2010 | 216,999 | 1,670 | 3,833,559 | (46,323) | 289,518 | (79,322) | 150,965 | 2,260,878 | 6,627,944 |
| Total comprehensive income | — | — | — | — | — | 7,237 | — | 362,049 | 369,286 |
| 2009 final dividends declared | — | — | — | — | — | — | (150,965) | — | (150,965) |
| At 30 June 2010 | 216,999 | 1,670* | 3,833,559* | (46,323)* | 289,518* | (72,085)* | — | 2,622,927* | 6,846,265 |

* These reserve accounts comprise the consolidated reserves of RMB6,629,266,000 in the consolidated balance sheet as at 30 June 2010.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2010*

| | For the six months ended 30 June | |
|---|---|---|
| | **2010** | **2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 372,726 | 368,326 |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | (321,301) | (378,665) |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES | (150,965) | (14,256) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (99,540) | (24,595) |
| Cash and cash equivalents at beginning of period | 1,192,943 | 1,144,000 |
| Effect of foreign exchange rate changes, net | 37,724 | 446 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 1,131,127 | 1,119,851 |
| Analysis of balances of cash and cash equivalents | | |
| Cash and bank balances | 1,131,127 | 1,119,851 |
| Non-pledged time deposits with original maturity of less than three months when acquired | — | — |
| | 1,131,127 | 1,119,851 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*AS AT 30 JUNE 2010*

## 1. CORPORATE INFORMATION

BYD Electronic (International) Company Limited ("The Company") was incorporated in Hong Kong with limited liability on 14 June 2007.

The Company's shares have been listed on the Stock Exchange of Hong Kong Limited (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.

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

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statement, and should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of the new standards and interpretations as noted below.

| | |
|---|---|
| HKFRS 1(Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards* |
| HKFRS 1 Amendments | *Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards Additional Exemptions for First-time Adopters* |
| HKFRS 2 Amendments | *Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations* |
| HKFRS 3 (Revised) | *Business Combinations* |
| HKAS 27 (Revised) | *Consolidated and Separate Financial Statements* |
| 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* |
| HKAS39 Amendments | *Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives* |
| Annual Improvements Project | *Improvements to HKFRSs 2009* |
| HK-Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners* |

The adoption of the above new standards and interpretations has had no material effect on the interim condensed consolidated financial statements.

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

## 4. SEGMENT INFORMATION

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

## 5. REVENUE, OTHER INCOME AND GAINS

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

| | **For the six months ended** | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| **Revenue** | | |
| Sale of mobile handset | | |
| Components and modules | 3,329,118 | 2,491,274 |
| Assembly services income | 4,139,181 | 1,310,061 |
| | 7,468,299 | 3,801,335 |

| | **For the six months ended** | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| **Other income and gains** | | |
| Bank interest income | 5,263 | 8,131 |
| Gain on disposal of scrap | 72,473 | 29,525 |
| Sale of materials | 2,254 | 1,930 |
| Foreign exchange gain, net | — | 17,844 |
| Others | 15,833 | 20,437 |
| | 95,823 | 77,867 |

## 6. FINANCE COSTS

| | **For the six months ended** | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| Interest on bank borrowings | 71 | 340 |

## 7. PROFIT BEFORE TAX

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

| | For the six months ended | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| Cost of inventories sold | 2,676,252 | 1,900,675 |
| Cost of services provided | 3,854,184 | 1,262,148 |
| Depreciation | 268,328 | 225,777 |
| Amortisation of other intangible assets | 2,554 | 3,304 |
| Impairment of trade receivables | — | 4,366 |
| Impairment losses of trade receivables reversed | (12,893) | — |
| Write-down of inventories | 29,751 | 110,549 |
| Loss on disposal of items of property, plant and equipment | 8,186 | 3,485 |

## 8. INCOME TAX

| | For the six months ended | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| Current-Mainland | 32,442 | 38,613 |
| Deferred | 265 | (3,580) |
| Total tax charge for the period | 32,707 | 35,033 |

The Company's subsidiaries registered in the PRC are subject to Corporate Income Tax ("CIT"). Under the relevant PRC CIT Law and the respective regulations, certain preferential treatments are available to the Company's subsidiaries, which are taxed at preferential rate of 11% (2009:10% to 11%) during the period.

Furthermore, certain of its subsidiaries are also entitled to full exemption from CIT for the first two years and 50% reduction in CIT for the next three years.

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

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

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

| | For the six months ended | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *RMB'000* | *RMB'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company, as in the basic earnings per share calculation | 362,049 | 228,887 |

| | Numbers of shares | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| **Shares** | | |
| Number of ordinary shares in issue during the period | 2,253,204,500 | 2,254,009,000 |

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

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired assets with a cost of RMB 419,732,000 (six months ended 30 June 2009: RMB487,882,000) on additions to property, plant and equipment.

Assets with a net book value of RMB12,909,000 were disposed of by the group during the six months ended 30 June 2010 (six months ended 30 June 2009: RMB8,999,000), resulting in a net loss on disposal of RMB8,186,000 (six months ended 30 June 2009: loss of RMB3,485,000).

## 11. INVENTORIES

| | **30 June 2010** | **31 December 2009** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Audited)* |
| Raw materials | 922,939 | 845,611 |
| Work-in-progress | 42,243 | 50,172 |
| Finished goods | 953,567 | 774,163 |
| Mould held for production | 51,160 | 99,147 |
| | 1,969,909 | 1,769,093 |

## 12. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise its credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

| | **30 June 2010** | **31 December 2009** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Audited)* |
| Within 3 months | 3,196,827 | 2,996,162 |
| 3 to 6 months | 17,081 | 49,448 |
| 6 months to 1 year | 12,440 | 2,157 |
| | 3,226,348 | 3,047,767 |

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

## 13. TRADE AND BILLS PAYABLES

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

| | **30 June 2010** | **31 December 2009** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Audited)* |
| Within 90 days | 2,616,671 | 2,740,878 |
| 91 to 180 days | 126,292 | 63,635 |
| 181 to 360 days | 3,686 | 14,225 |
| 1 to 2 years | 6,234 | 15,009 |
| Over 2 years | 1,744 | 85 |
| | 2,754,627 | 2,833,832 |

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

## 14. CONTINGENT LIABILITIES

(a) 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 favor 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 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. The service of writs on all of the Defendants have been duly acknowledged.

## 14. CONTINGENT LIABILITIES (cont'd)

(a) (cont'd)

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 application took place on 11 and 12 June 2008 and the judgment 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 High Court of the Hong Kong Special Administration Region for inclusion of Foxconn Precision Component (Beijing) Co., Ltd. as a Plaintiff. The Group 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 Defendants' reputation and the interference with the Defendants' business, and the request for remedies by the Plaintiffs.

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

(b) 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 30 June 2010, the Company obtained from its customers replacement registrations of 26,080 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 EUR1,539,376 from Nokia. The amount had been accrued as a liability as at 31 December 2009 and had been paid in 2010. Due to the ongoing of the charger exchange program, the Company is still under further discussion with Nokia for further details. During the reporting period, the subsidiary of the Company resumed the supply of the same models of chargers in the charger exchange program to Nokia. The potential compensation could not be reasonably estimated and accordingly, no further liability has been accrued by the Group. The Group expects that the charger exchange program does not and will not have any material impact on its financial and operating conditions or its business prospect.

## 15. COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

| | 30 June 2010 | 31 December 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Audited)* |
| Contracted, but not provided for: | | |
| Plant and machinery | 122,962 | 74,116 |
| Building | 42,466 | 62,881 |
| | 165,428 | 136,997 |

## 16. RELATED PARTY TRANSACTIONS

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

| | | | For the six months ended | |
|---|---|---|---|---|
| | | | **30 June 2010** | **30 June 2009** |
| **Nature of Transaction** | *Note* | **Related parties** | *RMB'000* | *RMB'000* |
| | | | *(Unaudited)* | *(Unaudited)* |
| Purchases of plant and machinery | (i) | Ultimate holding company | 28,011 | — |
| | | Fellow subsidiaries | 24,762 | 84,841 |
| Sales of plant and machinery | (i) | Ultimate holding company | — | 2,707 |
| | | Fellow subsidiaries | 2,383 | 32,848 |
| Purchases of inventories | (ii) | Ultimate holding company | 171,800 | 74,991 |
| | | Intermediate holding company | — | 2,504 |
| | | Fellow subsidiaries | 609,469 | 229,834 |
| Sales of inventories | (ii) | Ultimate holding company | 55,433 | 11,414 |
| | | Fellow subsidiaries | 64,681 | 16,965 |
| Ancillary expenses paid to | (iii) | Ultimate holding company | 84,540 | 80,243 |
| | | Fellow subsidiaries | 21,020 | 17,885 |

Notes:

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

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

(iii) 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.

## 16. RELATED PARTY TRANSACTIONS (cont'd)

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

| | For the six months ended | |
|---|---|---|
| | **30 June 2010** | **30 June 2009** |
| | *(Unaudited)* | *(Unaudited)* |
| | *RMB'000* | *RMB'000* |
| Short term employee benefits | 7,070 | 4,403 |
| Pension scheme contributions | 10 | 6 |
| | 7,080 | 4,409 |

## 17. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approval and authorised for issue by the board of directors on 21 August 2010.