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

(Stock Code 股份代號 : 285)

WE CREATE THE
FUTURE

Annual Report
2018年年報

BYD Electronic (International) Company Limited ("BYD Electronic" or the "Company"; together with its subsidiaries known as the "Group"; stock code: 0285) was spun off from BYD Company Limited ("BYD", stock code: 1211) and listed on the Main Board of the Hong Kong Stock Exchange on 20 December 2007. It is one of the world's most competitive providers of design, components manufacturing and system products assembly services for electronic products. The Company provides vertically integrated one-stop services to global leading brand manufacturers for mobile intelligent terminals. Its highly vertically integrated capability enhances its ability to provide customers with a full range of services, and quickly and efficiently respond to changing demands.

比亞迪電子（國際）有限公司（「比亞迪電子」或「本公司」，連同其附屬公司統稱「本集團」；股份代號：0285）於二零零七年十二月二十日由比亞迪股份有限公司（「比亞迪」；股份代號：1211）分拆於香港聯合交易所主板獨立上市。比亞迪電子是全球最具競爭力的電子產品設計、部件製造和系統產品組裝服務供應商之一。公司為全球知名移動智能終端品牌廠商提供垂直整合的一站式服務。公司的高度垂直整合能力使得公司可以為客戶提供全面的服務，更快和更有效率地響應市場不斷變化的需求。

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FINANCIAL HIGHLIGHTS

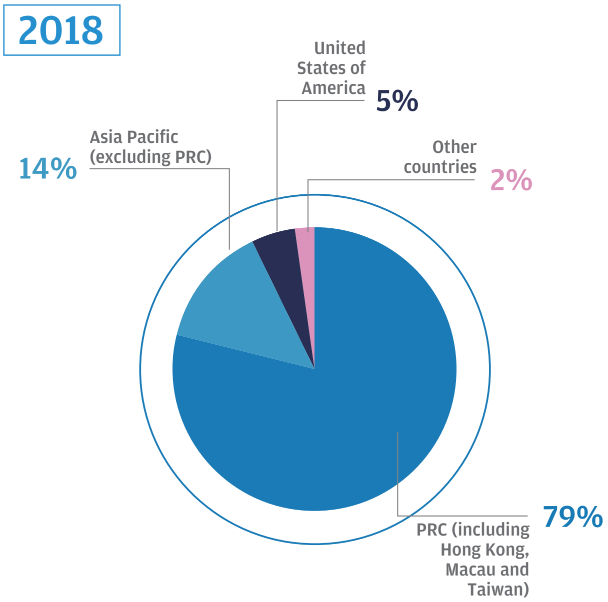
FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

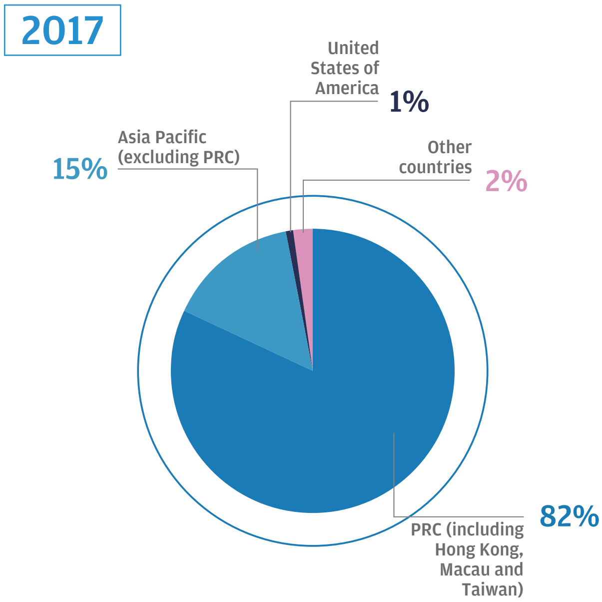
	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**41,047,139**	38,774,422	36,734,264	29,285,830	19,832,127
Gross profit	**4,171,983**	4,263,938	2,800,129	1,903,545	2,105,162
Gross profit margin (%)	**10**	11	8	7	11
Profit attributable to equity holders of the parent	**2,188,620**	2,584,868	1,233,491	908,145	901,697
Net profit margin (%)	**5**	7	3	3	5

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net assets	**15,825,332**	14,191,313	11,754,222	10,547,779	9,665,212
Total assets	**26,051,172**	25,386,326	23,994,987	22,244,401	16,834,457
Gearing ratio (%) (Note)	**-30**	-20	-25	-19	-18
Current ratio (times)	**1.70**	1.50	1.34	1.24	1.51
Account and bills receivable turnover (days)	**70**	84	85	86	90
Inventory turnover (days)	**48**	44	41	44	47

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

REVENUE BREAKDOWN BY LOCATION OF CUSTOMERS





CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Wang Nian-qiang
Wang Bo

NON-EXECUTIVE DIRECTORS

Wang Chuan-fu
Wu Jing-sheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie

COMPANY SECRETARIES

Li Qian
Cheung Hon-wan

AUDIT COMMITTEE

Wang Chuan-fu
Wu Jing-sheng
Chung Kwok Mo John (Chairman)
Antony Francis MAMPILLY
Qian Jing-jie

REMUNERATION COMMITTEE

Wang Nian-qiang
Wang Chuan-fu
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie (Chairman)

NOMINATION COMMITTEE

Wang Bo
Wang Chuan-fu (Chairman)
Chung Kwok Mo John
Antony Francis MAMPILLY
Qian Jing-jie

AUTHORIZED REPRESENTATIVES

Wang Nian-qiang
Wu Jing-sheng

REGISTERED OFFICE

Part of Unit 1712, 17th Floor, Tower 2
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Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 3001, Bao He Road
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The PRC

SHARE REGISTER AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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INVESTOR AND MEDIA RELATIONS CONSULTANT

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WEBSITE

www.byd-electronics.com

STOCK CODE

0285

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 (which are collectively referred to as the "Group"), I hereby present the annual report of the Company for the year ended 31 December 2018 (the "Year") to all Shareholders.

In retrospect of 2018, with escalating China-US trade friction, volatility returned to the global economy. Rising tariffs and mounting trade barriers also dealt a blow to global productivity and consumption. As to the Chinese economy, the GDP growth rate for the Year was the lowest in 28 years, despite fulfilling the growth target of 6.5% set in the beginning of the year with a hike of 6.6% year-on-year.

Encumbered by global economic slowdown, the demand for smartphones remained weak. According to the report issued by International Data Corporation ("**IDC**"), global smartphone shipments were down by 4.1% year-on-year to 1.4 billion units in 2018. According to the data presented by China Academy of Information and Communications Technology* (中國信息通信研究院), smartphone shipments in the domestic market were down by 15.5% year-on-year to 390 million units in 2018. Facing fierce competition in the industry, major handset manufacturers became increasingly demanding to the quality of their handset components and assembly, in order to stimulate consumers' willingness to buy, thereby continuing to favor the leading suppliers in the industry.

During the Year, the Group's turnover amounted to approximately RMB41,047 million, representing a year-on-year increase of 5.86%, and the profit attributable to the owners of the parent was RMB2,189 million, representing a decrease of 15.33% as compared with that of 2017. The Board of Directors recommended a final dividend for the year ended 31 December 2018 of RMB0.195 per Share (2017: RMB0.230 per Share).

Although there was a drop in global and domestic demand for smartphones, leading Chinese handset manufacturers continued to increase their shipments to further boost their market share. According to the data published by IDC, the top 5 handset manufacturers with highest global market shares had an aggregated market share of 67.2% in 2018, among which, 3 of them were Chinese handset manufacturers whose market shares increased from 24.4% in 2017 to 31.5%.

As a leading global provider of intelligent product solutions, BYD Electronic is an enterprise in the forefront of handset components and assembly. The advanced material technologies and manufacturing process, outstanding quality and exceptional delivery capability of BYD Electronic had won extensive recognition and trust from the market, allowing the Group to secure its leading position in the metal business area. With consumers' persistent pursuit of aestheticity and fashions in handsets and the continuing advancement of 5G technologies, market demand for emerging materials such as 3D glasses, ceramics and composite materials were growing substantially stronger, which contributed significant growth in demands in respective markets. Thanks to years of technical reserves and comprehensive planning in respect of glass, ceramics and composite materials, the Group managed to realize significant growth in relevant business segments in the Year.

During the Year, the new intelligent product business line had undergone comprehensive development, and the Group had developed in-depth collaboration with world-renowned clients in the fields of intelligent home, gaming, commerce, Internet of things and emerging electronics products. These moves laid down solid groundwork for development in the long run while realizing significant growth in its business.

In terms of automotive intelligent systems, the Group enjoyed smooth business collaboration with the world-leading Tier 1 automotive manufacturers in automotive module business, such as 4G telecommunications

* For identification purpose only

module, 5G telecommunications module and multimedia module. Leveraging on solid foundation built by years of continuous investment in R&D by the Group, this business has successfully provided ancillary services for automotive intelligent systems for the car models of the parent company. In the meantime, the Group also proactively initiated extensive exchanges with domestic and foreign automotive OEMs to advance their cooperation in relation to intelligent system solutions, so as to provide impetus for the Company's long-term development.

Looking ahead to 2019, uncertainties over the trade wars would remain an overhang over the global economy while competitions will still be fierce in the mobile terminal industry value chain. Leveraging on its advantages in leading technologies, quality, scale and integrated product solutions as well as its deep strategic cooperation with its customers, the Group will strive to further consolidate its leading position in the mobile terminal business. Meanwhile, the scale of businesses in new intelligent products and automotive intelligent systems are gradually growing, and it is expected that their compound growth rates will continue to stay relatively high in the coming year. Finally, on behalf of BYD Electronic, I would like to thank our loyal customers, business partners, investors and shareholders for their consistent support, as well as all members of our staff for their contribution and efforts during the past year.

Wang Chuan-fu
Chairman

Hong Kong, 27 March 2019

INDUSTRY REVIEW

For the year ended 31 December 2018 (the "Year"), the global economic growth has experienced slowdown as a result of external factors such as the China-US trade dispute and Brexit, which inevitably affected China's economy. While the country's gross domestic product increased by 6.6% in 2018 and its growth stayed within a reasonable range, the growth rate was the lowest in 28 years.

After years of development, competitions in the smartphone industry have become increasingly intense. According to the report issued by International Data Corporation ("IDC"), global smart phone shipments were down by 4.1% year-on-year to 1.4 billion units in 2018. According to data released by China Academy of Information and Communications Technology* (中國信息通信研究院), smartphone shipments in China reached 390 million units in 2018, representing a year-on-year decrease of 15.5%. During the Year, the total shipments of the top 10 smartphone manufacturers reached 93.0%, representing an increase of 7.9% over the same period of last year. Such growth reflected the ongoing trend of industry integration and the intensifying consolidation of top brands.

The design of smartphone became more innovative and sophisticated in response to the market's demand for higher-quality handsets. The growing popularity of wireless charging and the application of 5G technology had also endowed more opportunities with the industry. Catering to market demands, domestic and overseas handset brands manufacturers have been placing more emphasis on material and manufacturing standards of handset components. During the Year, metal middle frame with glass casing has become one of mainstream design features of mid-to-high-end handset models, along with application of ceramics on high-end handset as well as the increasing popularity of new composite materials. They altogether presented more diversified choices for the market.

* *For Identification purpose only*

BUSINESS REVIEW

The Company is a leading global provider of intelligent product solutions, providing customers with one-stop service that comprises development of new materials, product design and development, manufacturing, supply chain management, logistics and after-sales service. The Company mainly engages in the manufacturing of materials, molds, and components such as metal and plastic parts, glass casing, and ceramics, as well as software design, hardware design, assembly, and testing of electronic products. It provides services for businesses in such fields as consumer electronics, automotive intelligence systems, the Internet of things, robotics, artificial intelligence and other new intelligent products. For the Year, the Group recorded turnover of approximately RMB41,047 million, representing a year-on-year increase of 5.86%. Profit attributable to shareholders was approximately RMB2,189 million, down by approximately 15.33% year-on-year.

During the Year, revenue of RMB35,517 million from the handset and notebook computer business was recorded, among which, RMB18,012 million was from component business and RMB17,505 million was from assembly business. BYD Electronic cooperated closely with various leading handset brands. With its superior technology and extensive experience in metal parts business, the Group managed to win a number of orders for high-end and flagship models of handsets, thus consolidating the Group's market share and leading position in the industry.

3D glass has been widely applied as a result of the aesthetically-pleasing design, lightness and thinness and high-end quality of glass casing. In addition, the Group has been actively expanding its glass business in view of the higher profitability of glass casing over general handset components. The Group has been investing substantial resources in the development of automation equipment to enhance its research and development capabilities, as well as production efficiency for its products. Currently, the Group reached considerable scale in terms of productivity, and has entered the 3D glass supply chain of its major customers as one of their primary suppliers. During the Year, the profit from glass casing business has recorded several-fold growth.

In addition to glass casing, the Group strived to explore potential applications of different materials and enhance its manufacturing technology, including materials such as ceramics and plastics that are less likely to be affected by electromagnetic waves, so as to seize market opportunities. Riding on years of experience in material research and development, the Group grasped the ceramic power technology, and is able to provide customized ceramics solution to customers. The Group will continue to invest in research and development for ceramic craftsmanship to further improve the production efficiency and product yield rate. The annual production capacity of composite panels reached 100 million to 150 million units in 2018, for which the Group has received a good number of orders from mainstream domestic customers.

The new intelligent product business recorded a revenue of RMB4,340 million during the Year, and the business was accounted for nearly 10.57% of the Group's overall business revenue. Benefiting from the robust growth of the new intelligent products, more diversified customers as well as a promising outlook in the industry, the Group had made considerable breakthrough in businesses with world-renowned customers in the fields of intelligent home, gaming, commerce and the Internet of things, hence laying a solid foundation for its long-term growth.

In terms of automotive intelligent system business, revenue of RMB1,190 million was recorded during the Year. The Group developed more innovative system level products that cater to the need of consumers and in alignment with the car models of the parent company, in addition to providing multimedia modules and communications modules for several world-renowned automobile manufacturers. During the year, the Group launched the world's leading intelligent car cabin system equipped with the 90 degrees auto-adjusting and self-rotating centre console screen. The system was also well received by the consumers.

STRATEGY FOR FUTURE DEVELOPMENT

Looking ahead to 2019, global political landscape is still clouded by uncertainties with the global economy facing downward pressure, and as a result, the United Nations and the International Monetary Fund lowered their forecasts for global economic growth in 2019 to 3.5%, which was the lowest in the past three years. According to the forecast by IDC, a global market research institute, the global smartphone production volume is expected to be 1.39 billion units, representing a decrease of 1% as compared to that of 2018. In light of the slowing demand for smartphones, integration would still be a continuing trend in the smartphone industry, which will motivate major handset manufactures to boost their competitiveness through active research on and development of innovative products and to achieve technology breakthrough.

The State Council issued the "Several Opinions on Improving Systems and Mechanisms to Stimulate Consumption to Further Tap the Potential of Domestic Consumption (《關於完善促進消費體制機制，進一步激發居民消費潛力的若干意見》)" on 20 September 2018, in which it proposed to focus on the development of new information products including mid- to high-end mobile telecommunications terminals, wearable devices, ultra-high definition video terminals, intelligent home products that adapt to the upgrade of consumption structures. According to the quarterly tracking report by International Data Corporation (IDC) in relation to global intelligent home equipment, it is expected that there will be 939 million devices in the global intelligent home market by 2022, including smart speakers, video-related entertainment products, internet-connecting lighting, intelligent thermostats and home surveillance/security products with a five-year compound annual growth rate of 18.5%, implying an immense potential for growth.

Capitalising on the trend of the fast development of technologies such as artificial intelligence and Internet of things, the construction of intelligent automobiles is currently one of the key development focuses in the automobile market. In October 2018, Mr. Miao Wei, Minister of Industry and Information Technology, said that the environment for promoting the development of intelligent Internet-connecting vehicles in China is getting increasingly perfected and it is expected that the market scale of the intelligent Internet-connecting vehicles in China will reach beyond RMB100 billion by 2020.

The highly anticipated 5G technology is expected to bring along new opportunities for the industry. The Group will fully leverage its advantages in high quality and advanced technology, economies of scale, and capability to produce metal parts, plastic parts, glass casing and ceramic casing, in order to provide a more comprehensive range of products and service to customers. The Group will also strengthen its strategic cooperation with customers to raise the Group's earnings. The comprehensive planning by the Group in new intelligent product business will also help the Group to reap the benefits brought about by the growth of the market. With the full promotion of automotive intelligent system by domestic and foreign automotive OEMs, relevant businesses of the Group are expected to experience rapid growth in the coming years.

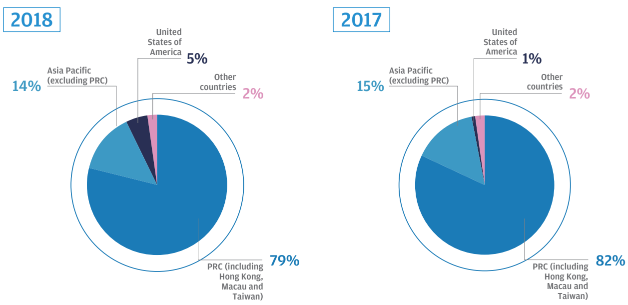
Looking forward to the future, BYD Electronic vows to continue upholding its core corporate values, to stay focused on technological innovation, and to upgrade intelligent manufacturing and constantly uplift its competitive advantages. The Group will move to consolidate its leading position in the field of consumer electronics, and actively develop its businesses including new intelligent products and automotive intelligent systems while observing the market changes and keeping up with technology trends. All in all, the Group vows to promote the enterprise's sustainable development and create long-term value and solid return for shareholders and investors.

FINANCIAL REVIEW

Revenue recorded an increase of 5.86% as compared to the previous year. Profit attributable to equity holders of the parent recorded a decrease of 15.33% as compared to the previous year, mainly attributable to the reduction in gross profit margin of metal parts business and the increased investments in the research and development of new businesses, such as automotive intelligent system, glass and ceramics.

SEGMENTAL INFORMATION

Set out below is the comparison of geographical segment information by customer location for the years ended 31 December 2018 and 2017:



GROSS PROFIT AND MARGIN

The Group's gross profit for the Year decreased by approximately 2.16% to approximately RMB4,172 million. Gross profit margin decreased from approximately 11.00% in 2017 to 10.16%.The decrease in gross profit margin was mainly due to the reduction in gross profit of metal parts business.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group recorded cash inflow from operations of approximately RMB4,781 million, compared with approximately RMB1,863 million recorded in 2017. During the Year, funds were mainly obtained from the net cash derived from the Group's operations. As of 31 December 2018 and 31 December 2017, the Group did not have bank borrowings.

The Group maintained sufficient liquidity to meet daily liquidity management and capital expenditure requirements, and control internal operating cash flows. Turnover days of accounts and bills receivables was approximately 70 days for the year ended 31 December 2018, compared with approximately 84 days for the year ended 31 December 2017, which was mainly due to the increase in average trade and bills receivables over the same period being lower than the increase in sales over the same period. Turnover days of inventory for the year ended 31 December 2018 was approximately 48 days, compared with approximately 44 days for the year ended 31 December 2017, which showed no significant changes.

CAPITAL STRUCTURE

The duty of the Group's financial division is to manage the Group's financial risk, and to operate in accordance with the policies approved and implemented by the senior management. As of 31 December 2018, the Group had no bank borrowings and its cash and cash equivalents were mainly held in Renminbi and US dollars. The Group's current bank deposits and cash balances and fixed deposits, as well as the Group's credit facilities and net cash derived from operating activities will be sufficient to satisfy the Group's material commitments and the expected need for working capital, capital expenditure, business expansion, investments and debt repayment for at least the next year.

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. As the Group did not have any interest-bearing bank borrowings, the gearing ratio was zero as of 31 December 2018 and 31 December 2017.

EXPOSURE TO FOREIGN EXCHANGE RISK

Most of the Group's income and expenditure are settled in Renminbi and US dollars. During the Year, the Group did not encounter any significant difficulties or come under any impact on its operations or liquidity due to fluctuation in currency exchange rates. The Directors believe that the Group will have sufficient foreign exchange to meet its own foreign exchange needs.

CHARGE ON ASSETS

As at 31 December 2018, there was no charge on assets by the Group (Nil as at 31 December 2017).

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2018, the Group had employed approximately 69,000 employees. During the Year, total staff cost accounted for approximately 15.04% of the Group's revenue. The Group determines the remuneration of its employees based on their performance, experience and prevailing industry practices, and compensation policies are reviewed on a regular basis. Bonuses and rewards may also be given to employees based on their annual performance evaluation. Incentives may be offered to encourage individual development. The Company did not adopt any share option scheme.

In 2018, the Group has standardized a three-tier training framework for new staff members and has concretely carried out the trainings. The subjects, hours and assessment methods of the three-tier training framework are clearly stated, and safety training materials and examination questions are drafted according to the job nature of employees. New employees are required to attend the trainings and pass the examination before taking on the job.

DIVIDEND DISTRIBUTION POLICY

The Company seeks to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable dividend policy. The Company's dividend policy aims to allow Shareholders to participate in the Company's profit and the Company to retain adequate reserves for future growth. In proposing any dividend payout, the Company would consider various factors including (i) the financial performance and overall financial position of the Group; (ii) the debt-to-equity ratio and return on equity of the Group; (iii) the liquidity and capital requirements of the Group; (iv) the current and future operation of the Group; (v) the business development strategy and future expansion plans of the Group; (vi) the general market conditions; (vii) any relevant requirements of the Listing Rules and applicable laws, rules and regulations as well as the Company's articles of association; and (viii) any other factors which the Board deems relevant. The final dividend was approved at the general meeting after thorough discussion and compliance with relevant decision-making procedures. Compliant with the conditions under the dividend distribution policy, the Board may propose interim dividend distribution based on the profitability and capital requirements of the Company.

The Company shall review and reassess the dividend policy and its effectiveness on a regular basis or when necessary.

FINAL DIVIDEND

The Board has resolved to declare a final dividend of RMB0.195 per Share (2017: RMB0.230 per Share) for the year ended 31 December 2018 which is subject to consideration and approval at the Company's AGM. Please refer to Note 35 of the financial statements included in this annual report for details of the final dividend.

SHARE CAPITAL

As at 31 December 2018, 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 2018 to 31 December 2018, the Company or its subsidiaries did not redeem any of its shares. During the Year, neither the Company nor any of its subsidiaries purchased or sold any listed securities of the Company.

SIGNIFICANT INVESTMENT HELD

Except as disclosed herein, the Group did not have any significant investments during the Year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES AND MATERIAL INVESTMENTS OF CAPITAL ASSETS

During the Year, there was no material acquisition and disposal of subsidiaries and associates. Save as disclosed in this annual report, there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this annual report.

CAPITAL COMMITMENTS

As at 31 December 2018, the Company had capital commitments of approximately RMB391 million (31 December 2017: approximately RMB287 million).

CONTINGENT LIABILITIES

Please refer to Note 28 of the financial statements included in this annual report for details of contingent liabilities.

ENVIRONMENTAL PROTECTION AND SOCIAL SECURITY

During the reporting period, the Group had no significant environmental protection or social security issues.

EXECUTIVE DIRECTORS

WANG, NIAN-QIANG

Mr. Wang Nian-qiang, aged 55, a Chinese national with no right of abode overseas, a master's degree holder and an engineer. Mr. Wang graduated from Central South University of Technology (中南工業大學) (now the Central South University) in the People's Republic of China in 1987 with a bachelor's degree in industrial analysis. In 2011, he obtained a master's degree in MBA from China Europe International Business School. Mr. Wang worked at Anhui Tongling Institute of Non-ferrous Metals (安徽銅陵有色金屬公司研究院) as an engineer. He joined Shenzhen BYD Battery Company Limited (深圳市比亞迪實業有限公司) ("BYD Industries", renamed as BYD Company Limited on 11 June 2002) in February 1995 as a chief engineer. He joined the Group in April 2015 and is the chief executive officer and executive director of the Company and a director of BYD Charity Foundation.

WANG, BO

Mr. Wang Bo, aged 47, a bachelor's degree holder. Mr. Wang graduated from the Harbin Institute of Technology (哈爾濱工業大學) in 1993 with a bachelor's degree in engineering, specializing in electrochemical engineering. Mr. Wang worked as an assistant engineer at No. 18 Tianjin Institute of Power Sources (天津電源研究所第十八研究院), a senior quality engineer and resource development manager at Motorola (China) Ltd. (摩托羅拉中國有限公司). Mr. Wang joined BYD Industries in September 2001 and is mainly responsible for marketing and sales. He has focused on marketing and sales of the Group and the day-to-day management of the commercial and customer service aspects of our business since our listing on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He has been appointed as an executive director of the Company since 3 January 2017.

NON-EXECUTIVE DIRECTORS

WANG, CHUAN-FU

Mr. Wang Chuan-fu, aged 53, a Chinese national with no right of abode overseas, a master's degree holder and a senior engineer. Mr. Wang graduated from Central South University of Technology (中南工業大學) (currently known as Central South University) in 1987 with a bachelor's 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's degree majoring in materials science. 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 BYD Industries with Mr. Lv Xiang-yang and took the position of general manager. He has been a non-executive Director and Chairman of the Company since December 2007 and now serves as the Chairman, an executive director and the President of BYD Company Limited ("BYD"), a director of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司) (formerly known as "Shenzhen BYD Daimler New Technology Co. Ltd. (深圳比亞迪戴姆勒新技術有限公司)"), a director of BYD Auto (Tianjin) Co., Limited (天津比亞迪汽車有限公司), a director of China Railway Engineering Consulting Group Co., Ltd. (中鐵工程設計諮詢集團有限公司), an independent director of Renren Inc., a director of South University of Science and Technology of China (南方科技大學) and a director of BYD Charity Foundation.

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), "The 2008 CCTV Man of the Year China Economy Innovation Award", Southern Guangdong Meritorious Service Award (南粵功勳獎) in 2011, Zayed Future Energy Prize Lifetime Achievement Award (扎耶德未來能源獎個人終身成就獎) in 2014 and "China Best Leaders Award" (中國最佳商業領袖) in 2015, etc.

WU, JING-SHENG

Mr. Wu Jing-sheng, aged 56, a Chinese national with no right of abode overseas and a master's degree holder. Mr. Wu graduated from Anhui Normal University (安徽省師範大學) in 1988 majoring in the Chinese language. He took part in National Examination for Lawyers (全國律師統考) and obtained qualification as a lawyer granted by 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 joined BYD Industries in September 1995. He has been appointed as a non-executive Director of the Company since December 2007 and is now a senior vice president of BYD and a director of Tibet Shigatse Zhabuye Lithium High-Tech Co., Ltd. (西藏日喀則扎布耶鋰業高科技有限公司), a director of Shenzhen Shendianneng Electricity Co., Ltd. (深圳市深電能售電有限公司), and a director of BYD Charity Foundation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHUNG, KWOK MO JOHN

Mr. Chung Kwok Mo John, aged 50, a Chinese national and a permanent resident of the Hong Kong Special Administrative Region. Mr Chung obtained a Bachelor of Economics degree from Macquarie University, Australia in 1992 and is also a member of Hong Kong Institute of Certified Public Accountants and CPA Australia, with over 20 years of experience in auditing, financial management and corporate finance. Mr. Chung was an auditor in Arthur Andersen (an international accounting firm) from 1992 to 1999. From 2000, Mr. Chung had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in a number of listed companies in Hong Kong. Mr. Chung is presently a vice president of Yongsheng Advanced Materials Company Limited, a company listed on the Stock Exchange (Stock Code: 3608).

Mr. Chung has joined the Group as an independent non-executive Director of the Company since 7 June 2013. In addition, he is also an independent non-executive director of each of B & S International Holdings Ltd., a listed company on the Stock Exchange (Stock Code: 1705), YTO Express (International) Holdings Limited, a listed company on the Stock Exchange (Stock Code: 6123), Zhengye International Holdings Company Limited, a listed company on the Stock Exchange (Stock Code: 3363) and Tokyo Chuo Auction Holdings Limited (Stock Code: 1939).

ANTONY FRANCIS MAMPILLY

Mr. Mampilly, aged 69, a United States national and a master's degree holder. Mr. Mampilly obtained a bachelor's degree and a master's 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 joined the Group in November 2007 and is an independent non-executive Director of the Company.

QIAN, JING-JIE

Mr. Qian Jing-jie, aged 37, a Chinese national without right of abode overseas. Mr. Qian graduated from Monash University in Australia and completed his undergraduate studies in finance in 2006. Since 2006, he has been working at Shenzhen Kind Care Group Co., Ltd. (深圳一德集團有限公司) and is a director and an assistant to the president thereof. Mr. Qian has extensive experience in business management. He has been an independent non-executive Director of the Company since 27 April 2015.

SENIOR MANAGEMENT

DONG, GE-NING

Mr. Dong Ge-ning, aged 47, a Chinese national with no right of abode overseas and a bachelor's degree holder. Mr. Dong graduated from Southwest Agricultural University (西南農業大學) in 1993 with a bachelor's degree in engineering, specializing in agricultural mechanization. Mr. Dong held positions as engineer, plant manager at Zhanjiang Agricultural Reclamation No. 2 Machinery Factory (湛江農墾第二機械廠) and worked at Foxconn International Holdings Limited where he was responsible for product development. Mr. Dong joined BYD in March 2003 and now serves as a general manager of Division 3 and Moulding Center of the Group and is responsible for a number of areas including development and manufacture of new plastic products, project management, the research and development, design and production of moulds.

ZHOU, YA-LIN

Ms. Zhou Ya-lin, aged 42, a Chinese national with no right of abode overseas and a bachelor's degree holder. Ms. Zhou graduated from Jiangxi University of Finance and Economics (江西財經大學) with a bachelor's degree in economics in 1999. Ms. Zhou joined BYD in March 1999 and has been appointed as the Chief Financial Officer of the Company since January 2016 and now also serves as the chief accountant of BYD, a director of Shenzhen BYD Electric Vehicles Investment Co., Ltd. (深圳比亞迪電動汽車投資有限公司), a director of Shenzhen Qianhai Green Transportation Co., Ltd. (深圳市前海綠色交通有限公司), a supervisor of Shenzhen BYD International Financial Leasing Co., Ltd (深圳比亞迪國際融資租賃有限公司), the chairman of BYD Auto Finance Company Limited (比亞迪汽車金融有限公司), a supervisor of Hangzhou West Lake BYD New Energy Automobiles Co., Ltd. (杭州西湖比亞迪新能源汽車有限公司), a supervisor of Beijing Hualin Special Vehicle Co., Ltd (北京華林特裝車有限公司), a supervisor of Xi'an Chengtou Yadi Automobiles Service Co., Ltd. (西安城投亞迪汽車服務有限責任公司), a director of Chengdu Shudu BYD New Energy Automobiles Co., Ltd. (成都蜀都比亞迪新能源汽車有限公司), a director of Qinghai Salt Lake BYD Resources Development Co., Ltd (青海鹽湖比亞迪資源開發有限公司), a supervisor of Yinchuan Sky Rail Operation Co., Ltd. (銀川雲軌運營有限公司), a director of Guangzhou Guang Qi BYD New Energy Bus Co., Ltd. (廣州廣汽比亞迪新能源客車有限公司), a supervisor of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司), a director of Shenzhen Faurecia Automotive Parts Co., Ltd. (深圳佛吉亞汽車部件有限公司) and a supervisor of BYD Charity Foundation, etc.

LI, QIAN

Mr. Li Qian, aged 46, a Chinese national with no right of abode overseas and a master's degree holder. Mr. Li graduated from Jiangxi University of Finance and Economics (江西財經大學) with a bachelor's degree in economics in 1997. In July 2016, he obtained an MBA from Guanghua School of Management of Peking University (北京大學光華管理學院). Mr. Li worked as an auditor and business consultant at PwC China and Arthur Andersen, respectively and served as a representative of securities affairs at ZTE Corporation (中興通訊股份有限公司). Mr. Li joined BYD in August 2005 and has been nominated as a joint company secretary of the Company since November 2007 and now also serves as a secretary to the board of directors, a company secretary and a chief investment officer of BYD, a supervisor of Tibet Shigatse Zhabuye Lithium High-Tech Co., Ltd. (西藏日喀則扎布耶鋰業高科技有限公司), chairman of Shenzhen BYD Electric Vehicles Investment Co., Ltd. (深圳比亞迪電動汽車投資有限公司) and chairman of Energy Storage Power Station (Hubei) Co., Ltd. (儲能電站（湖北）有限公司).

CHEUNG, HON-WAN

Mr. Cheung Hon-wan, aged 63, a Chinese national, a permanent resident of the Hong Kong Special Administrative Region and a master's 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 joined the Group in June 2007 and is a joint company secretary of the Company.

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 Company has put in place corporate governance practices to comply with all the applicable provisions and most of the recommended best practices of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") since the shares of the Company commenced listing on the main board of the Stock Exchange.

In the opinion of the Directors, the Company had complied with the applicable code provisions as set out in Appendix 14 of the Listing Rules during the Year, except for deviation from code provision A.6.7. Code provision A.6.7 stipulates that independent non-executive Directors and non-executive Directors should attend general meetings. Due to important business engagements at the relevant time, not all independent non-executive Directors and non-executive Directors attended the annual general meeting of the Company held on 20 June 2018.

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 the management, overseeing its performance and assessing the efficiency of management strategies. The Board is also responsible for, and has during the Year performed, the corporate governance duties set out in the terms of reference in code provision D.3.1 of the Code (including the determining of the corporate governance policy of the Company).

THE DIRECTORS

As at 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. Brief biographical details 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 13 to 14 of this annual report.

The Group believes that its executive Directors and non-executive Directors composition is 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 held nine meetings during this year to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is provided in a timely manner with all necessary information 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 discussion. Topics discussed at these Board meetings include: overall strategy; quarterly, interim and annual results; recommendations on Directors' appointment(s); the Board Diversity Policy; approval of connected transactions; regulatory compliance; 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, interim and quarterly accounts for the Board's approval before public reporting; the implementation of various 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. The Directors acknowledge their responsibility for preparing all information and representations of the financial statements of the Company for the year ended 31 December 2018.

Each of the non-executive Directors and independent non-executive Directors entered into a letter of appointment with the Company for a term of three years respectively 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 the Company

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. According to Article 111 of the Articles, a director appointed by the Board to fill a vacancy shall retire at the next following general meeting. A retiring director shall be eligible for re-election. Accordingly, Mr. WANG Nian-qiang, Mr. WANG Bo and Mr. QIAN Jing-jie, shall retire by rotation, and it is proposed that Mr. WANG Nian-qiang, Mr. WANG Bo and Mr. QIAN Jing-jie, shall be eligible for re-election at the forthcoming annual general meeting.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Newly appointed Directors of the Company will be provided with relevant induction materials to assist them to fully understand the Company's operations, business and governance policies and their responsibilities and duties as a director under the requirements of the relevant laws and regulations, such as the Listing Rules. This will also help the Directors to gain insights into the Company's business and operation. In order to ensure adequate performance of duties by the independent non-executive Directors, the Company will also arrange on-site visits and sufficient communication with the management for the independent non-executive Directors. Pursuant to the corporate governance requirements, the Directors should participate in continuous professional development programmes to develop and update their knowledge and skills. The particulars of the trainings of each Director are as follow:

Name of Director	Training/ seminars participated	Reading materials
Executive Director		
WANG Nian-qiang	✓	✓
WANG Bo	✓	✓
Non-executive Director		
WANG Chuan-fu	✓	✓
WU Jing-sheng	✓	✓
Independent Non-executive Director		
CHUNG Kwok Mo John	✓	✓
Antony Francis MAMPILLY	✓	✓
QIAN Jing-jie	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of chairman and chief executive are held separately by Mr. Wang Chuan-fu and Mr. Wang Nian-qiang respectively. This segregation ensures a clear distinction between the chairman's responsibility to manage the Board and the chief executive's responsibility to manage the Company's business.

BOARD MEETINGS

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a regular board meeting. The meeting agenda is set in consultation with members of the Board. The Board held nine meetings in 2018. The attendance of individual Directors at the Board meetings as well as general meetings in 2018 is set out below:

Member of the Board	Board meetings	Annual General Meeting
WANG Nian-qiang	9/9	1/1
WANG Bo	9/9	1/1
WANG Chuan-fu	9/9	1/1
WU Jing-sheng	9/9	0/1
CHUNG Kwok Mo John	9/9	1/1
Antony Francis MAMPILLY	9/9	0/1
QIAN Jing-jie	9/9	1/1

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 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 the 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 risk management and internal control systems and to provide advice and comments to the Board of Directors. As at the date of this report, the Audit Committee consists of five members, namely Mr. WANG Chuan-fu, Mr. WU Jing-sheng, Mr. CHUNG Kwok Mo John (chairman of the Audit Committee), Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie, of whom Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors and among them, Mr. CHUNG Kwok Mo John 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 were revised on 27 March 2019 and follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and the Listing Rules is published on the websites of the Stock Exchange and the Company pursuant to Code C.3.4.

The Company established the Audit Committee on 29 November 2007 and has held four meetings during the Year to review the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the unaudited consolidated financial statements for the three months ended 31 March 2018, the six months ended 30 June 2018, the nine months ended 30 September 2018 and the effectiveness of the financial reporting process and risk management and internal control systems of the Company. The individual attendance of its members of the meetings is set out as follows:

Member of the Audit Committee	No. of Committee meetings attended	Attendance rate
WANG Chuan-fu	4	100%
WU Jing-sheng	4	100%
CHUNG Kwok Mo John (Chairman of the Audit Committee)	4	100%
Antony Francis MAMPILLY	4	100%
QIAN Jing-jie	4	100%

REMUNERATION COMMITTEE

The Company has also set up the Remuneration Committee on 29 November 2007 which currently consists of five Directors, namely Mr. WANG Nian-qiang, Mr. WANG Chuan-fu, Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie (chairman of the Remuneration Committee), of which Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors, as at the date of this report. The Remuneration Committee considers and makes recommendations to the Board regarding the policy and structure on remuneration and other benefits paid by the Company to the Directors, Senior Management and Staff, assesses the performance of executive Directors, and (with delegated responsibility) approves the terms (including terms on remuneration packages) of the executive Directors' service contracts. 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. The Remuneration Committee has performed the above duties during the Year. The Remuneration Committee held one meeting during the Year and the individual attendance of its members of the meeting is set out as follows:

Member of the Remuneration Committee	No. of Committee meetings attended	Attendance rate
WANG Nian-qiang	1	100%
WANG Chuan-fu	1	100%
CHUNG Kwok Mo John	1	100%
Antony Francis MAMPILLY	1	100%
QIAN Jing-jie (Chairman of the Remuneration Committee)	1	100%

The terms of reference of the Remuneration Committee were published on the websites of the Stock Exchange and the Company pursuant to Code B.1.3.

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 to their individual performance as measured against the corporate objectives and the Group's operating results and taking into account the comparable market conditions. For the remuneration of the executive Directors and senior management, the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive directors and senior management (adopting the model described in code provision B.1.2(c)(ii) of the CG Code). The principal elements of the remuneration package of executive Directors include basic salary and discretionary bonus.

The emoluments paid to each Director for the year ended 31 December 2018 are set out in note 9 to the financial statements.

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

Directors do not participate in decisions on their own remuneration.

REMUNERATION OF SENIOR MANAGEMENT

Remuneration by bands	Number of senior management
RMB0 to RMB1 million	3
RMB1 million to RMB2.5 million	1

NOMINATION COMMITTEE

The Company has established a Nomination Committee on 29 November 2007 with specific written terms of reference stipulating its authorities and duties in compliance with code provision A.5.1 of the CG Code. In light of the latest amendments made to the Corporate Governance Report as set out in Appendix 14 to the Listing Rules, the Board has further adopted the revised terms of reference of the Nomination Committee. For more details on such terms of reference, please refer to the websites of the Company and Stock Exchange. During the Year, the summary of work of the Nomination Committee included reviewing the structure, size and composition of the Board, reviewing the Board Diversity Policy and Nomination Policy, assessing the independence of the independent non-executive Directors and providing recommendations on retiring Directors at the annual general meeting of the Company.

The Nomination Committee has also adopted a nomination policy (the "Nomination Policy") which includes the selection criteria and nomination procedure of new appointments and re-appointments of directors. The selection criteria for assessing candidates includes, in particular, his/her educational background and professional qualifications, experiences in the industry, personality and integrity, as well as his/her contributions to diversity of the Board according to the Board Diversity Policy. In the case of re-appointment of Director, the Nomination Committee would take into account factors such as contribution from the retiring Directors. Where the candidate is appointed for the position of independent non-executive Director, the Nomination Committee will also assess his/her independence with reference to the requirements set out in the Listing Rules. After the Nomination Committee had assessed the candidates based on the selection criteria, the Nomination Committee will nominate one or more qualified candidates for the Board's consideration and the Board will determine and agree on a preferred candidate. The Company and/or the Chairman of the Board will then negotiate the terms of appointment with the preferred candidate. Finally, the Chairman of the Board, in consultation with the chairman of the Remuneration Committee and the chairman of the Nomination Committee will then finalise a letter of appointment for the Board's approval. The Nomination Committee shall ensure the transparency and fairness of the selection procedure and continue to adopt diverse selection criteria during the appointment procedure, taking into consideration a range of elements such as age, educational background, professional experience, industrial skills and professional knowledge. Since its establishment, the Nomination Committee has assumed the roles of reviewing such diverse selection policy at the nomination level and maintaining a diversified spectrum of varying perspectives, educational background and professional knowledge in the Board.

As at the date of this report, the Nomination Committee comprises five members, namely Mr. WANG Bo, Mr. WANG Chuan-fu (chairman of the Nomination Committee), Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie, of which Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie are independent non-executive Directors as at the date of this report. The Nomination Committee has performed the above duties during the Year.

THE BOARD'S DIVERSITY POLICY

The Company adopted the Board Diversity Policy on 29 October 2013. In light of the latest amendments to the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules, the Board has further adopted the revised Board Diversity Policy.

The Company recognises the importance of Board diversity to corporate governance and an effective Board. The Board Diversity Policy aims to set out the approach to achieve Board diversity, so as to ensure that the Board members possess appropriates skills, experience and diverse views necessary for the business of the Company. To realise Board diversity, all appointments of the Board members will be made based on merit, and measurable objectives will be discussed and negotiated on an annual basis. Such measurable objectives shall include, but are not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and/or terms of service. The ultimate decision will be based on merits and contributions that the selected candidates will bring to the Board. The Board has confirmed the arrangement of skilled and experienced senior management, as they will facilitate a more comprehensive and diversified development. Having considered the business needs of the Company, the Nomination Committee considers that the current Board is sufficiently diversified in terms of its skills, experience, knowledge and independence. Moreover, the skills they are equipped with will prepare them prior to participating in senior management and commencing their roles as directors.

The Nomination Committee held one meeting during the Year and the individual attendance of its members of the meeting is set out as follows:

Member of the Nomination Committee	No. of Committee meetings attended	Attendance rate
WANG Bo	1	100%
WANG Chuan-fu (Chairman of the Nomination Committee)	1	100%
CHUNG Kwok Mo John	1	100%
Antony Francis MAMPILLY	1	100%
QIAN Jing-jie	1	100%

The terms of reference of the Nomination Committee were published on the websites of the Stock Exchange and the Company pursuant to Code A.5.3.

INDEPENDENT INTERNATIONAL AUDITOR AND THEIR REMUNERATION

For the year ended 31 December 2018, the total remuneration paid and payable by the Company to the independent international auditor, Ernst & Young, was RMB1,340,000 for audit services. The audit fee was approved by the Board. During the reporting period, the total remuneration in respect of non-audit services was RMB250,000.

Item	2018	2017
Review of interim results	RMB250,000	RMB250,000
Other non-audit services	RMB0	RMB0

The re-appointment of Ernst & Young as the Company's independent international auditor for the Year 2019 has been recommended and endorsed by the Board and is subject to approval by Shareholders at the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection and reappointment of the external auditor during the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board confirms its responsibility for risk management and internal control, and for reviewing their effectiveness for the year through the Audit Committee at least annually. The Audit Committee assists the Board in performing its responsibilities for supervision and corporate governance, covering financial, operational, compliance, risk management and internal control, and internal audit functions of the Company.

Various measures 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 Company's systems of risk management and internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material errors, losses or fraud. The Board considers that the Company is fully compliant with the provisions of risk management and internal control as set forth in the Corporate Governance Code.

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Company's risk management system is composed of a well-established organizational structure as well as all-rounded policies and procedures. Responsibilities of each business and functional department are clearly defined to ensure effective balance. The Company's risk management and internal control structure comprises of:

BOARD OF DIRECTORS

- Evaluating and determining the nature and magnitude of the risks to be assumed by the Company, to achieve its business and strategic goals;
- Ensuring that the Company has established and maintained an appropriate and effective risk management and internal control system;
- Supervising the designing, implementation and inspection of the risk management and internal control system by the management team.

AUDIT COMMITTEE

- Assisting the Board in performing its duties of risk management and internal control systems;
- Supervising the Company's risk management and internal control system on an ongoing basis, to provide opinions and suggestions with regard to the improvement of the risk management and internal control systems;

- Reviewing the effectiveness of the Company's risk management and internal control systems at least once a year;

- Ensuring that the Company has sufficient resources, staff qualifications and experiences in accounting, internal audit and financial reporting functions.

MANAGEMENT TEAM

- Designing, implementing and inspecting the risk management and internal control systems;

- Identifying, evaluating and managing risks that may exert potential impacts on major operational procedures;

- Responding to and following up with in a timely manner the investigation results of risk management and internal control issues raised by the Internal Audit Department;

- Providing opinions to the Board and the Audit Committee on the acknowledgment of the effectiveness of the risk management and internal control systems.

INTERNAL AUDIT DEPARTMENT

- Reviewing the due effectiveness of the Company's risk management and internal control systems;

- Reporting the audit results and making suggestions to the Audit Committee, to improve major drawbacks of the systems or finding the deficiency of the control.

IDENTIFICATION, EVALUATION AND MANAGEMENT OF MAJOR RISKS

The management team and relevant staff identify risks that may exert potential impacts on the Company and its operation, and evaluate risks in environment and process of the control. Through comparison of the risk appraisal results and risk prioritization, risk management strategies and internal control procedures are determined to prevent, avoid or reduce risks.

Major risks and related control measures are reviewed and upgraded on an ongoing basis to ensure proper internal control procedures in place. Based on the testing results, persons in charge confirm with the Senior Management that internal control measures have played their roles as expected, their weakness identified in the control have been corrected, and risk management policies and internal control procedures have been revised, in the event of any major changes. The Board and the Audit Committee supervise the control activities of the management team to ensure the effectiveness of the control measures.

ANNUAL REVIEW

In 2018, the Board has reviewed the soundness and effectiveness of the Group's risk management and internal control systems covering financial, operational and compliance controls, with a self-evaluation report issued on the internal control. In addition, the Company retained an auditor to audit the effectiveness of the internal control related to the Company's financial reports, and to provide independent and objective assessment and suggestions in the form of an auditor's report. The Board considers that the Company's risk management and internal control systems are effective and adequate.

INTERNAL AUDIT

The Group has an Audit Department which, equipped with independent internal audit system, plays an important role in the Group's risk management and internal control framework. The Audit Department reports directly to the Audit Committee. Major audit findings will be reported on a timely basis. Based on its consideration, the Audit Committee will provide advice to the Board and the Senior Management, with subsequent measures taken to review the implementation of the rectification and improvement plans.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by its Directors. Having made specific enquiry, all Directors complied with their obligations under the Model Code regarding their securities transactions during the Year.

Specified individuals who are likely to be in possession of inside information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2018.

DISCLOSURE OF INSIDE INFORMATION

The Group has put in place a set of policy for the disclosure of inside information which sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Unless the inside information falls within any of the safe harbors as permitted under the Securities and Future Ordinance, the Group is required to disseminate such information through the electronic publication system operated by the Stock Exchange to the public in a timely manner. All Directors, officers and relevant employees are required to take reasonable precautions for preserving the confidentiality of inside information and the relevant announcement (if applicable) before publication. If the Group believes that the necessary degree of confidentiality cannot be maintained, the Group will immediately disclose the information to the public as soon as reasonably practicable. The policy and its effectiveness are subject to review on a regular basis.

SHAREHOLDERS' RIGHTS

Under the Company's Articles and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Hong Kong 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 5% of the total voting rights of all members having the right to vote at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting of the Company. The request, which must state the general nature of the business to be dealt with at the meeting, may be sent to the Company in hard copy form or in electronic form and must be authenticated by the Shareholder(s) making it.

Further, Shareholders representing at least 2.5% of the total voting rights of all the members having a right to vote, or, at least 50 Shareholders who have a relevant right to vote, may put forward proposals at general meetings; and circulate to other Shareholders written statement with respect to matters to be dealt with or other business to be dealt with at general meetings. For further details on the Shareholder qualifications, and the procedures and timeline, in connection with the above, Shareholders are kindly requested to refer to Sections 580 and 615 of the Hong Kong Companies Ordinance.

Further, a Shareholder may propose a person other than a retiring Director of the Company for election as a Director at a general meeting. For such purpose, the Shareholder must send to the Board or the secretary of the Company a written notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his or her willingness to be so elected, no earlier than the day after the dispatch of the notice of the relevant general meeting and not later than 7 days prior to the date appointed for the relevant general meeting.

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 or requests requiring the Board's attention to the Company Secretary at the Company's registered office in Hong Kong at Part of Unit 1712, 17th Floor, Tower 2 Grand Central Plaza, No. 138 Shatin Rural Committee Road, New Territories, Hong Kong. Other general enquiries can be directed to the Company through our Investor and Media Relations Consultant, whose contact information is disclosed in the section headed "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. To achieve this, the Company pursues a proactive policy of promoting investor relations and communication. 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.

There has not been any significant change in the Company's Articles during the Year.

The Group is a world leader in the provision of intelligent product solutions, offering one-stop services that vertically integrate R&D, design, manufacturing, logistics and after-sales for globally renowned mobile intelligent terminal manufacturers such as Samsung, Huawei, vivo, OPPO, Xiaomi and LG. Its businesses cover three major fields, namely smartphones and notebook computers (metal, plastic, glass, ceramic parts and components, ODM and product assembly), automotive intelligent systems (in-car multimedia systems, intelligent networking system, communications modules, sensor modules, etc.) and new intelligent products (products that cover areas such as Internet of Things, smart home, smart manufacturing, smart commerce, gaming, etc.). The Group has 12 production bases in Huizhou, Baolong, Kwai Chung, Pingshan, Xi'an, Shanghai, Beijing, Shantou and Shaoguan, etc. as well as 7 branches and offices, 4 R&D centers, with over 11,000 engineers and over 5,000 R&D engineers.

2018 marks the beginning of the implementation of the resolutions of the 19th National Congress of the Communist Party of China, as well as the 40th anniversary of China's Reform and Opening up. It is in particular also a crucial year for comprehensively building the Chinese society into a moderately prosperous society. Over the year, the Group was able to maintain its original intention facing a complex and ever-changing trading environment while continually seeking to achieve harmonious developments of the Company with its employees, the society and nature, and work to give back to the community, showing good care for nature and creating a harmonious environment for development through hands-on actions. These efforts served to realise sustainable development of the Company and the society, not only meeting the expectations of our customers but also fulfilling our responsibilities for our stakeholders and the whole society.

This report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The report focuses on the Group's main tasks in 2018. The report provides important information to the public on the Group's performance of its social responsibilities while carrying out its production and business management activities. We sincerely hope that all the related parties can enhance their understanding of the Group through this report, and in addition we shall also earnestly accept their supervision, so that we can deliver better performance in fulfilling the Group's social responsibilities and building a harmonious community.

The Group engages with a broad spectrum of stakeholders, including staff, shareholders and investors, suppliers, customers, tenants and community partners spanning in places where we operate. We endeavour to create long-term value for our stakeholders, as such, we foresee their needs and expectations by listening to their opinions and feedbacks and have been in a close liaison with different stakeholders continuously through daily communications, general meetings and periodic engagements targeted to environmental, social and governance ("ESG") issues.

A detailed survey on ESG issues is conducted every two to three years to ensure comments, advice and expectations from stakeholders are communicated effectively to our senior management, helping us to understand and evaluate the Group's ESG strategies and performance by identifying ESG issues that are material to the Group's operations and our stakeholders. Also, stakeholders' responses are reviewed annually by our senior management to reevaluate the focuses of the Group's ESG strategies. The results are then confirmed by the Board to ensure our ESG policies are in line with the needs of our stakeholders, significant to the business and adhere to relevant laws and regulations.

In 2018, the Group vigorously fulfilled its corporate and social responsibilities and served as a good model in environmental protection, energy saving, social security, and operation management while continuing to improve its corporate social responsibility management system and ensure its stable operation and timely update.

A. ENVIRONMENT PROTECTION AND ENERGY SAVING

The Group adheres to the guideline of "sustainable development" and is committed to evolve itself into a "resource-saving, environment-friendly, and ecologically civilized" harmonious enterprise, under which the Group attaches great importance to the building of an ecological civilization and its incorporation into the overall corporate planning for future development. The Group also devotes strong effort into environmental protection with a high sense of social responsibility, and invests a large amount of capital resources in environmental protection in order to achieve harmonious coexistence between the Group and the environment. In 2018, the Group did not encounter any relatively major or major-scale environmental pollution and ecologically damaging accidents.

ASPECT A1: EMISSIONS

Since its founding, the Group insists on its environment belief of "environmental protection is the top priority in corporate development", and always holds on to its obligations and social responsibilities to protect the environment. With the interests of the state and society in top priority, the Group is actively coordinating the economic interests of individual segments and the whole group, while constantly raising its capital investment in environmental protection to advance pollution prevention and ensure environmental safety, so as to ensure a most ideal mix of economic and environmental benefits. The Group strictly complies with Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Water Pollution Prevention and Control Law of the People's Republic of China, Environmental Protection Law of the People's Republic of China and other laws & regulations by restricting the emission of waste water, waste gas and solid waste through rational management and control, so as to protect our ecological environment and keep our planet green.

A1.1 Types of Emissions and Relevant Emission Data

Waste emissions cover waste water, waste gas, solid wastes and noise. Waste water includes production waste water and domestic sewage, waste gas mainly includes nitric oxide, sulfur dioxide and suspended particles and solid wastes include recyclable waste, hazardous waste and general waste.

A1.2 Total Greenhouse-gas Emissions

The Group is in strict compliance with the national regulations when carrying out its environmental protection program, and has taken the initiative to reduce carbon emission and adopt carbon sequestration in accordance with the relevant requirements governing the reduction of greenhouse-gas emissions, so as to join hands with the community to combat climate change. In 2018, the total volume of greenhouse gases we emitted was approximately 960,100 tons of carbon dioxide (calculation based on emission factors due to purchased electricity: emission factors due to purchased electricity from southern and northwestern regions in 2017 were 0.8367tCO_2/MWh and 0.9155tCO_2/MWh, respectively) with a density of 4.136KG/PCS.

A1.3 Discharge of Hazardous Waste

The Group actively promotes its emission reduction policies, and has reduced the emission of air, land and water pollutants by means of identifying, evaluating, categorizing and managing wastes generated in the production process. All hazardous wastes generated during the production process are transferred to and handled by qualified hazardous-waste processing companies, while the sewage from our production is discharged to our sewage treatment station for processing. After treatment, the sewage will be discharged of if the required standards are met. In 2018, the volume of sewage treated and discharged was approximately 2,650,400 tons with a density of 11.42KG/PCS.

The total amount of hazardous solid wastes generated in 2018 was approximately 17,013 tons with a density of 0.073KG/PCS, through our rigid control during the year, the total amount of hazardous solid wastes has decreased by 11,467 tons compared with last year, and all the wastes were transferred to and treated by companies licensed to handle hazardous wastes.

A1.4 Discharge of Non-hazardous Waste

While maintaining tight control over hazardous solid wastes, the Group effectively reduced the emission of non-hazardous wastes in 2018. The total amount of non-hazardous wastes generated throughout the year was about 10,022 tons with a density of 0.043KG/PCS, all of which were transferred to and treated by companies authorized by the government. The amount of non-hazardous wastes generated in 2017 was 6,906 tons. The year-on-year increase as compared with 2017 was due to the increase in employee headcount of the Group in 2018, which in turn led to the increase in the amount of non-hazardous wastes. The Group continued to explore the possibility of reducing emissions, and reduced the generation of wastes by circulating materials in the manufacturing process in a recycling way. An excellent example is the use of plastic frames and recycled cabinets during the production process.

A1.5 Emission-reduction Measures and Achievements

The Group strictly complies with rule 49 of the the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and formulated its annual energy conservation goal and implementation plans accordingly, in order to strengthen the measurement and management of energy consumption and to report the consumption status in a timely manner. Costs are undertaken by consuming units and the measuring instruments of energy consumption are deployed in accordance with the General Principle for Equipping and Managing of the Measuring Instruments of Energy in Energy Consuming Units（用能單位能源計量器具配備和管理通則）. The deploy rates for the first and second grade measuring instruments both reached 100%. In 2018, the Group painstakingly implemented the new national policy for energy saving and emission reduction while adhering to the guideline of lawful corporate governance. It sensibly set its coal-saving target for the year at 2,050 tons of standard coal, made a work plan and closely followed it up, which enabled it to accomplish its energy saving target. The Group has decided to continue to challenge itself by setting the coal-saving target at 1,800 tons of standard coal for 2019, striving to achieve continuous decline in coal consumption for the coming years.

A1.6 Methods for Disposal of Hazardous and Non-hazardous Wastes, Emission-reduction Measures and Achievements

The Group has attained the following achievements in reducing the emission of greenhouse gases:

Case 1: Green lighting program with purchase of 2,654 energy-saving LED lights in 2018.

Case 2: Asynchronous servo energy-saving upgrade for the injection molding machine (Figure 1-1, Figure 1-2, Figure 2)

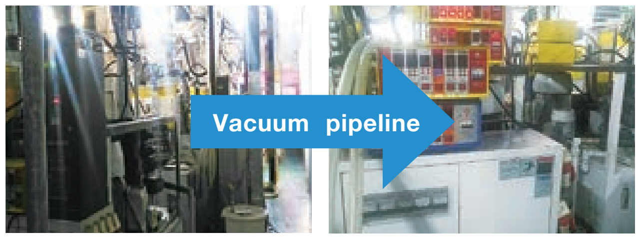


Figure 1-1: Before energy saving renovation for the injection molding servo

Figure 1-2: After energy saving renovation for the injection molding servo

Figure 2: Energy-saving upgrade for injection molding servo under way

ASPECT A2: RESOURCE CONSUMPTION

To use resources effectively, the Group has formulated and implemented Management Procedure for Implementation Plan Concerning Energy Targets, Energy Index and Energy Management, Energy Assessment & Control Procedure and Control Procedure for Energy Baseline & Energy Performance Parameters, Management Regulations on Energy-saving Work and other regulations and policies.

A2.1 Energy Consumption

The Group uses diesel and natural gas as fuels. In 2017, the total volume of natural gas consumed was approximately 2,307,146 cubic meters, the total volume of diesel consumed was approximately 1,320 liters, while the total power consumption was approximately 915,623,388 KWH. In 2018, the total volume of natural gas consumed was approximately 3,291,727 cubic meters, while the total power consumption was approximately 1,126,602,378 KWH with a density of 4.853KWH/PCS. The Group did not consume any diesel fuel during 2018 and substituted natural gas for diesel in an effort to contribute to energy-saving and environmental protection.

A2.2 Water Resources Consumption

The Group's goal of "improving the efficiency of water usage and attaining sustainability in the use of water resources" is reflected in all aspects of production and operations. The total amount of water consumed in 2017 was approximately 9,044,957 cubic meters. The total amount of water consumed in 2018 was approximately 9,216,807 cubic meters with a density of 0.0397M^3/PCS.

A2.3 Energy Conservation

In 2018, with the guidance on the improvement of quality and efficiency and the ideology of lean management, the Group focused on internal transformation and tapping potentials to continuously optimize energy consumption indicators. We implemented energy-conservation and emission-reduction measures through three aspects, namely energy-saving management, energy-saving technologies and energy-saving structure. Under these initiatives, approximately 116 energy-saving technological transformations were carried out. In 2018, energy-saving technological transformation projects achieved an annual energy-saving of more than 2,779.3 tons of standard coal, representing a year-on-year increase in energy-saving technological transformation projects as compared with 2,386 tons in 2017. The Group will continue to promote the energy-saving transformation project.

Case 1: Energy-saving transformations for boilers helped save approximately 21.5 tons of standard coal for the year.

Case 2: Transformations for vacuum pump motor inverter helped save approximately 37.66 tons of standard coal for the year.

A2.4 Water Resources Conservation

Measures like reusing the overflow water of washing line helped reduce consumption of fresh water and save costs. In 2018, the Group saved approximately 443,100 cubic meters of water usage, representing a year-on-year increase in water conservation as compared with 233,700 cubic meters of water usage in 2017. The Group conserved water usage mainly through indirect means with the treatment of waste water and reusage of such water in the production process. The reused water will not be used for domestic water purposes. The Group does not have or foresee any issues in sourcing water that is fit for purpose.

A2.5 Packaging Materials of End-products

The Group used a total of approximately 2,209,687,511 pieces of packaging materials for our end-products in 2018. The Group used approximately 1,438,292,031 pieces of packaging materials in 2017. Due to the increase in production volume in 2018, the packaging materials used in 2018 have increased.

ASPECT A3: ENVIRONMENTAL AND NATURAL RESOURCES

Environmental Risk Management

The Group has implemented an environmental risk management system covering the whole process of our construction projects. We adopt the "three simultaneousnesses" system regarding our environmental protection facilities and main constructions, namely "to design simultaneously", "to construct simultaneously", and "to commence operations simultaneously" on the facilities and constructions, so as to ensure that environmental risks are under control. In addition, the Company has also established an integrated environmental management system (EMS) and obtained the ISO14001 certification for the system in 2003. Besides, it passed certification of the upgraded system in October 2018.

Cultural Promotion

The Group proactively responded to the call of the Chinese theme of "Low carbon and emission reduction for green living" and earnestly promote pollution reduction and practice green living at all levels. To accomplish core tasks including building up an ecological civilization and an environment-friendly society, the Group put forth solid effort in organizing publicity activities with rich content and in diverse formats, such as a vigorous campaign promoting green office practices within the Company, and posting labels such as those carrying the message "take the lead to save energy" in prominent locations. In June 2018, the Company organized a series of activities marking the month of safe environment, such as an Environment safety Q&A prize-giveaway and an Environment safety knowledge competition, and commendation of collectives with excellent evaluation results.

Figure 3: Environment safety Q&A prize-giveaway

Figure 4: Environment safety knowledge competition

Figure 5: Safe environment month award ceremony for excellent collectives

B. SOCIAL SECURITY ASPECT

EMPLOYMENT AND LABOR ROUTINE

In accordance with the Labor Law, Labor Contract Law and other relevant laws and regulations promulgated by the State, the Group has formulated a systematic, normalized and personalized human resources system to maintain employment relationships, ensure that contracts are legally signed, create an equal and diversified work platform, listen to employees, offer sufficient benefits and guarantees to employees, enhance employees' sense of belonging, and provide employees with a wide range of promotion platforms, thus promoting the Company's sustainable and stable development.

ASPECT B1: EMPLOYMENT

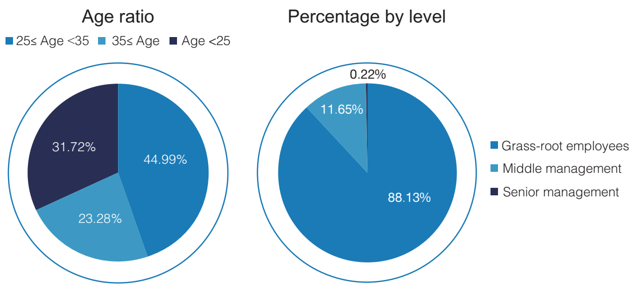
The Group adheres to the concept of "talents are the core resources", focusing on conducting best practice for the Company and constructing strong foundation for the Group. We pay close attention to system and mechanism construction, innovate in human resource management, and always adhere to the "people-oriented" human resources policy. We also attach great importance to employee training, build a platform for employee growth and promote employee performance appraisal, achieving an overall improvement in human resources management.

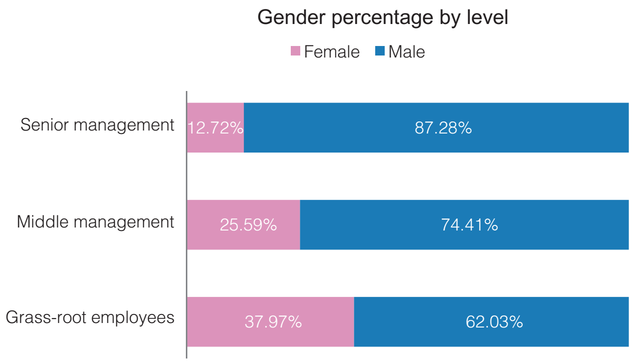
Employment and Contract

To regulate the employment relationship with our employees and protect their legitimate rights and interests according to laws, the Group has signed labor contracts with all employees at the beginning of their employment to define the rights and obligations of the enterprise and employees and provided a reliable legal evidence and basis for our employees in settling labor disputes and protecting their legitimate rights and interests.

Equality and Diversification

To build a diversified platform, create equal opportunities and strive for common benefits, the Group, since its establishment, has kept respecting the privacy and belief of our employees and prohibiting any discrimination, including any discrimination on age, gender, birthplace, nationality, customs, social rank, religion, physical disability, political affiliation and so on. So, the Group has a variety of employees at present. The Group has made a lot of efforts in fighting against discrimination on age and gender. At present, the Company engages employees of various age groups. In recent years, the proportion of female employees in the Group's total number of employees remained largely stable at approximately 36%. In 2018, female managers accounted for 25% of the management. 22 of the senior management are female, representing approximately 13% of the senior management.





Communication and Complaint

The Group attaches importance to smoothing the way for employees' appeals and pays attention to the reasonable needs of employees. To substantially protect the rights of employees, we have provided diversified channels to all employees for communications and complaints. We have in place a wide range of communication and complaint channels that operate as a whole, including group discussion (Figure 6), labor union, email, mailboxes, complaint hotlines and WeChat account, so as to build a bridge for effective communication between the Company and employees and give them warm care. In 2018, the Group posted up "complaint-handling channels and processes" in the whole company, to enhance publicity of complaints handling concerning operation and management and increase transparency of complaint channels. Meanwhile, it protected the privacy of employees who have made complaints, to create a more harmonious enterprise environment.

Figure 6: Group discussion

Incentive and Protection

The Group further improved and refined the employee remuneration distribution system and strengthened the performance-oriented direction of salary distribution. In 2018, the key word of the Group was “competition”, which means creating a competitive culture and comprehensively promoting the performance assessment of all employees. The salary income of employees at all levels was linked to individual work performance, highlighting the assessment of the contribution to corporate benefits and promoting the systematic establishment of a comprehensive scientific and effective incentive and restraint mechanism.

The Group strictly implements national laws and regulations, pursuant to which we established a social security system, implemented the legitimate rights and interests of employees, and improved and refined the social security and labor protection mechanisms for employees. We also paid all social insurance expenses that should be borne by enterprises in a timely manner in order to protect employees’ social welfare benefits such as pension, medical care, etc., and ensure that employees enjoy various holiday benefits including annual leave, sick leave, marriage leave, bereavement leave, maternity leave, breastfeeding leave and so on. In the daily management work, the Company also proactively provided employees with support and assistance in household registration transfer, affiliation of personal archives, etc., and offered the greatest benefits and conveniences in catering (employee canteens), transportation (employee commuter cars/concession car purchase price), housing (employees’ dormitories), etc., to ensure that employees are free of worries, so that they feel like at home and love our big family.

In 2018, the Group vigorously promoted employee care activities and was committed to improving the living environment of our employees. During the year, in order to improve the accommodation conditions of employees, the Group set up a special fund to carry out dormitory renovation and hardware improvement, including replacement of bedding plates (Figure 7) and air conditioners (Figure 8), placement of lockers, etc., and addition of laundry rooms, hair dryer rooms, beverage vending machines, etc. in the public areas. We also conducted monthly star-rated dormitory evaluations and other activities to provide employees with a more comfortable accommodation environment.

Figure 7: Replacement of cleaner bed plates in employees' dormitories

Figure 8: Addition of laundry rooms in the public areas

Entertainment and Welfare

In 2018, the Company continued to increase investment in employee spiritual culture construction, improve employee entertainment facilities, and continuously enrich employees' amateur cultural life. It organized various recreational activities for employees to relieve their work pressure, which significantly increased their satisfaction with the enterprise and enabled them to gradually love, take root in and contribute to the enterprise.

(I) The Group's 3rd anniversary celebration hiking carnival

On 28 May 2018, the anniversary celebration carnival of the Group was held in BYD Village 3 Plaza (亞迪三村), Pingshan New District, Shenzhen. Themed on "Carnival", this activity involved more than 1,000 employees of the Group. Mr. Wang Nian-qiang, executive vice-president of the Company and CEO of our Group, participated in the activity and delivered an important speech. The hiking not only alleviated employees' work pressure, but also helped colleagues bond together and keep up high morale, fully demonstrating the positive mental attitude of the employees of the electronic business!

Figure 9: The Group's 3rd anniversary celebration hiking carnival

(II) Community activities of the Company

To provide opportunities for employees who love literature, photography and dance to show their talents, the Group has organized non-profit-making social bodies including reporters group, photographers association and dance association for internal employees, which provide training and photography and literature activities from time to time. They also perform in, take photo of and write articles on major activities of the Group, as well as show their talents in the Company's mainstream media, "BYD People" and "BYD" magazine.

Figure 10: Members of "Love Dancing Club" are performing dance at the evening party

(III) Football league

In order to further enrich the spare-time activities of the Company's young employees, enhance their physical fitness, promote unity and enhance the cohesiveness of the Company's young employees, the Group launched the "Lean Cup" football match. In this match, the participating teams played with composure and showed the passion and vitality of electronic people.

Figure 11: Group photo of the winners of the 2018 "Lean Cup" football league

(IV) "Good Voice" singing contest

On 31 October 2018, the Group organized the second "Good Voice" singing contest. The whole contest covered a variety of singing styles such as popular, ethnic and bel canto. The passionate performance of the singers brought an audio-visual feast of music to the audience on site. They sang with full passion on the beautiful stage, and used the songs to release the Chinese dream and sang loud for a new era.

Figure 12: An employee of the Group sang in the "Good Voice" singing contest

(V) Honor of Kings mobile game contest

Born to dare, fight for honor! In June 2018, the 2nd 5V5 Hero Fair Play Mobile Game "Honor of Kings" League held by the Group officially kicked off, and the participants of various business divisions were eager for a fight and the war was imminent. Compared with the first contest, the second league allowed participants to form teams on their own to sign up for the contest, with more extensive coverage.

Figure 13: The site of the Honor of Kings mobile game contest

ASPECT B2: HEALTH AND SAFETY

The Group firmly believes that the Company has the responsibility to protect people's health and safety, including each employee of the Company and everyone involved in the Company's activities. Therefore, the Company adheres to the concept of safe development, fulfills the responsibility of the enterprise safe production entity, conscientiously carries out production safety standardization construction activities, strengthens production safety publicity and education, potential safety hazard investigation and management, occupational health protection and supervision of employees taking up posts, improves and perfects various safety precautions, and creates and improves conditions and the environment for safe production and operation. The Group strictly complied with the Production Safety Law of the PRC (《中華人民共和國安全生產法》) and has not incurred any workplace death in its business during the year.

Compliance with Occupational Health and Safety Management System

Based on the OHSAS18001:2007 Occupational Health and Safety Management System – Requirements and by keeping learning from and analysing the management models of excellent enterprises, the Group has finally mapped out its management approach and goals in ensuring the occupational health and safety of staff; it has also developed a range of standards and management procedures as well as an integrated occupational health and safety management system so that well-defined rules are laid out for everyone to follow, and everyone can shoulder their own responsibilities. In January 2007, the Group obtained the OHSAS18001:2007 certification, which is a certification monitored and approved by the DNV certification group annually. The Group also conducts internal audits on its occupational health and safety management system annually to ensure the completeness and reasonability of the management system. In 2018, the Group has further strengthened its occupational health and safety management system, so that the system can be improved continuously.

Ensuring the Health and Safety of Employees

During the year, in the daily management, the Group ensured the safety and health of employees by evaluating work risks and lowering labour intensity. In 2018, the Group identified the risks in production activities and in the procedures bringing products or services into place and also assessed the magnitude of the risks and assigned rating to such risks. After determining the magnitude of risks, the Group took corresponding measures to implement different levels of effective control over all risks, so as to avoid occupational safety accidents to the greatest extent. Meanwhile, the Group continued to conduct evaluations on major safety and environmental improvement projects in 2018, such as CNC machine safety door transparency modification, oxidation line automatic dosing tank optimization, grinding mechanical arm protective grating improvement project, CCD and pressing equipment protection improvement, in order to improve the working environment, reduce the intensity of labour for workers and provide employees with a zero-burden working environment.

Implementing Safety Education Training

In order to improve employees' safety awareness and enhance safety and security for them, in 2018, the Group has standardized a three-tier training framework for new staff members and has concretely carried out the trainings. Specific requirements were imposed on the subjects, class hours, assessment methods and curriculum development, etc. for the three-tier trainings, and safety training materials and examination questions have been drafted according to the new jobs of employees to ensure that new employees attend the trainings and pass the examination before taking on the job. In 2018, a new spot check was conducted on the result of the safety training provided to employees who were transferred to other posts, employees who changed their posts and in-service employees.

During the production process, every link of production and operation by each employee was effectively supervised through production safety inspections. Meanwhile, hidden problems identified are reported while employees found to have violated regulations are educated and provided guidance. This has effectively curbed any violations of regulations in business instructions and operations. In 2018, we implemented the practice that three-regulation documents under the category of equipment had to be countersigned by the safe environment departments of the factory and business division levels before their controlled circulation. At the time of countersigning, the equipment had to be evaluated to be up to standard to ensure the operability of the documents and reduce mechanical injury accidents. In 2018, we designed and developed special equipment, special operators, occupational health management and information bulletin modules in the safe environment management system to achieve information sharing and data accuracy.

In 2018, according to the work safety assessment standards, quarterly evaluations and assessments have been performed in different units to gauge the implementation of the standards. Units that have achieved outstanding results in the annual assessment have been awarded and recognized (Figure 14).

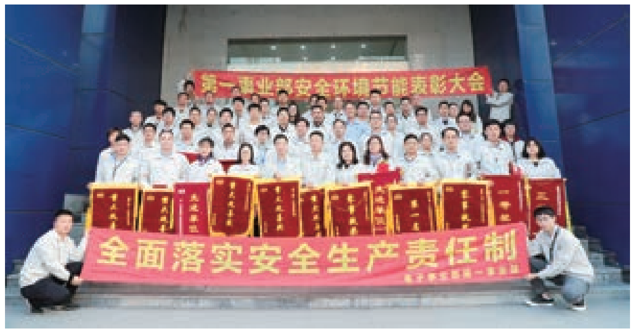


Figure 14: Group photo at the 2018 environmental safety and energy saving and consumption reduction annual award ceremony

Vigorously Strengthening Emergency Management

The Group continuously improves the emergency management structure and strengthens the capacity of emergency relief insisting on the principle of "emergency preparation as priority, and integration of emergency preparation with emergency relief". In 2018, the Company kept identifying and evaluating emergent conditions and events and formulated waste gas and waste water emergency procedures and plans, and minimized the impact through the implementation of the 2018 emergency drill plan according to the schedule, so that hazards to people, environment and properties were reduced.

Figure 15: Simulated water hose connection competition

Figure 16: Simulated pumping of low-lying water

LEVEL B3: DEVELOPMENT AND TRAINING

The Group puts emphasis on the improvement of the overall quality of its employees and believes that the biggest cost is ignorance, and the most effective way to overcome ignorance is learning. Employee training is the only way to help employees grow up, implement talent strategy and achieve long-term development. The long-term development of employees not only benefits from their actual experience in daily work, but also depends on the sustained and effective talent training organized by enterprises. Therefore, the Company attaches great importance to talent training and the improvement of the quality of its employees, and strives to strengthen the building of the team of operation and management staff, the team of skilled talents and the team of professional and technical talents.

In 2018, the Group provided employees with induction training for new employees and training in preparation for promotion of talents as well as employee training programs such as the "Tenglong Project (騰龍計劃)" for fresh graduates (Figure 17), electronic business group "talent training" series training (Figures 18), "Fortress Construction" – team and group leader ability special training (Figure 19) and Lean Six Sigma Project (精益六西格瑪項目) consultation and counseling (Figure 20) to help them faster and better adapt to the working environment and content, constantly enhance work ability and start work more effectively so as to promote mutual development of the Company and individuals.

In 2018, the Group organized more than 108,000 training sessions with approximately 6,560,000 training participants (37% were females and 63% were males) and approximately 82 training hours per capita.

Figure 17: Fresh graduates training session of 2018

Figure 18: "Talent training" of the electronic business group

Figure 19: "Fortress Construction" – team and group leader ability special training

Figure 20: Lean Six Sigma Project (精益六西格瑪項目) consultation and counseling

LEVEL B4: LABOUR STANDARDS

The Group pays attention to safeguarding the legitimate rights and interests of employees, adheres to fair, just and open employment policies, strictly abides by the relevant laws and regulations such as the Labour Law and the Labour Contract Law, strengthens the management of labour contracts, and enters into labour contracts with all employees according to law to strive to provide employees with a healthy and safe production and living environment.

FORBIDDANCE OF CHILD LABOUR

In order to effectively safeguard the basic rights of employees and eliminate the employment of child labour, the Group has formulated relevant rules and regulations to prohibit child labour in accordance with the Labour Law of the People's Republic of China, the Law on the Protection of Minors and the Rules on the Forbiddance of Child Labour.

By continuously improving and optimizing its recruitment procedure, the Group fully implemented its corporate social responsibilities and ensured the healthy growth of children. On the one hand, the Group's "rules on the forbiddance of child labour" are disclosed through active external publicity. On the other hand, the Group has actively implemented the rules besides specifying the terms of employment and formulating the identification system and relief measures for child labour.

FORBIDDANCE OF FORCED LABOUR

The Group fully respects employees' freedom in terms of choice of employment, beliefs, association and personal privacy. The Group commits to refrain from employing any form of prison labour, indentured labour and bonded labour, and not to employ child labour. The Group also strictly forbids seizure of credentials, collection of money or objects as security, withholding of wages, surveillance, interception, body search, access restrictions or acts of forced labor in any form.

OPERATING PRACTICES

ASPECT B5: SUPPLY CHAIN MANAGEMENT

Social service is always a core value of the Group even in times of rapid development. We proactively build and develop partnerships with suppliers on the principles of honesty, trustworthiness, reciprocity and compliance in conducting businesses, and building good communication and coordination between both parties. The Group followed through contracts by strictly complying with and carrying out the agreed terms, henceforth maintaining good working relationship with suppliers. Abiding by the principles of fair and just procurement, the Group emphasizes the concepts of responsible procurement, sunshine procurement and green procurement and respects the independence of its suppliers so as to extend cooperation with these parties. All in all, the Group follows through the principle of sustainable development in its procurement operations. The Group also seeks to familiarize suppliers with advanced operational philosophy through the implementation of an appraisal and incentive mechanism. Support and assistance are also offered to suppliers so both parties can work together to provide safe, reliable and quality products to clients. The life-cycle management for suppliers is conducted in a closed-loop feedback format to create a highly efficient, collaborative and mutually-beneficial supply chain platform.

Suppliers Management

As a guidance for our suppliers on social ethics and state laws and regulations, respecting basic human rights, treating employees with courtesy and environmental protection and for supervising their performance, the Group formulated protocols such as the MSP-16-011 BYD Requirements for Suppliers and the WI-16-0054 BYD Supplier Social Responsibility Management Practices to inform existing and potential suppliers of the Company via a variety of methods of the Company's requirements for suppliers, to establish the basis for supplier certification and business risk analysis, and to establish the basis for continuous improvement and development of suppliers. The Group provided in details all the standards and requirements set for suppliers in terms of quality control, environmental management, occupational health and safety, corporate social responsibilities, intellectual property, materials management and production management. And a veto vote is provided under the corporate social responsibility module. The veto vote prevents any issues in breach of the labour law and laws on the protection of women's and children's rights from being passed despite how many votes are obtained by other modules.

1. When engaging new suppliers, all procurement departments will review their qualification in accordance with the WI-16-0031 Procedure for Procurement of Production Materials for Electronics and Batteries of BYD Company. Only suppliers who have met the requirements under ISO14001 Environmental Management System, OSAS18001 Occupational Health and Safety Management System and SA8000 Social Responsibility Management System, with effective planning, operation and control practices on areas such as environment, occupational health and safety and social responsibility are qualified to be engaged by BYD. Suppliers are required to fill out in good faith a supplier's corporate

social responsibility survey and supplier's qualification survey. The procurement departments will conduct on-site evaluation of suppliers on their CSR (Corporate Social Responsibility) performance. The evaluation covers the following: have the suppliers prohibited the use of child labour and are they oppressive to workers; whether the working hours and salaries of employees comply with local laws and regulations; whether employees are guaranteed equality of payments for similar job capacities; whether there's any non-compliance regarding environmental issues; and whether the suppliers comply with the code of business ethics and business conduct.

2. Before officially commencing products supply, suppliers are required by the quality control departments, in accordance with the MSP-07-004 HS Management Procedure for IT Industrial Cluster, MSP-07-005 BYD Environmental Management Material Standards for IT Industrial Cluster, MSP-16-010 Environmental Management Material Standards for BYD IT Industrial Cluster, to provide information for proving the compliance of their HSF, including the Supplier REACH Survey, an HS examination report for their products by a third party, an analytical sheet of product composition, a Material Safety Data Sheet (MSDS) for chemicals suppliers, and other information required to be provided by suppliers in line with specific requirements of the clients of BYD, such as ODC disclosure sheet, DFE (Design for Environment, meaning to take environmental issues into consideration in product design and operation management) disclosure sheet and investigation information regarding DFE.

3. The procurement departments would sign relevant contracts and agreements which include CSR terms with suppliers in accordance with the Administrative Measures for BYD Company Procurement Contract, to guide and supervise suppliers' performance with respect to human rights, treating employees with courtesy, environmental protection, etc. The types of contracts include but are not limited to procurement framework agreement, quality framework agreement, sunshine procurement agreement, corporate social responsibility agreement, protocol on toxic and hazardous substances, etc.

4. The quality control departments would evaluate HSPM projects in accordance with the WI-16-0021 Administrative Details for Performance Appraisal of the Group and Production Material Suppliers for Batteries. Evaluation process includes testing for HSPM hazardous substances in supplied materials, investigation of HS irregularities during production, the timeliness of submission of relevant HSPM information and accuracy of such information, etc.

5. Each year, procurement departments would choose an appropriate time to conduct annual evaluation of suppliers that have transactions with us in accordance with the WI-16-0027 BYD Company Details for Performance Appraisal of Suppliers to see whether they have followed social responsibility related policies. If relevant suppliers fail to pass the evaluation, BYD would provide them with interviews, tutoring and training to promote continual improvement; those suppliers that fail to make satisfactory rectifications within the prescribed time would be disqualified from being suppliers according to the actual situation. Among the qualified suppliers, we selected the suppliers to be investigated based on the characteristics of materials (such as PCB, FPC, LCD and other high energy consumption and high pollution materials), and then investigated the suppliers for non-compliance regarding environmental issues on the list and required them to provide pollutant discharge license and license for printing operations, etc.

6. The Group would develop an annual environmental humanities performance assessment plan for suppliers. According to the assessment plan, the Group would request the suppliers to provide an Annual Environmental Humanities Key Performance Indicators Report and conduct spot checks and verification on the data outlined in the report to ensure the authenticity and validity of the data. These assessments can ensure that all suppliers respect employees' rights, and proactively take effective energy-saving and emission-reduction measures and raise resource-utilisation rate.

7. Supplier management departments periodically checked with the government website whether any BYD supplier is being punished by any administrative or enforcement authorities for environmental or cultural issues; if yes, it would promptly freeze the supplier code on the procurement system, stop related transactions and permanently terminate its cooperation with those suppliers. An official mail would be sent to respective procurement departments in accordance with the WI-16-0040 BYD Company Management Regulations on Blacklisted Suppliers; if the circumstances are serious, a certain amount of fine would be imposed.

Responsible Procurement

Based on the Company's development strategy and environmental policy, the Group guarantees the production and the orderly supply of living materials and services, establishes equal partnerships with suppliers for mutual benefits and common development to achieve optimal cost-effectiveness and efficiency, and continues to enhance the Group's core competitiveness in cost management. With the joint efforts of all procurement staff, the Company's responsible procurement ratio has reached 100%.

Sunshine Procurement

In respect of supply chain management and procurement, the Group has adhered to the philosophy of "sunshine procurement", so as to ensure that the whole process of supply chain management and procurement is "fair, open and equitable".

1. In respect of supply chain management, the Group first requires the suppliers to establish clear and formal code of business ethics and business conduct based on industry standards, such as EICC (Electronic Industry Code of Conduct), and such requirement shall be included in the suppliers' audit criteria. The Group will vigorously promote, establish and protect the suppliers' sunshine procurement system through "supplier meetings" and "supplier seminars", etc. It will also set the sunshine procurement policy as the key aspect for assessing suppliers and will strictly urge the suppliers to establish sunshine procurement system and process. It will also require all suppliers to sign a "sunshine cooperation agreement", which specifies the responsibilities and obligations of both parties during the sunshine cooperation regarding procurement activities.

2. Regarding approaches on procurement, the Group utilises different procurement approaches such as tendering, close quotation via electronic means, and price comparing, etc. Suppliers should not provide false information to capture tenders, and they are prohibited from maliciously collaborate with any personnel of procurement departments or third parties to win tenders. They should not resort to improper competitive practices such as colluded bidding and bid rigging during the quotation process, and should not resort to inappropriate competitive practices that would interfere with the normal procurement flows of the procurement departments.

3. In respect of supervision, the Group specially established two departments under its direct control, (i.e. a procurement committee and an examining division) to control supply chain management and procurement internally. Signs, telephone numbers and mailboxes related to making complaints are displayed in various places in each manufacturing base of the Company, and all behaviour and activities in breach of sunshine procurement will be imposed with serious punishment once verified. Such measures ensure that supply chain management and procurement are supervised by all personnel and facilitate the effective implementation and supervision of sunshine procurement. In doing so, the suppliers are also provided with convenient ways of making complaints. Hence, suppliers are also included in the list of "supervisors" in the sunshine procurement of the Company.

4. The Company's procurement division also collects blacklists of suppliers from procurement departments on a regular basis. The Company blacklists those enterprises that use improper ways to compete during the procurement. Suppliers on the blacklist are not allowed to carry out transactions with the Company within one year and can only be re-introduced according to the process after the rectification meets the requirement.

Green procurement

The Group insists on green procurement in the supply chain and raw material ends. The Company established the green procurement system of "green suppliers, green raw materials" mainly in all regions, businesses and factories under direction of the procurement division of the head office. Various tasks of environmental management in the procurement activities are subject to its control to ensure that each component procured from external source satisfies the green environment requirements.

1. The Group has established a series of green procurement policies and guidelines, issued BYD Requirements for Suppliers, Formula of Development, Evaluation and Management of Production Material Suppliers, Details for Development and Engagement of Production Material Suppliers, Details for Review Management of Production Materials Suppliers and Details for Performance Appraisal of Production Material Suppliers and other documents in the management of suppliers, which set forth clear requirements and operating guidelines in environmental substance management for suppliers; it involves in the management of toxic and hazardous substances in the supplier introduction phase. All suppliers are required to sign the Protocol on Toxic and Hazardous Substances and Agreement on Corporate Social Responsibilities before cooperation. A management group on green procurement from suppliers is set up and the appraisal system for green procurement from suppliers is formulated. Suppliers are appraised annually for their performance in environmental protection.

2. If suppliers have violated the green practice or environmental protection policy in their production and operation activities, an environmental inefficiency report will be issued to demand for improvement. In serious cases, penalties are imposed in the form of fines or reduction of procurement share. Those involved in extraordinary serious breach will be disqualified. In respect of raw material and parts procurement, the Group requires suppliers to use green materials in the preproduction stage. In the interim pilot stage, the DFE (Design of Environment) survey is conducted on the raw materials. In the final stage of mass production, supervisory inspections are carried out on supplied materials to ensure that BYD's "green procurement" approach is fully implemented.

3. The control of front-end green procurements of suppliers and raw materials avoids the spread of pollution and wastage to the back end. By centrally including raw materials, work in process and end products in the loop management for organic dynamics between the suppliers, customers and the Group, it genuinely fulfills full green process in the production and operation activities, and honour the Company's commitment to the society and environment with excellent performance in green procurement.

4. Regarding the Group's production materials, the supplier management departments would identify and compile a list of suppliers that are subjected to conflict minerals investigation as per attributes of relevant materials at the beginning of each year, and request the Suppliers to fulfill their obligations on completing the CMRT (Conflict Minerals Reporting Template) survey. The Group conducts annual audits on the source of metal materials provided by the suppliers to evaluate whether they comply with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. Each supplier is required to prove that they understand and support the EICC-GeSI (Electronic Industry Code of Conduct – Global e-Sustainability Initiative) actions. Use of conflict minerals such as cassiterite, wolframite, iron mine and gold originating from Congo-Kinshasa and its surrounding countries is prohibited regardless of whether those materials may bear a direct or indirect impact on the conflicts. Suppliers are required to prove with evidences that they have completed the EICC-GeSI Reporting Template for Conflict Free Minerals and that they have communicated with their sub-suppliers regarding the mineral element conflict policies and signed letters of commitments pledging not to utilise conflict minerals. The Group supports such programs as the Conflict-Free Smelter (CFS) to ensure a responsible and sustainable source of raw materials. The Company will re-evaluate suppliers whose supply chains are found to include metal from the conflict areas.

LEVEL B6: PRODUCT RESPONSIBILITY

The core interest of the survival and development of any enterprise lies in the development, design, manufacture and sale of products; any enterprise should bear the natural responsibility for the market of its relevant products and the environment of the relevant economy and society. This is called the "corporate product responsibility." The Group strictly abides by state laws and regulations such as the Product Quality Law, Standardization Law, Metrology Law and Consumer Protection Law and strictly enforces the product standards so as to firmly establish the idea of "quality first", to continuously enhance the awareness of quality and social responsibility, to ensure and improve product quality, to fulfill the main responsibility of enterprise quality, and to meet customer expectations and demand for high-quality products and enhance customer confidence.

Product Quality and Staff Quality

Adhering to the culture of "people before products" and to the dream of "satisfy people's longing for a better life with technological innovation", the Group creates first-class product, and believes that the quality of people determines the quality of products. As a manufacturing enterprise, products are our foundation of success, and quality is the essence of products. After over two decades of development and exploration, the Group has a deeper understanding on quality and quality culture. In 2018, we focuses on strengthening the quality management of all staff, processes and aspects, and strictly controlled the quality of raw materials, production processes, products shipping and storage, transportation and sale to ensure that the quality of our products met or even exceeded the requirements of our customers. Meanwhile, the Company provided training on quality for employees on a regular basis, and also implemented combination of both training and examination on quality. In 2018, the Group further enhanced the training of all employees on relevant quality management requirements and skills on three levels, i.e. management, execution and operation. In 2018, the Group promoted the construction of quality culture as requested by the Company and arranged a series of promotion and activities such as craftsmen spirit, QCC, 5S, etc. with a view to imprinting the culture on the employees and ensuring the establishment of an exceptional product quality.

Customers First

Riding on our vision of "Devoting its best efforts to electronic manufacture and helping customers succeed", the Group is committed to providing excellent services to all customers. In the process of production management, the Company establishes a quality department in each plant which is responsible for the quality management system, product quality management and customer service management. Customer satisfaction is the goal that the Group will always pursue. Customer complaints are promptly handled by quality customer service staff, and responses will be made in accordance with the Customer Complaints and Returns Process in the first place to ensure customer satisfaction. In 2018, the Group received 205 minor complaints, all of which were processed in accordance with Management Procedures for Customer Satisfaction and customer's requirements. Report of improvement measures was implemented thereafter and the improvement results were verified and approved by customers.

Quality Appraisal and Recovery Procedures

The Group implements the Management Procedure for Product Safety Responsibility and sets its annual quality target according to customer requirements and quality performance of the previous year. It evaluates the achievement of the quality target on a monthly basis and requires those who fail to reach the target to adopt improvement measures and to follow up with the unfinished targets in the succeeding month until the targets are reached. Each of the quality targets has been effectively managed in 2018. Recalled products are strictly controlled according to the Management Procedure for Non-compliance. Product quality is in line with the Product Quality Law of the PRC (《中華人民共和國產品質量法》).

During the year, no product was recalled for safety and health reasons, and the percentage for the aggregate amount of sold or shipped remaining products which were recalled for safety and health reasons was zero.

Consumer Privacy Protection

The Group respects the privacy right of each customer and strictly implements customer privacy management in accordance with the "Management Procedures for Client Property" and the "Product Information Management Regulations". In terms of technology, the Company has set four levels of computer access to restrict employee copying of information; meanwhile, the Company's internal network is physically isolated from the external network to ensure that business data remains on computers for business operations only and will not be taken away from the Company. Strict control is implemented over the access to backend systems and databases of IT staff, especially those responsible for maintaining databases containing customer information, and strict real-time monitoring and auditing of their operations are implemented to prevent unauthorized operation by IT staff of customer information through technical means or taking customer information away. In respect of hardware, the Group always ensures the security of servers and the protection of the firewall against common viruses and information security by establishing multiple lines of defense.

LEVEL B7: ANTI-CORRUPTION

The Group is convinced that operating with integrity is the foundation for the fulfillment of corporate social responsibility and the basis of competitive advantage and continuing operation. The Group is committed to preventing corruption, bribery, extortion, fraud and money laundering across the Company and prohibits its employees from providing special treatment to and soliciting any benefits from customers, suppliers or any business related persons and strives to achieve the ultimate goal of green operation.

Staff Code

The Group requires employees to strictly abide by the laws and regulations such as the Anti-Unfair Competition Law of the People's Republic of China and the Anti-Corruption and Bribery Law of the People's Republic of China throughout the country, and to refuse commercial bribery, offering bribery and other improper gifts. We require employees to comply with laws, social norms, professional ethics, and internal rules and regulations of the Company. In 2018, the legal audit rate of various rules and regulations, economic contracts and important decisions of the Company has remained 100%. Meanwhile, the Group has implemented effective internal control mechanism in order to protect the performance of economic contracts.

In addition, the "Code of Conduct" in the Employee Handbook of the Group states that all of its activities will fully comply with all laws, systems and regulations of the countries in which it operates. We undertake to get to know the views of the related parties regularly so as to continue to develop and perfect the code of conduct.

Anti-corruption Publicity and Whistleblowing Policy

The Group believes that ethical behavior is extremely important to the sustainable development and the long-term success of the business of an enterprise. Therefore, the Company strictly abides by the state regulations in "China's Efforts to Combat Corruption and Build a Clean Government" and prohibits the provision or acceptance of bribes, gifts, entertainment or any other form of practice which intends to affect or may affect the relevant business decisions of the Group in order to gain unusual or inappropriate advantages.

We attach great importance to promoting and fostering a culture of integrity and consider punishment and prevention of corruption as the key aspects of corporate culture. As such, we carry out education on integrity and self-discipline and alert all staff through notices on corruption cases. Meanwhile, the Company provides channels for complaints. If any corruption, bribery, extortion, fraud and money laundering are found, employees must report to the administrative department. All complaints will be handled confidentially and the Company has the duty to protect the lawful rights and interests of the disclosers. In the event of any corruption, bribery, extortion, fraud and money laundering, the Company will investigate and take necessary legal action to protect the Company's interests.

The Group has complied with anti-corruption laws and regulations such as the Anti-Corruption and Anti Bribery Law of the PRC (《中華人民共和國反貪污賄賂法》) during the year.

CONTRIBUTING TO THE COMMUNITY

LEVEL B8: COMMUNITY INVESTMENT

The Group always maintains close communications with organizations such as general labour unions, general charity federations and the Communist Youth Leagues in different regions, and actively participates in social activities such as skill competitions, charity works and youth services. These activities served to establish a Company-wide positive image and garnered public recognition for the Company, and fulfill the social obligations of a "civilised national unit" and reflect its demonstrative and leading role.

Charity Activities

The Group believes in "cherishing the children and fulfilling their dreams" and to bring love and warmth to everyone. To make good of this belief, the Group is actively taking part in corporate charity activities and holding charity fundraising campaigns. All donations will be centrally collected and managed by the charity foundation of the Company.

Figure 21: At a charitable fundraising campaign

In 2018, the Group proactively fulfilled its social responsibilities. Since it was listed, the Group published a social responsibility report annually and was opened to media oversight. During the reporting period, the Group was unaware of any report from mainstream media regarding any non-compliance with social responsibilities. The Company also strictly complied with the requirements of and met the standards of state laws and regulations during the reporting period. No material environmental or safety incident and incident that incurred penalties from environmental or labour government departments was reported.

In 2019, the Group pledges to continuously strengthen its abilities in fulfilling social responsibilities in various aspects, and to be abided by social morality and business ethics. In addition, the Group vows to make good of its contribution to regional economic growth, and maintain ecological balance, facilitate harmony in communities, as well as taking care of employees' positive development and participating in social welfare activities. The Group also pledges to further enhance its protection of the legitimate rights and interests of all shareholders, creditors and employees, and treats its suppliers and customers with integrity. The Group would also devote actively to the protection of environment, and actively participate in social welfare activities, and at the same time facilitating harmonious development of the Company and the society.

The board of directors (the "Board") of BYD Electronic (International) Company Limited would like to present its annual report and audited consolidated financial statements for the year ended 31 December 2018.

CORPORATE REORGANISATION

The Company was incorporated with limited liability in Hong Kong 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 (the "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 mobile intelligent terminal components and modules. It also provides design and assembly services for mobile intelligent terminal to its customers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 and the financial position of the Group and the Company as at 31 December 2018, are set out in the consolidated financial statements and their notes on pages 66 to 145 in this annual report.

The Board has resolved to declare a proposed final dividend for the year ended 31 December 2018 of RMB0.195 per share (for the year ended 31 December 2017: RMB0.230 per share). The proposed final dividend is subject to consideration and approval at the Company's annual general meeting (the "AGM").

The Company will issue announcement, circular and notice of AGM regarding the AGM in accordance with the Listing Rules and the Articles of Association of the Company. The Company will also make separate announcements regarding the record date and the date of closure of register of members for the payment of the final dividend. It is expected that the final dividend will be distributed before 31 August 2019.

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 notes 27 and 38 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 13 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 26 to the financial statements.

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company as at 31 December 2018, calculated under the provisions of Sections 291, 297 and 299 of the Companies Ordinance (Cap. 622 of the laws of Hong Kong) (the "Hong Kong Companies Ordinance"), amounted to approximately RMB11,998,864,000 (2017: RMB10,308,378,000).

DIRECTORS AND SERVICE CONTRACTS

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

EXECUTIVE DIRECTORS

WANG Nian-qiang
WANG Bo

NON-EXECUTIVE DIRECTORS

WANG Chuan-fu
WU Jing-sheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Antony Francis Mampilly
CHUNG Kwok Mo John
QIAN Jing-jie

Below is a list of directors of the subsidiaries of the Company during the year and up to the date of this report in alphabetical order:

HE Zhi-qi	LI Ke	LIU Wei-hua
LV Xiang-yang	WANG Bo	WANG Chuan-fu
WANG Jiang	WANG Nian-qiang	WANG Zhen
WU Jing-sheng	XIA Zuo-quan	

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 for a term of three years. 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. The term of office of the non-executive Directors and independent non-executive Directors is for a period of three years 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 the Company.

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.

No Directors proposed for re-election at the forthcoming annual general meeting of the Company have a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BUSINESS REVIEW

The business review of the Group is set out in the following sections of this annual report: Chairman's Statement, Management Discussion and Analysis, the Environmental, Social and Governance Report and note 34 to the financial statements. The applicable discussion and analysis as referenced shall form an integral part of this Directors' Report.

The Group recognises the importance of compliance with relevant laws and regulations and the impact of noncompliance with such relevant laws and regulations on the business. The Group has been allocating system and human resources to ensure ongoing compliance with laws and regulations and to maintain cordial working relationships with regulators through effective communication. During the year ended 31 December 2018, the Group has complied with, to the best of our knowledge, all relevant laws and regulations that have a significant impact on the Group.

The Company recognises that our employees, customers and suppliers are key to our corporate sustainability. We strive to engage our employees, provide quality services to our customers and collaborate with our suppliers.

The Company places significant emphasis on human capital by promoting a diverse, non-discriminatory and fair environment to our staff, as well as providing a range of opportunities for career advancement based on employees' merits and performance. We also provide continuing training and development opportunities on the latest developments in the market and industry, including courses organized by external organizations and internally.

We value the feedback from customers and have established a mechanism handling customer service, support and complaints. We also proactively collaborate with our suppliers to continue to deliver quality products and services. We have developed certain requirements in our standard tender documents. These requirements include regulatory compliance, labour practices, anticorruption and other business ethics.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 13 to 15.

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

As at 31 December 2018, the relevant interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")), which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the"Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which 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 Company	Capacity	Number of issued shares held	Approximate percentage of total issued shares of that company
Mr. WANG Nian-qiang	the Company	Beneficial owner and beneficiary	17,102,000[1] (long position)	0.76%
	BYD	Beneficial owner	19,049,740[2] (long position)	0.70%
Mr. WANG Bo	the Company	Beneficiary	2,805,000[3] (long position)	0.12%
Mr. WU Jing-sheng	the Company	Beneficiary	8,602,000[3] (long position)	0.38%
	BYD	Beneficial owner	4,057,580[2] (long position)	0.15%
Mr. WANG Chuan-fu	BYD	Beneficial owner	517,351,520[4] (long position)	18.96%

Notes:

1. Of which 8,500,000 shares are held by Mr. WANG Nian-qiang and 8,602,000 shares are held by Gold Dragonfly Limited ("Gold Dragonfly"), a company incorporated in the British Virgin Islands and wholly owned by BF Gold Dragon Fly (PTC) Limited ("BF Trustee") as the trustee of BF Trust, the beneficiaries of which include Mr. WANG Nian-qiang.

2. These are the A shares of BYD held by Mr. WANG Nian-qiang and Mr. WU Jing-sheng. The total issued share capital of BYD as at 31 December 2018 was RMB2,728,142,855, comprising 1,813,142,855 A shares and 915,000,000 H shares, all of which have a par value of RMB1 each. The A shares of BYD held by Mr. WANG Nian-qiang and Mr. WU Jing-sheng represented approximately 1.05% and 0.22% of the total issued A shares of BYD as of 31 December 2018.

3. These shares are held by Gold Dragonfly, a company wholly owned by BF Trustee as the trustee of BF Trust, the beneficiaries of which include Mr. WANG Bo and Mr. WU Jing-sheng.

4. These are the 512,623,820 A shares, 3,727,700 A shares held in No.1 Assets Management Plan through E Fund BYD and 1,000,000 H shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 28.48% and approximately 0.11% of total issued A shares and H shares of BYD as of 31 December 2018, respectively.

Save as disclosed above, none of the Directors or chief executive had or was deemed to have any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2018.

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 2018 was the Company, its holding company or any of its fellow subsidiaries and subsidiaries, a party to any arrangements to enable the Directors or 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 2018, 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 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:

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 total issued shares
Golden Link Worldwide Limited ("Golden Link")	Beneficial interest[1]	1,481,700,000 (long position)	65.76%
BYD (H.K.) Co., Limited ("BYD HK")	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
BYD Company Limited ("BYD")	Interest of controlled corporation[1]	1,481,700,000 (long position)	65.76%
Gold Dragonfly	Beneficial interest[2]	137,081,650 (long position)	6.08%
BF Trustee	Trustee[2]	137,081,650 (long position)	6.08%

Notes:

1. BYD is the sole Shareholder of BYD HK, which in turn is the sole Shareholder of Golden Link. As such, both BYD HK and BYD were deemed to be interested in the shares of the Company held by Golden Link.

2. The shares are held by Gold Dragonfly, a company wholly owned by BF Trustee as trustee of BF Trust, the beneficiaries of which are 28 employees of BYD, its subsidiaries and the Group. As such, BF Trustee was deemed to be interested in the shares of the Company held by Gold Dragonfly.

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the ordinary shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CORPORATE GOVERNANCE

Report for the corporate governance adopted by the Company is set out on page 16 to 24 of this annual report.

REMUNERATIONS OF THE DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Pleas refer the paragraph headed "Remuneration Policy for Directors" in the corporate governance report in this annual report for the details of the Group's remuneration policy for Directors.

For the year ended 31 December 2018, the total remuneration of the Directors and the five highest paid employees are set out in note 9 and 10 to the financial statements.

PERMITTED INDEMNITY PROVISION

Subject to the Hong Kong Companies Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability, loss or expenditure incurred by him in defending any legal proceedings which relate to anything done or omitted to be done or alleged to have been done or omitted to be done by him as an officer or auditor of the Company and in which judgment is given in his favour or in which he is acquitted, or incurred in connection with any application in which relief is granted to him by the court from liability in respect of any such act or omission.

MAJOR CUSTOMERS AND SUPPLIERS

The top five largest customer groups and the largest customer group of the Group represent approximately 70.95% and 30.21% of the Group's total sales of the Year respectively. The top five largest suppliers and the largest supplier of the Group represent approximately 41.35% and 13.52% of the Group's total purchase of the Year respectively.

None of the Directors, any of their close associates or any shareholders of the Company (which, to the knowledge of the Directors, own 5% or more of the issued shares 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 operation of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2018.

NON-COMPETE UNDERTAKING

BYD Company Limited declared that it has complied with the non-compete deed given by it to Mr. WANG Chuan-fu and Mr. LV 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. LV 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 Deed by any of BYD Company Limited, Mr. WANG Chuan-fu and Mr. LV Xiang-yang.

RELATED PARTY TRANSACTIONS

The related party transactions set out in note 30(a) to the financial statements constitute connected transactions or continuing connected transactions (as defined in Chapter 14A of the Listing Rules) of the Company and the Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such transactions.

CONNECTED TRANSACTIONS

Details of the connected transactions are as follows:

THE FOLLOWING CONNECTED TRANSACTIONS OF THE COMPANY ARE SUBJECT TO THE REPORTING AND ANNOUNCEMENT REQUIREMENTS UNDER CHAPTER 14A OF THE LISTING RULES

(i) Sale of assets by the Company to BYD

On 27 July 2018, the Company entered into another assets sale agreement with BYD for the transfer of surface mount machines/system (貼片機), automated optical inspection machines (自動光學檢驗機), custom incubated (定製溫箱) and other related equipment to BYD Group by the Group at a consideration of RMB10,649,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 30 April 2018, subject to a downward adjustment on the day of assets delivery due to accumulated depreciation before the delivery.

Such sale proceeds have been used as general working capital of the Group.

As BYD is the controlling Shareholder of the Company, it is a connected person of the Company and therefore the sale of assets constitutes connected transactions of the Company under Chapter 14A of the Listing Rules. The sales under the assets sale agreements entered into in July 2018 were aggregated with the sales under the assets sale agreement entered into in December 2017 (the details of which were set out in the announcement of the Company dated 11 December 2017) for the purpose of calculating the percentage ratios as stipulated under Rule 14.07 of the Listing Rules. As the applicable percentage ratios calculated on aggregation basis were all more than 0.1% but less than 5%, the sales were subject to the reporting and announcement requirements under Rule 14A.76 of the Listing Rules, but are exempt from the independent Shareholders' approval requirement.

The assets transferred to BYD Group have not been fully utilized by the Group and the Group has incurred maintenance cost in retaining such assets. The transfer of assets therefore enabled the Group to increase the overall utilization rate of its assets and hence enhanced its competitiveness.

(ii) Purchase of assets by the Company from BYD

On 27 July 2018, the Company entered into another assets purchase agreement with BYD for the purchase of injection molding machines (注塑機), tunnel kiln (隧道窖爐), cutting machines (切割機) and other related equipment by the Group from BYD Group at a consideration of RMB29,668,000, which was determined with reference to the unaudited net asset value of the transferred assets as at 30 April 2018, subject to a downward adjustment on the day of assets delivery due to accumulated depreciation before the delivery.

The considerations in relation to the aforesaid acquisitions were financed by internal resources of the Group.

As BYD is the controlling Shareholder of the Company, it is a connected person of the Company and therefore the assets purchases constituted connected transactions of the Company under Chapter 14A of the Listing Rules. The purchases under the assets purchase agreements entered into in July 2018 were aggregated with the purchases under the assets purchase agreement entered into in December 2017 (the details of which were set out in the announcement of the Company dated 11 December 2017) for the purpose of calculating the percentage ratios as stipulated under Rule 14.07 of the Listing Rules. As the applicable percentage ratios calculated on aggregation basis were all more than 0.1% but less than 5%, the purchases were subject to the reporting and announcement requirements under Rule 14A.76 of the Listing Rules, but are exempt from the independent Shareholders' approval requirement.

The purchase of the assets which have not been fully utilized by BYD Group accommodated the business needs of the Group and minimized short-term capital commitment and transaction costs of the Group. Furthermore, due to the proximity of the location of the Group and BYD Group, the Group has also benefited from reduced transportation cost and more convenient testing of the assets.

(iii) Extension of entrusted loan provided by BYD Precision Manufacture Co., Ltd. to BYD Company Limited

Pursuant to the entrusted loan agreement dated 29 November 2011, BYD Precision Manufacture Co., Ltd. (比亞迪精密製造有限公司) ("BYD Precision"), entrusted among others, the bank to lend the original entrusted loan of a total principal amount of RMB400 million from BYD Precision as lender to BYD as borrower. As the original entrusted loan was due to expire on 28 November 2014, BYD, BYD Precision and the bank entered into an agreement on 21 November 2014 to extend the maturity date of the original entrusted loan in an amount of RMB400 million for a further term of 36 months from the original maturity date until 28 November 2017 (the "Entrusted Loan Extension Agreement"). As the Entrusted Loan Extension Agreement was due to expire on 28 November 2017, BYD Precision, BYD and the bank entered into a second entrusted loan extension agreement on 27 November 2017 to extend the maturity date of entrusted loan for a further term of 36 months to 27 November 2020 (the "Second Entrusted Loan Extension Agreement").

The interest rate during the extension period under the Second Entrusted Loan Extension Agreement is at a fixed interest rate equivalent to the RMB benchmark interest rate for 3-year term loans effective on 27 November 2017 as announced by the People's Bank of China, and is to be settled on a monthly basis. The loan is to be repaid by a one-off repayment of the principal by BYD on its maturity, subject to early repayment as demanded by BYD Precision or as opted by BYD. BYD Precision was also responsible for paying a one-off handling charge to the bank calculated at 0.02% of the total principal amount of the entrusted loan for arranging the extension of the entrusted loan.

As BYD is the controlling Shareholder of the Company indirectly interested in approximately 65.76% of the issued shares of the Company, it is a connected person of the Company. As such, the Entrusted Loan Extension Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the extension of the Entrusted Loan under the Entrusted Loan Extension Agreement exceed 0.1% but less than 5%, the Entrusted Loan Extension Agreement is subject to the reporting and announcement requirements but are exempt from the independent Shareholders' approval requirement set out in Chapter 14A of the Listing Rules.

The Entrusted Loans were intended to enable the Group to enhance the return on its surplus cash resources, and the Entrusted Loan Extension Agreement is on normal commercial terms which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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) Leasing of factory and premises from BYD Group (other than the Group)

Pursuant to the New Baolong Lease Agreement dated 6 November 2015 between BYD Precision and BYD, BYD has agreed to lease to BYD Precision certain factory and office premises situated at Baolong Industrial Park, Longgang District, Shenzhen, the PRC during the period from 1 January 2016 to 31 December 2018. Pursuant to the Supplemental Baolong Lease Agreement dated 28 April 2017 between BYD Precision and BYD, BYD has agreed to adjust the gross lease area and monthly rental under the existing Baolong Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New Huizhou Lease Agreement dated 6 November 2015 between Huizhou BYD Electronic Co., Limited (惠州比亞迪電子有限公司) ("Huizhou Electronic") and BYD (Huizhou) Company Limited (惠州比亞迪實業有限公司) ("BYD Huizhou"), BYD Huizhou has agreed to lease to Huizhou Electronic certain factory buildings situated at Xiangshui River, Dayawan Economic Technology Development District, Huizhou during the period from 1 January 2016 to 31 December 2018. Pursuant to the Supplemental Huizhou Lease Agreement dated 28 April 2017 between Huizhou Electronic and BYD Huizhou, BYD Huizhou has agreed to adjust the aggregate leasing area and monthly rental under the Existing Huizhou Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New Beijing Lease Agreement dated 6 November 2015 between BYD Precision and Beijing BYD Mould Company Limited (北京比亞迪模具有限公司) ("BYD Beijing"), BYD Beijing has agreed to lease to BYD Precision certain premises at the 3rd and 4th floors and part of the 2nd floor of certain factory building at No. 1, Kechuang East Fifth Street, Tongzhou District, Beijing during the period from 1 January 2016 to 31 December 2018. Pursuant to the Supplemental Beijing Lease Agreement dated 28 April 2017 between BYD Precision and BYD Beijing, BYD Beijing has agreed to adjust the aggregate leasing area and monthly rental under the Existing Beijing Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New Xi'an Lease Agreement dated 6 November 2015 between BYD Automobile Company Limited (比亞迪汽車有限公司) ("BYD Auto") and Xi'an BYD Electronic Company Limited (西安比亞迪電子有限公司) ("BYD Xi'an"), BYD Auto has agreed to lease BYD Xi'an certain factory and premises situated at No. 2, Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 1 December 2015 to 30 November 2018. Pursuant to the Supplemental Xi'an Lease Agreement dated 28 April 2017 between BYD Xi'an and BYD Auto, BYD Auto has agreed to adjust the aggregate leasing area, monthly rental and the term of the lease under the Existing Xi'an Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the New Xi'an Land Lease Agreement dated 6 November 2015 between BYD Automobile Company Limited ("BYD Auto") and Xi'an BYD Electronic Company Limited ("BYD Xi'an"), BYD Auto has agreed to lease BYD Xi'an certain lands situated at No. 2, Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 1 January 2016 to 30 December 2018. Pursuant to the Supplemental Xi'an Land Lease Agreement dated 28 April 2017 between BYD Xi'an and BYD Auto, BYD Auto has agreed to adjust the aggregate leasing area and monthly rental under the Existing Xi'an Land Lease Agreement during the period from 1 May 2017 to 31 December 2018, with all other terms and conditions unchanged. Pursuant to the Xi'an Additional Lease Agreement dated 28 April 2017 between BYD Xi'an and BYD Auto, BYD Auto has agreed to lease BYD Xi'an certain factory and premises situated at No.2 Yadi Road, Xinxing Industrial Area, Gaoxin District, Xi'an City during the period from 16 May 2017 to 31 December 2018. Pursuant to the Shanghai Lease Agreement dated 28 April 2017 between BYD Precision and Shanghai BYD Company Limited ("BYD Shanghai"), BYD Shanghai has agreed to lease BYD Precision certain factory and premises situated at the 2nd and 4th floors of certain factory buildings at No. 999 Xiangjing Road, Songjiang District, Shanghai during the period from 1 May 2017 to 31 December 2018. Pursuant to the Inner-Mongolia Lease Agreement dated 28 April 2017 between Baotou BYD Electronic Co., Limited ("Baotao Electronic") and Baotou City BYD Mining Vehicles Company Limited ("BYD Baotou"), BYD Baotou has agreed to lease Baotao Electronic certain factory and premises, canteen and staff quarters situated at No. 18 Jianhua North Road, Inner-Mongolia Baotou Equipment Manufacturing Industrial Park New Planning District during the period from 1 May 2017 to 31 December 2018. Pursuant to the Shaoguan Lease Agreement dated 28 April 2017 between Shaoguan BYD Electronic Co., Limited ("Shaoguan Electronic") and BYD (Shaoguan) Company Limited ("BYD Shaoguan"), BYD Shaoguan has agreed to lease Shaoguan Electronic certain factory buildings situated at 1 BYD Avenue, Zhenjiang District Industrial Park, Shaoguan during the period from 1 May 2017 to 31 December 2018. Pursuant to the Huizhou Additional Lease Agreement dated 28 April 2017 between Huizhou BYD Electronic Co., Limited ("Huizhou Electronic") and Huizhou BYD Battery Company Limited ("BYD Huizhou Battery"), BYD

Huizhou Battery has agreed to lease Huizhou Electronic certain factory buildings situated at Xiangshui River, Dayawan Economic Technology Development District, Huizhou during the period from 1 May 2017 to 31 December 2018. Pursuant to the Shanwei Lease Agreement dated 23 August 2017 between Shanwei BYD Electronic Co., Limited ("Shanwei Electronic") and BYD (Shanwei) Company Limited ("BYD Shanwei"), BYD Shanwei has agreed to lease Shanwei Electronic certain factory situated at 88 Yanhe Road, Hongcao County, Shanwei City during the period from 1 September 2017 to 31 December 2018.

Pursuant to the New Property Leasing Framework Agreement dated 26 November 2018 between the Group and its subsidiaries and BYD Group and its subsidiaries, BYD Group and its subsidiaries have agreed that the Group may from time to time lease the properties of the BYD Group in the PRC, predominantly factory and office space, for its daily operations purposes during the period from 1 January 2019 to 31 December 2021. Meanwhile, the Group shall enter into individual property leasing agreements in respect of each leasing arrangement in accordance with the terms of the New Property Leasing Framework Agreement. Each individual property leasing agreement shall contain, amongst other things, the specific details of the leased property and must comply with the terms of the New Property Leasing Framework Agreement, the Listing Rules and applicable laws.

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 2018, the annual cap of total amount of the rental transactions of the Company was set at RMB286,677,000, and the actual aggregate amount was approximately RMB196,638,000.

(ii) Sharing of ancillary services with BYD Group (other than the Group)

The Company and BYD entered into a New Comprehensive Services Master Agreement on 6 November 2015, pursuant to which BYD Group has agreed to provide to the Group ancillary services required for its operations during the period from 1 January 2016 to 30 December 2018. The Company and BYD entered into the Supplemental Comprehensive Services Master Agreement on 28 April 2017, pursuant to which BYD Group shall provide the same services to the Group on the same terms for a term from 1 January 2016 to 31 December 2018. The Company and BYD entered into a New Comprehensive Services Master Agreement on 26 November 2018, pursuant to which BYD Group has agreed to provide to the Group ancillary services required for its operations during the period from 1 January 2019 to 31 December 2021.

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 of the total expenditure for acquiring the ancillary services for the year ended 31 December 2018 is RMB23,840,300, and the actual aggregate amount was approximately RMB21,496,000.

(iii) Provision of processing services for BYD Group (other than the Group)

Pursuant to the New BE Processing Services Agreement dated 6 November 2015 and the New BE Processing Services Agreement dated 26 November 2018 between the Company and BYD, the Company has agreed that the Group will provide to BYD Group automation equipment design services, processing services, testing services and research and development support for certain products of BYD Group, and waste water treatment facilities during the period from 1 January 2019 to 31 December 2021.

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 of the total amount of the processing services provided to BYD Group is RMB109,880,000 for the year ended 31 December 2018, and the actual aggregate amount was approximately RMB48,198,000.

(iv) Provision of purchasing service by BYD Group

Pursuant to the New Supply Chain Management Service Agreement dated 6 November 2015, the supplementary agreement dated 18 November 2016 and the New Supply Chain Management Service Agreement dated 26 November 2018 between the Company and BYD Group, BYD Group has agreed to provide certain purchasing services to the Group during the period from 1 January 2019 to 30 December 2021.

As BYD is the controlling Shareholder of the Company, BYD and its subsidiaries are connected persons of the Company.

The annual cap of purchasing service fee payable to BYD Group by the Company for the year ended 31 December 2018 is RMB59,723,000, and the actual aggregate amount was approximately RMB51,562,000.

(v) Provision of available-for-sale automotive core components and special purpose electric vehicles by BYD Group to the Group

Pursuant to the Purchase Agreement dated 9 February 2018 between the Company and BYD, the Group agreed to purchase certain goods from BYD Group, including automotive core components and special purpose electric vehicles in 2018. Pursuant to the New Automotive Core Components and Special Purpose Electric Vehicles Purchase Agreement dated 26 November 2018, the Group agreed to purchase certain goods from BYD Group including automotive core components and special purpose electric vehicles and certain other materials during the period from 1 January 2019 to 31 December 2021.

The annual cap for the total amount of the products purchased from BYD Group for the year ended 31 December 2018 was RMB111,403,300, and the actual aggregate amount was approximately RMB89,418,000.

(vi) Provision of glass products by the Group to BYD Group

Pursuant to the Glass Sales Agency Agreement dated 16 April 2018 between the Company and BYD, the Group agreed to supply glass casing products to BYD Group from 16 April, 2018 to 31 December 2018, unless terminated in accordance with the terms of the Glass Sales Agency Agreement. Pursuant to the New Glass Sales Agency Agreement dated 26 November 2018, the Group agreed to supply glass casing products to BYD Group during the period from 1 January 2019 to 31 December 2021 for its onward sales by agency to the overseas customers as designated by the Group.

The annual cap for the total amount of the products supplied to BYD Group for the year ended 31 December 2018 was RMB300,000,000, and the actual aggregate amount was approximately RMB218,914,000.

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 BYD Group (other than the Group)

Pursuant to the New Supply Agreement dated 6 November 2015 between the Company and BYD, the Company has agreed that the Group will supply to BYD Group products it required for producing its products such as plastic components, metal parts, chargers, and certain other materials at prevailing market prices during the period from 1 January 2016 to 31 December 2018. Pursuant to the New Supply Agreement dated 26 November 2018 between the Company and BYD, the Company has agreed that the Group will supply to BYD Group products it required for producing its products such as rotatable display screens, injection molded parts, moulds and certain other products and materials during the period from 1 January 2019 to 31 December 2021.

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 of the total amount of supply of products to BYD Group for the year ended 31 December 2018 is RMB1,217,614,000, and the actual aggregate amount was approximately RMB973,702,000.

(ii) Purchasing products from BYD Group (other than the Group)

Pursuant to the New Purchase Agreement dated 6 November 2015 between the Company and BYD, BYD has agreed that BYD Group will supply to the Group (i) painting products and moulds; (ii) materials used for the Group's production of handset cases and chargers, etc.; and (iii) certain other related products at prevailing market prices during the period from 1 January 2016 to 31 December 2018. Pursuant to the New Purchase Agreement dated 26 November 2018 between the Company and BYD, BYD has agreed that BYD Group will supply materials used for the production of handset casings, plastic structural materials, packaging materials and certain other products and materials to the Group during the period from 1 January 2019 to 31 December 2021.

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 of the total amount of the purchases of products from BYD Group for the year ended 31 December 2018 is RMB1,208,486,000, and the actual aggregate amount was approximately RMB717,692,000.

(iii) Provision of utility connection and/or utility by BYD Group (other than the Group)

Pursuant to the New Utility Services Master Agreement dated 6 November 2015 between the Company and BYD, BYD Group has agreed to provide to the Group certain utility connection and/or utility (as the case may be), including water and electricity, during the period from 1 January 2016 to 31 December 2018. According to the New Utility Services Master Agreement dated 26 November 2018 between the Company and BYD, BYD Group has agreed to provide to the Group certain utility or utility connection (as the case may be), including water and electricity, during the period from 1 January 2019 to 31 December 2021.

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 of the total expenditure for acquiring utility connection and/or utility from BYD for the year ended 31 December 2018 is RMB761,063,000, and the actual aggregate amount was approximately RMB680,727,000.

(iv) Provision of processing services by BYD Group (other than the Group)

Pursuant to the New Processing Services Agreement dated 6 November 2015 and the New Processing Services Agreement dated 26 November 2018 between the Company and BYD, BYD Group has agreed to provide certain processing services for certain products (including handset metal parts) and facilities (including waste water treatment) of the Group whereby some steps in the production process of such facilities are further processed by BYD Group during the period from 1 January 2019 to 31 December 2021.

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 of the expenditure for acquiring processing services from BYD Group for the year ended 31 December 2018 is RMB602,856,000, and the actual aggregate amount was approximately RMB339,455,000.

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

(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 has provided a letter and confirmed that the aforesaid continuing connected transactions:

1. nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to their attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

Mr. WANG Chuan-fu, a non-executive Director of the Company, has also been an executive director and chairman of the board of directors of BYD. Mr. WU Jing-sheng, a non-executive Director of the Company, has also been the vice president and chief financial officer of BYD. As Mr. WANG Chuan-fu and Mr. WU Jing-sheng held certain interests in the shares of BYD as at the dates of the aforementioned connected transactions and continuing connected transactions, Mr. WANG Chuan-fu and Mr. WU Jing-sheng, being Directors who may have a material interest in the aforesaid transactions, have voluntarily abstained from voting on the board resolutions of the Company concerning the aforesaid transactions.

PURCHASE, SALE OR REDEMPTION OF SHARES

From 1 January 2018 to 31 December 2018, the Company did not redeem any shares. During the Year, neither the Company nor any of its subsidiaries purchased or sold any shares of the Company.

DIRECTORS' INTEREST IN CONTRACTS

Save for the connected transactions and continuing connected transactions described in this report, no Directors or entities connected to the Directors have direct or indirect material interests in any material transactions or arrangements conducted or material contracts entered into by the Company or any of its subsidiaries at any time during or at the end of the Year.

SUFFICIENCY OF 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 ended 31 December 2018.

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 AUDITOR

Since the incorporation of the Company, all its financial statements have been audited by Ernst & Young. A resolution will be proposed regarding the re-appointment of Ernst & Young as the Company's independent international auditor for 2019 at the forthcoming annual general meeting.

By the order of the Board

WANG NIAN-QIANG
Director

27 March 2019

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To the members of BYD Electronic (International) Company Limited

(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of BYD Electronic (International) Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 145, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Provision for impairment on trade receivables	
The Group has changed its accounting policy for financial instruments upon the adoption of new accounting standard which was effective from 1 January 2018 and recorded the cumulative effect of the initial application as an adjustment to the opening balance as at 1 January 2018. As at 31 December 2018, the Group recorded trade receivables of RMB 7,311,752,000 and provision of RMB 102,527,000 in the consolidated financial statements accounted. The management uses a provision matrix to calculate expected credit losses for trade receivables. The application of provision matrix requires significant judgments and estimates, including industry index, macroeconomic indicators, customers' financial statements, existence of disputes and historic payments, and requires consideration of all reasonable and reliable information. Details of provision for expected credit losses on trade receivables are disclosed in notes 2.4, 3 and 20 to the consolidated financial statements.	We performed the following procedures, among others, in related to expected credit losses of trade receivables: • Obtained an understanding of the key internal controls of provision for expected credit losses and its design and operating effectiveness; • Evaluated the reasonableness of the assumptions used in provision matrix through detailed analysis of aging of receivables, assessment of material overdue trade receivables and risks specific to the debtors; • Involved internal specialist to test the parameters used in the expected credit loss model; • Recalculated the management's impairment provision of trade receivables and contract assets to ensure mathematical accuracy.
Inventory provision	
As of 31 December 2018, the total inventories and the related provision amounted to RMB4,956,056,000 and RMB188,262,000, respectively, which were material to the financial statements. The inventories of the Group are mainly mobile intelligent terminals which are subject to rapid product innovations and technological upgrade. Management assessment on the inventory provision is judgmental and is based on assumptions, specifically the forecasted inventory usage and estimated selling prices, which are affected by expected future market and sales orders. The accounting policies and disclosures for inventory provision are included in note 2.4, 3 and 19 to the consolidated financial statements.	We performed the following procedures, among others, on the inventory provision: • Assessed management’s methodology and provision process and compared to that of the sales trend of the inventories; • Tested the aging analysis of inventories by checking to the original documents; • Observed the stocktaking process at the end of the year; • Performed subsequent sales review of inventories; and • Evaluated the management’s judgement to determine the provision for slow moving, excess or obsolete items.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is TJEN, Michael.

Ernst & Young
Certified Public Accountants

Hong Kong

27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**41,047,139**	38,774,422
Cost of sales		**(36,875,156)**	(34,510,484)
Gross profit		**4,171,983**	4,263,938
Other income and gains	5	**558,070**	493,442
Government grants and subsidies	6	**287,390**	240,161
Research and development expenses		**(1,588,654)**	(1,200,632)
Selling and distribution expenses		**(229,238)**	(229,098)
Administrative expenses		**(535,819)**	(434,024)
Impairment losses on financial assets, net		**(57,333)**	–
Other expenses		**(27,762)**	(97,620)
Finance costs	7	**(42,805)**	(44,040)
PROFIT BEFORE TAX	8	**2,535,832**	2,992,127
Income tax expense	11	**(347,212)**	(407,259)
PROFIT FOR THE YEAR			
Attributable to owners of the parent		**2,188,620**	2,584,868
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted			
– For profit for the year	12	**RMB0.97**	RMB1.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**2,188,620**	2,584,868
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt instruments at fair value through other comprehensive income:		
Changes in fair value	**(428)**	–
Exchange differences on translation of foreign operations	**(12,615)**	7,694
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(13,043)**	7,694
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(13,043)**	7,694
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,175,577**	2,592,562
Attributable to owners of the parent	**2,175,577**	2,592,562

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**7,633,550**	7,430,949
Prepaid land lease payments	14	**381,243**	280,970
Prepayments, other receivables and other assets	15	**398,701**	368,514
Other intangible assets	16	**14,231**	25,073
Loan to the ultimate holding company	31	**398,920**	400,000
Deferred tax assets	26	**128,361**	225,857
Available-for-sale investments	17	**–**	13,779
Other non-current financial assets	18	**6,703**	–
Total non-current assets		**8,961,709**	8,745,142
CURRENT ASSETS			
Inventories	19	**4,767,794**	4,607,845
Trade and bills receivables	20	**7,209,225**	8,556,349
Prepayments, other receivables and other assets	15	**368,244**	654,652
Due from related parties	31	**2,823**	–
Pledged deposits	21	**–**	71
Cash and cash equivalents	21	**4,741,377**	2,822,267
Total current assets		**17,089,463**	16,641,184
Total assets		**26,051,172**	25,386,326
CURRENT LIABILITIES			
Trade and bills payables	22	**7,891,996**	8,982,988
Other payables and accruals	23	**2,123,343**	1,855,408
Due to related parties	31	**–**	940
Tax payable		**30,209**	173,367
Deferred income	24	**15,987**	75,301
Total current liabilities		**10,061,535**	11,088,004
NET CURRENT ASSETS		**7,027,928**	5,553,180
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,989,637**	14,298,322
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	**44,648**	25,912
Deferred income	24	**119,657**	81,097
Total non-current liabilities		**164,305**	107,009
Net assets		**15,825,332**	14,191,313
EQUITY			
Share capital	26	**4,052,228**	4,052,228
Other reserves	27	**11,773,104**	10,139,085
Total equity		**15,825,332**	14,191,313

Wang Chuan-fu
Director

Wang Nian-qiang
Director

	Attributable to owners of the parent						
	Share capital RMB'000 (note 26)	**Fair value reserve** RMB'000	**Contributed surplus** RMB'000	**Statutory surplus reserve** RMB'000 (note (a))	**Exchange fluctuation reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 1 January 2017	4,052,228	–	(46,323)	823,297	(176,987)	7,102,007	11,754,222
Profit for the year	–	–	–	–	–	2,584,868	2,584,868
Exchange differences on translation of foreign operations	–	–	–	–	7,694	–	7,694
Total comprehensive income for the year	–	–	–	–	7,694	2,584,868	2,592,562
Final 2016 dividend	–	–	–	–	–	(155,471)	(155,471)
Transfer to statutory surplus	–	–	–	38,652	–	(38,652)	–
At 31 December 2017	4,052,228	–	(46,323)*	861,949*	(169,293)*	9,492,752*	14,191,313
Effect of adoption of HKFRS 9	–	367	–	(1,241)	–	(22,447)	(23,321)
At 1 January 2018 (restated)	4,052,228	367	(46,323)	860,708	(169,293)	9,470,305	14,167,992
Profit for the year	–	–	–	–	–	2,188,620	2,188,620
Changes in fair value of debt instruments at fair value through other comprehensive income	–	(428)	–	–	–	–	(428)
Exchange differences on translation of foreign operations	–	–	–	–	(12,615)	–	(12,615)
Total comprehensive income for the year	–	(428)	–	–	(12,615)	2,188,620	2,175,577
Final 2017 dividend	–	–	–	–	–	(518,237)	(518,237)
Transfer to statutory surplus	–	–	–	59,264	–	(59,264)	–
At 31 December 2018	4,052,228	(61)*	(46,323)*	919,972*	(181,908)*	11,081,424*	15,825,332

Notes:

(a) In accordance with the People's Republic of China (the "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. When the balance of this 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 this usage.

* These reserve accounts comprise the consolidated other reserves of RMB11,773,104,000 (2017: RMB10,139,085,000) in the consolidated statement of financial position as at 31 December 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	**2018**	2017
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,535,832**	2,992,127
Adjustments for:			
Finance costs	7	**42,805**	44,040
Interest income	5	**(50,800)**	(49,954)
Government grants and subsidies		**(79,783)**	(2,295)
Loss on disposal of items of property, plant and equipment	8	**14,123**	28,924
Depreciation	8	**1,917,625**	1,586,915
Amortisation of intangible assets	8	**7,928**	7,552
Recognition of prepaid land lease payments	8	**7,498**	5,669
Impairment of trade receivables	8	**71,302**	8,422
Impairment of trade receivables reversed	8	**(13,697)**	(34,377)
Impairment of loan to the ultimate holding company reversed		**(80)**	–
Expected credit loss of bills receivables reversed	8	**(203)**	–
Impairment of other receivables		**4**	–
Impairment of due from related parties		**7**	–
Impairment of inventories	8	**42,278**	103,894
Fair value losses on other non-current financial assets	8	**7,076**	–
Gain on disposal of finance products		**(5,943)**	–
		4,495,972	4,690,917
Increase in inventories		**(202,232)**	(1,374,007)
Decrease in trade and bills receivables		**1,203,360**	864,205
Decrease/(increase) in prepayments, other receivables and other assets		**352,384**	(255,219)
Decrease in trade and bills payables		**(865,550)**	(1,605,123)
Increase/(decrease) in other payables		**189,052**	(167,130)
Increase in amounts due from the related parties		**(2,830)**	–
Decrease in amounts due to related parties		**(940)**	(1,820)
Decrease in deferred income		**(65,000)**	–
Cash generated from operations		**5,104,216**	2,151,823
Interest received		**50,800**	49,954
Tax paid		**(374,139)**	(338,383)
Net cash flows from operating activities		**4,780,877**	1,863,394

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,316,587)**	(2,243,384)
Additions in prepaid land lease payments		**(148,711)**	(72,991)
Disposal/(additions) to other intangible assets	16	**2,914**	(7,687)
Proceeds from disposal of items of property, plant and equipment		**40,346**	116,112
Receipt of government grants		**124,030**	158,693
Purchase of an available-for-sale investment		**–**	(13,779)
Decrease/(increase) in pledged deposits		**71**	(71)
Purchase of finance products		**(19,785)**	–
Proceeds from disposal of finance products		**25,728**	–
Withdrawal of short-term deposits		**–**	247,360
Net cash flows used in investing activities		**(2,291,994)**	(1,815,747)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(42,805)**	(44,040)
Dividend paid		**(518,237)**	(155,471)
Net cash flows used in financing activities		**(561,042)**	(199,511)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**1,927,841**	(151,864)
Cash and cash equivalents at beginning of year		**2,822,267**	2,966,064
Effect of foreign exchange rate changes, net		**(8,731)**	8,067
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,741,377**	2,822,267

1. CORPORATE AND GROUP 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 Part of Unit 1712, 17th Floor, Tower 2, Grand Central Plaza, No. 138 Shatin Rural Committee Road, Shatin, New Territories, Hong Kong.

The Group was principally engaged in the business of the manufacture and sales of handset components and modules, the provision of handset design and assembly services, and the provision of parts and assembly services of other electronic products.

In the opinion of the directors, the parent of the Company is Golden Link Worldwide Limited, an enterprise incorporated in the British Virgin Islands, and the ultimate holding company of the Company is BYD Company Limited, a company incorporated in the PRC whose H shares are listed on the Stock Exchange and A shares are listed on the Small and Medium Enterprise Board of Shenzhen Stock Exchange.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation or registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lead Wealth International Limited ("Lead Wealth") (領裕國際有限公司) ***	British Virgin Islands	US$50,000	–	100	Investment holding
BYD Precision Manufacture Co., 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
Huizhou BYD Electronic Co., Limited ("Huizhou Electronic") (惠州比亞迪電子有限公司)**	PRC/Mainland China	US$110,000,000	–	100	High-level assembly
BYD India Private Limited ("BYD India")***	India	INR2,407,186,600	–	100	Manufacture and sale of mobile handset components and modules. Manufacture and sale of battery,charger, Iron-phosphate batteries used in Electric Bus, Electric Truck, Electric car, Electric Forklift and its components&spare parts. Build and maintain monorail projects.

1. CORPORATE AND GROUP INFORMATION *(Continued)*

INFORMATION ABOUT SUBSIDIARIES *(Continued)*

Company name	Place of incorporation or registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xi'an BYD Electronic Co., Limited ("Xi'an Electronic") (西安比亞迪電子有限公司) *	PRC/Mainland China	RMB100,000,000	–	100	Manufacture and sale of mobile handset components
BYD (Wuhan) Electronic Co., Limited ("Wuhan Electronic") (武漢比亞迪電子有限公司) *	PRC/Mainland China	RMB10,000,000	–	100	Manufacture and sale of mobile handset components
BYD (Shaoguan) Electronic Co., Limited ("Shaoguan Electronic") (韶關比亞迪電子有限公司) *	PRC/Mainland China	RMB30,000,000	–	100	Manufacture and sale of mobile handset components

* These subsidiaries are registered as wholly-foreign-owned enterprises under PRC law.

** Huizhou Electronic is registered as Sino-foreign joint ventures under PRC law.

*** These subsidiaries are registered as wholly-foreign-owned enterprises under foreign law.

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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments 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 Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKAS 40	*Transfers of Investment Property*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

Except for those not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has recognised the transition adjustments against the applicable opening balances in of equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

Classification and measurement (Continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement					**HKFRS 9 measurement**	
	Note	**Category**	**Amounts RMB'000**	**Re-classification RMB'000**	**ECL RMB'000**	**Other RMB'000**	**Amounts RMB'000**	**Category**
Financial assets								
Available-for-sale investments		AFS[1]	13,779	(13,779)	–	–	–	N/A
To: Financial assets at fair value through profit or loss	(i)			13,779				
Trade and bills receivables		L&R[2]	8,556,349	(64,024)	(22,135)		8,470,190	AC[3]
To: Bills receivable include in prepayments, other receivables and other assets				64,024				
Financial assets at fair FVPL value through profit or loss		FVPL[5]	–	13,779	–	–	13,779	FVPL[5]
From: Available-for-sale investments	(i)			13,779	–	–		
Bills receivable include in prepayments, other receivables and other assets				64,024	(367)	367	64,024	FVOCI[4]
From: Trade and bills receivables				64,024				
Other receivables include in prepayments, other receivables and other assets		L&R[2]	469,125		(26)		469,099	AC[3]
Loan to the ultimate holding company		L&R[2]	400,000		(1,160)		398,840	AC[3]
Pledged deposits		L&R[2]	71	–	–	–	71	AC[3]
Cash and cash equivalents		L&R[2]	2,822,267	–	–	–	2,822,267	AC[3]
			12,261,591	–	(23,688)	367	12,238,270	
Total assets			12,261,591	–	(23,688)	367	12,238,270	
Financial liabilities								
Trade and bills payables		L&R[2]	8,982,988	–	–	–	8,982,988	AC[3]
Other liabilities		L&R[2]	1,855,408	–	–	–	1,855,408	AC[3]
Due to related parties		L&R[2]	940	–	–	–	940	AC[3]
Total liabilities			10,839,336	–	–	–	10,839,336	

1 AFS: Available-for-sale investments

2 L&R: Loans and receivables

3 AC: Financial assets or financial liabilities at amortised cost

4 FVOCI: Financial assets at fair value through other comprehensive income

5 FVPL: Financial assets at fair value through profit or loss

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

Classification and measurement (Continued)

Notes:

(i) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 20, 15 and 31 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	ECL allowances under HKFRS 9 at 1 January 2018 RMB'000
Trade receivables	28,001	22,135	50,136
Bills receivables included in prepayments, other receivables and other assets	–	367	367
Other receivables include in prepayments, other receivables and other assets	–	26	26
Loan to the ultimate holding company	–	1,160	1,160
	28,001	23,688	51,689

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Fair value reserve under HKFRS 9 (bill receivables revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	–
Changes in fair value of debt instruments at fair value through other comprehensive income under HKFRS 9	367
Balance as at 1 January 2018 under HKFRS 9	367

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) *(Continued)*

Impact on reserves and retained profits (Continued)

	Reserves and retained profits RMB'000
Retained profits	
Balance as at 31 December 2017 under HKAS 39	9,492,752
Recognition of expected credit losses for trade receivables under HKFRS 9	(22,135)
Recognition of expected credit losses for other receivables under HKFRS 9	(26)
Recognition of expected credit losses for loan to the ultimate holding company under HKFRS 9	(1,160)
Recognition of expected credit losses for bills receivable at fair value through other comprehensive income under HKFRS 9	(367)
Reverses of the statutory surplus reserve	1,241
Balance as at 1 January 2018 under HKFRS 9	9,470,305

(b) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) *(Continued)*

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	Increase/ (decrease) RMB'000
Liabilities		
Contract liabilities	23	285,846
Advance from customers	23	(285,846)
Total liabilities		–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

		Amounts prepared under		
	Notes	**HKFRS 15 RMB'000**	**Previous HKFRS RMB'000**	**Increase/ (decrease) RMB'000**
Revenue		**41,047,139**	**41,047,139**	**–**
Cost of sales	(i)	**(36,875,156)**	**(36,833,033)**	**(42,123)**
Gross profit		**4,171,983**	**4,214,106**	**(42,123)**
Selling and distribution costs	(i)	**(229,238)**	**(271,361)**	**42,123**
Profit before tax		**2,535,832**	**2,535,832**	**–**
Income tax expense		**(347,212)**	**(347,212)**	**–**
Profit for the year		**2,188,620**	**2,188,620**	**–**
Earnings per share attributable to ordinary equity holders of the parent				**–**
Basic and Diluted				
– For profit for the year		**RMB0.97**	**RMB0.97**	**–**

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(b) *(Continued)*

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Notes	HKFRS 15 RMB'000	Previous HKFRS RMB'000	Increase/ (decrease) RMB'000
Total assets		26,051,172	26,051,172	–
Contract liabilities	(ii)	279,240	–	279,240
Advances from customers		–	279,240	(279,240)
Total liabilities		10,225,840	10,225,840	–
Net assets		15,825,332	15,825,332	–
Retained profits		2,188,620	2,188,620	–
Total equity		15,825,332	15,825,332	–

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) Sale of industrial products with contract performance costs

Before the adoption of IFRS 15, transportation costs were treated as selling and distribution expenses. Under IFRS 15, the amount is classified to cost of sales as it constitutes cost to fulfill the performance obligation of sale of industrial products to customers.

Therefore, adoption of HKFRS 15 has resulted in a decrease of RMB42,123,000 in selling expense and an increase of RMB42,123,000 in sales of costs for the year ended 31 December 2018.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB285,846,000 from advance from customers to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB279,240,000 was reclassified from advance from customers to contract liabilities in relation to the consideration received from customers in advance for the sale of industrial products.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is describe below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB55,267,000 and lease liabilities of RMB55,267,000 will be recognised at 1 January 2019.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HK(IFRIC)-Int 23, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

BUSINESS COMBINATIONS AND GOODWILL *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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 has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

FAIR VALUE MEASUREMENT

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FAIR VALUE MEASUREMENT *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), 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 of disposal, 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 statement of profit or loss 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 an 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 statement of profit or loss 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 is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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 statement of profit or loss 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 depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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 and residual value used for this purpose are as follows:

	Estimated useful lives	Residual value
Freehold land	Not depreciated	–
Buildings	10 to 70 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	–
Machinery and equipment (except moulds)	5 to 10 years	5%
Office equipment and fixtures	5 years and below	5%
Motor vehicles	5 years	5%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION *(Continued)*

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

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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 statement of profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss 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.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) *(Continued)*

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

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 designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Financial assets at fair value through profit or loss (Continued)

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans, and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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.

Subsequent measurement

The subsequent measurement of financial assets at fair value through profit or loss depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. 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.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENT AND OTHER FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018) *(Continued)*

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 by 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 other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" (applicable before 1 January 2018) below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

DERECOGNITION OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- 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, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018) *(Continued)*

General approach (Continued)

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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 yet 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).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018) *(Continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, amounts due to fellow subsidiaries and an amount due to the ultimate holding company and amounts due to the intermediate holding company.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

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 incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. 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 statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018) 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 repurchasing 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 statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

DERECOGNITION OF FINANCIAL LIABILITIES (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

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 statement of profit or loss.

OFFSETTING OF FINANCIAL INSTRUMENTS (POLICIES UNDER HKFRS 9 APPLICABLE FROM 1 JANUARY 2018 AND HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

INVENTORIES

Inventories 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 consolidated 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.

Term deposits with an initial term of over three months but less than one year were classified as short-term deposits on the consolidated statement of financial position.

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 statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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:

- when the deferred tax liability arises from the initial recognition of goodwill or 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 when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INCOME TAX *(Continued)*

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

REVENUE RECOGNITION (APPLICABLE FROM 1 JANUARY 2018) *(Continued)*

Revenue from contracts with customers (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(A) SALE OF INDUSTRIAL PRODUCTS

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

REVENUE RECOGNITION (APPLICABLE BEFORE 1 JANUARY 2018)

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) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

CONTRACT ASSETS (APPLICABLE FROM 1 JANUARY 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

CONTRACT LIABILITIES (APPLICABLE FROM 1 JANUARY 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

CONTRACT COSTS (APPLICABLE FROM 1 JANUARY 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

EMPLOYEE BENEFITS

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.

Pension schemes--Mainland China

The employees of the Group's subsidiaries, which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Pension schemes--outside-Mainland China

The Group contributes on a monthly basis to various defined contribution plans organised by the relevant governmental authorities in various areas other than Mainland China. The Group's liability in respect of these plans is limited to the contributions payable at the end of each period. Contributions to these plans are expensed as incurred.

Housing fund--Mainland China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group 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 are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes 35 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

The Group treats specific inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. When a foreign operation is sold, such exchange differences are recognised in the statement of profit or loss as part of the gain or loss on sale.

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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 RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss 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 statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 their accompanying disclosures, and the disclosure of contingent liabilities. 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:

Deferred tax on 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. Further details are included in note 25 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 described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on aging for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

ESTIMATION UNCERTAINTY *(Continued)*

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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 and amortisation of intangible assets on the straight-line basis over their estimated useful lives or on the unit of production basis and after taking into account their estimated residual value, estimated useful lives or estimated total production quantities, commencing from the date the items of property, plant and equipment and intangible assets are placed into use. The estimated useful lives or the total production quantities reflect 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 or intangible assets.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing, and level of future taxable profits together with future tax planning strategies. Further details are included in note 25 to the financial statements.

Write-down of inventories based on the lower of cost and net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes reserves for slow-moving items and obsolescence by using the lower of cost and net realisable value rule. The Group re-estimates the allowance to reduce the valuation of inventories to net realisable value item by item at the end of each reporting period.

4. OPERATING SEGMENT INFORMATION

The Group's primary business is the manufacture, assembly and sale of mobile handset components and modules. For management purposes, the Group is organised into one operating segment based on industry practice and management's vertical integration strategy. Management monitors the results of the Group as a whole for the purpose of making decisions about resource allocation and performance assessment. No further analysis thereof is presented. 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

	2018 **RMB'000**	2017 RMB'000
PRC (including Hong Kong, Macau, and Taiwan)	**32,473,515**	31,725,621
Asia Pacific (excluding PRC)	**5,919,538**	5,816,943
United States of America	**1,841,255**	573,316
Other countries	**812,831**	658,542
	41,047,139	38,774,422

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

(b) Non-current assets

	2018 **RMB'000**	2017 RMB'000
PRC (including Hong Kong, Macau, and Taiwan)	**8,256,816**	7,950,329
India	**170,622**	155,104
Other countries	**287**	73
	8,427,725	8,105,506

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

4. OPERATING SEGMENT INFORMATION *(Continued)*

INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers of the corresponding years accounting for over 10% of the total sales of the Group is as follows:

	2018 RMB'000
Customer A[1]	**12,401,115**
Customer B[1]	**5,938,103**
Customer C[1]	**4,480,935**
Customer D[1]	**4,241,264**
	27,061,417

	2017 RMB'000
Customer A[1]	13,821,721
Customer B[1]	6,359,453
Customer C[1]	6,353,103
	26,534,277

[1] Revenue from major customers comes from the sale of mobile handset components and modules.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Sale of mobile handset components and modules	**41,047,139**	38,774,422
	41,047,139	38,774,422

REVENUE FROM CONTRACTS WITH CUSTOMERS

(i) Disaggregated revenue information

For the year ended 31 December 2018 Segments	Total RMB'000
Type of goods or services	
Sale of mobile handset components and modules	**41,047,139**
Total revenue from contracts with customers	**41,047,139**
Geographical markets	
PRC (including Hong Kong, Macau, and Taiwan)	**32,473,515**
Asia Pacific (excluding PRC)	**5,919,538**
United States of America	**1,841,255**
Other countries	**812,831**
Total revenue from contracts with customers	**41,047,139**
Timing of revenue recognition	
Goods transferred at a point in time	**41,047,139**
Total revenue from contracts with customers	**41,047,139**

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of mobile handset components and modules	**246,419**

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

REVENUE FROM CONTRACTS WITH CUSTOMERS *(Continued)*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	RMB'000 VAT inclusive
Within one year	**279,240**
More than one year	**–**
	279,240

	2018 RMB'000	2017 RMB'000
Other income		
Bank interest income	**31,536**	27,033
Other interest income	**19,264**	22,921
Sale of scrap and materials	**327,156**	296,525
Compensation from suppliers and customers	**41,351**	66,521
Foreign exchange gain, net	**101,350**	–
Others	**37,413**	80,442
	558,070	493,442

6. GOVERNMENT GRANTS AND SUBSIDIES

	2018 RMB'000	2017 RMB'000
Related to assets		
Subsidies on technical transformation (note (a))	65,301	–
Others	14,482	2,295
Related to income		
Support fund for Industrial co-construction (note (b))	73,000	–
Subsidies on research and development activities	–	16,000
Subsidies on employee stability (note (c))	11,772	18,167
Subsidies on logistics (note (d))	69,903	39,380
Subsidies on operating expense	45,122	164,267
Others	7,810	52
	287,390	240,161

Notes:

(a) In 2018, Huizhou Electronic a subsidiary of the Company, received government grants with an amount of RMB72,420,000 from Huizhou government as subsidies on technical transformation (2017: Nil). The amount recognised in the statement of profit or loss for the year ended 31 December 2018 was RMB 65,301,000 (2017: Nil).

(b) In 2017, Shantou BYD Electronics Co., Ltd, a subsidiary of the Company, received a support fund in the amount of RMB73,000,000 for industrial development, for the use of R&D expense. During the Year, an amount of RMB73,000,000 was recognised as government grants income (2017: Nil).

(c) In 2018, BYD Precision, Huizhou Electronic and Xi'an Electronic, subsidiaries of the Company, received government grants with an aggregate amount of RMB11,772,000 (2017: RMB18,167,000) from the Bureau of Human Resources and Social Security (人力資源和社會保障局) as subsidies on employee stability. Since the related expenditure was incurred, RMB11,772,000 was fully recognised as government grant income this year (2017: RMB18,167,000).

(d) In 2018, Xi'an Electronic a subsidiary of the Company, received government grants with an amount of RMB69,903,000 from Xi'an government as subsidies on logistics(2017: RMB39,380,000). RMB69,903,000 was recognised as government grant income this year (2017: RMB39,380,000).

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2018 RMB'000	2017 RMB'000
Interest on factored trade receivables	42,805	44,040

8. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**36,832,878**	34,406,590
Depreciation	13	**1,917,625**	1,586,915
Research and development costs:			
Current year expenditure		**1,588,654**	1,200,632
Minimum lease payments under operating leases		**274,661**	236,913
Auditors' remuneration		**1,590**	1,590
Recognition of prepaid land lease payments#	14	**7,498**	5,669
Amortisation of intangible assets#	16	**7,928**	7,552
Employee benefit expense (excluding directors', supervisors' and senior executive officers' remuneration (note 31(c))			
Wages and salaries		**5,358,377**	4,857,284
Retirement benefit scheme contributions		**367,403**	342,264
		5,725,780	5,199,548
Impairment of trade receivables####	20	**71,302**	8,422
Impairment losses of trade receivables reversed####	20	**(13,697)**	(34,377)
Impairment of inventories###		**42,278**	103,894
Loss on disposal of items of property, plant and equipment##		**14,123**	28,924
Impairment of bills receivables included in prepayments, other receivables and other assets####		**(203)**	–
Fair value losses, net:			
Equity investment at fair value through profit or loss#### – mandatorily classified##		**7,076**	–
Foreign exchange loss/(gain), net##		**(101,349)**	45,938

Included in "Administrative expenses" in the consolidated statement of profit or loss

Included in "Other income and gains" or "Other expenses" in the consolidated statement of profit or loss

Included in "Cost of sales" in the consolidated statement of profit or loss

Included in "Impairment losses on financial assets, net" in the consolidated statement of profit or loss

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	**600**	600
Other emoluments:		
Salaries, allowances and benefits in kind	**12,761**	10,328
Pension scheme contributions	**51**	51
	12,812	10,379
	13,412	10,979

There was no discretionary bonuses for directors and supervisors during the year (2017: Nil).

(a) Independent non-executive directors

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

	2018 RMB'000	2017 RMB'000
Mr. Mampilly, Antony Francis	**200**	200
Mr. Zhong Guo-wu	**200**	200
Mr. Qian Jing-jie	**200**	200
	600	600

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
31 December 2018				
Executive directors:				
Mr. Wang Nian-qiang	**–**	**9,588**	**26**	**9,614**
Mr. Wang Bo	**–**	**3,173**	**25**	**3,198**
	–	**12,761**	**51**	**12,812**
Non-executive directors:				
Mr. Wang Chuan-fu	**–**	**–**	**–**	**–**
Mr. Wu Jing-sheng	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
31 December 2017				
Executive directors:				
Mr. Wang Nian-qiang	–	7,759	26	7,785
Mr. Wang Bo**	–	2,557	25	2,582
Mr. Sun Yi-zao*	–	12	–	12
	–	10,328	51	10,379
Non-executive directors:				
Mr. Wang Chuan-fu	–	–	–	–
Mr. Wu Jing-sheng	–	–	–	–
	–	–	–	–

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

* Mr. Sun Yi-zao resigned as the executive director on 3 January 2017. His remuneration of 2017 covered the period from 1 January to 2 January.

** Mr. Wang Bo was appointed as executive director on 3 January 2017. His remuneration of 2017 covered the period from 3 January to 31 December.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	5,720	5,367
Pension scheme contributions	79	79
	5,799	5,446

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

	Number of employees	
	2018	2017
RMB2,000,001 to RMB2,500,000	2	2
RMB1,500,001 to RMB2,000,000	–	–
RMB1,000,001 to RMB1,500,000	1	1
	3	3

11. 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.

Under the relevant income tax law, the PRC subsidiaries are subject to corporate income tax ("CIT") at a statutory rate of 25% on their respective taxable income during the year.

BYD Precision is renewed to be a high and new technology enterprise in 2018, and is entitled to enjoy a reduced enterprise income tax rate of 15% from 2018 to 2020.

Huizhou Electronic is renewed to be a high and new technology enterprise in 2018, and is entitled to enjoy a reduced enterprise income tax rate of 15% from 2018 to 2020.

Shaoguan Electronic was approved to be a high and new technology enterprise in 2018, and is entitled to enjoy a reduced enterprise income tax rate of 15% from 2018 to 2020.

Xi'an Electronic which operates in Mainland China is entitled to enjoy a reduced enterprise income tax rate of 15% of the estimated assessable profits for the year pursuant to the Western Development Policy. These subsidiaries need to file the relevant documents to the in-charge tax bureau for record every year so as to be entitled to the reduced rate of 15%.

11. INCOME TAX *(Continued)*

BYD India is subject to income tax at a rate of 30%.

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 profits tax in America, Romania and Finland as the Group had no assessable profits derived from these countries.

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

	2018	2017
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**230,980**	391,214
Deferred (note 25)	**116,232**	16,045
Total tax charge for the year	**347,212**	407,259

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:

	2018		2017	
	RMB'000	**%**	RMB'000	%
Profit before tax	**2,535,832**		2,992,127	
Tax at the applicable tax rate	**634,290**	**25.0**	748,032	25.0
Expenses not deductible for tax	**28,598**	**1.1**	24,344	0.8
Lower tax rate for specific provinces or enacted by local authority	**(224,763)**	**(8.9)**	(315,368)	(10.5)
Super-deduction of research and development costs	**(143,891)**	**(5.7)**	(79,725)	(2.7)
Tax losses utilised from previous periods	**(3,000)**	**(0.1)**	(3,129)	(0.1)
Tax losses and deductible differences not recognised	**55,978**	**2.2**	33,105	1.1
Tax charge at the Group's effective rate	**347,212**	**13.7**	407,259	13.6

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

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,253,204,500 (2017: 2,253,204,500) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic earnings per share is based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**2,188,620**	2,584,868

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,253,204,500**	2,253,204,500

13. PROPERTY, PLANT AND EQUIPMENT

	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 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	1,263,249	261,824	11,690,856	1,018,386	34,977	392,708	14,662,000
Accumulated depreciation and impairment	(215,955)	(67,784)	(6,242,842)	(685,855)	(18,615)	–	(7,231,051)
Net carrying amount	1,047,294	194,040	5,448,014	332,531	16,362	392,708	7,430,949
At 1 January 2018, net of accumulated depreciation and impairment	1,047,294	194,040	5,448,014	332,531	16,362	392,708	7,430,949
Additions	1,603	234,363	1,346,985	182,809	5,787	406,174	2,177,721
Disposals	–	–	(49,636)	(3,375)	(1,397)	(61)	(54,569)
Depreciation provided during the year	(33,338)	(50,277)	(1,680,789)	(148,063)	(5,158)	–	(1,917,625)
Exchange realignment	(3,261)	–	226	(18)	–	27	(3,026)
Transfers	150,759	–	324,077	8,502	–	(483,338)	–
At 31 December 2018, net of accumulated depreciation and impairment	1,163,057	378,126	5,388,877	372,386	15,594	315,510	7,633,550
At 31 December 2018:							
Cost	1,410,254	496,186	13,197,912	1,160,913	37,767	315,510	16,618,542
Accumulated depreciation and impairment	(247,197)	(118,060)	(7,809,035)	(788,527)	(22,173)	–	(8,984,992)
Net carrying amount	1,163,057	378,126	5,388,877	372,386	15,594	315,510	7,633,550

13. PROPERTY, PLANT AND EQUIPMENT *(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 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	1,189,693	110,901	9,327,983	1,501,422	30,405	209,381	12,369,785
Accumulated depreciation and impairment	(191,442)	(28,017)	(4,725,789)	(1,013,067)	(14,864)	–	(5,973,179)
Net carrying amount	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606
At 1 January 2017, net of accumulated depreciation and impairment	998,251	82,884	4,602,194	488,355	15,541	209,381	6,396,606
Additions	6	150,407	2,078,246	131,224	5,897	400,839	2,766,619
Disposals	–	(2,107)	(134,828)	(7,597)	(504)	–	(145,036)
Depreciation provided during the year	(29,570)	(37,144)	(1,390,117)	(125,506)	(4,578)	–	(1,586,915)
Exchange realignment	(323)	–	(7)	(1)	6	–	(325)
Transfers	78,930	–	292,526	(153,944)	–	(217,512)	–
At 31 December 2017, net of accumulated depreciation and impairment	1,047,294	194,040	5,448,014	332,531	16,362	392,708	7,430,949
At 31 December 2017:							
Cost	1,263,249	261,824	11,690,856	1,018,386	34,977	392,708	14,662,000
Accumulated depreciation and impairment	(215,955)	(67,784)	(6,242,842)	(685,855)	(18,615)	–	(7,231,051)
Net carrying amount	1,047,294	194,040	5,448,014	332,531	16,362	392,708	7,430,949

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**287,388**	220,114
Additions	**110,831**	72,991
Recognised	**(7,498)**	(5,669)
Exchange realignment	**(853)**	(48)
Carrying amount at 31 December	**389,868**	287,388
Current portion included in prepayments, other receivables and other assets	**(8,625)**	(6,418)
Non-current portion	**381,243**	280,970

15. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Non-current portion:		
Prepayments for items of property, plant and equipment	**398,701**	368,514
Current portion:		
Deposits and other receivables	**316,458**	469,407
Impairment allowance	**(29)**	–
	316,429	469,407
Bill receivable	**39,050**	–
Other comprehensive income	**(224)**	–
Prepayments	**12,989**	185,245
	368,244	654,652

As at 31 December 2018, bill receivable of RMB38,826,000 whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under HKFRS 9.

16. OTHER INTANGIBLE ASSETS

	Computer software RMB'000
31 December 2018	
Cost at 1 January 2018, net of accumulated amortisation	**25,073**
Disposal	**(2,914)**
Amortisation provided during the year	**(7,928)**
At 31 December 2018	**14,231**
At 31 December 2018:	
Cost	**53,528**
Accumulated amortisation	**(39,297)**
Net carrying amount	**14,231**

	Computer software RMB'000
31 December 2017	
Cost at 1 January 2017, net of accumulated amortisation	24,938
Additions	7,687
Amortisation provided during the year	(7,552)
At 31 December 2017	25,073
At 31 December 2017:	
Cost	62,027
Accumulated amortisation	(36,954)
Net carrying amount	25,073

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2018	2017
	RMB'000	RMB'000
Unlisted equity investments, at cost	**–**	13,779
	–	13,779

As at 31 December 2017, an unlisted equity investment with a carrying amount of RMB13,779,000 was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

18. OTHER NON-CURRENT ASSETS

	Group	
	2018	2017
	RMB'000	RMB'000
Listed equity investments, at fair value	**6,703**	–
	6,703	–

The above equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

19. INVENTORIES

	Group	
	2018	2017
	RMB'000	RMB'000
Raw materials	**1,527,480**	1,651,891
Work in progress	**93,331**	118,665
Finished goods	**3,076,654**	2,809,971
Moulds held for production	**70,329**	27,318
	4,767,794	4,607,845

20. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade and bills receivables	7,311,752	8,584,350
Impairment	(102,527)	(28,001)
	7,209,225	8,556,349

The Group's trading terms with its customers are mainly on credit. The credit period is generally 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 credit risk. Overdue balances are reviewed regularly by senior management. At the end of the reporting period, the Group had a certain concentration of credit risk as 31% (2017: 23%) and 67% (2017: 64%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2018 RMB'000	2017 RMB'000
Within 90 days	6,788,232	8,268,592
91 to 180 days	417,334	274,226
181 to 360 days	3,659	13,531
	7,209,225	8,556,349

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

	2018 RMB'000	2017 RMB'000
At 1 January	28,001	66,109
Effect of adoption of HKFRS 9	22,135	–
At beginning of year (restated)	50,136	66,109
Impairment losses	71,302	8,422
Impairment losses reversed	(13,697)	(34,377)
Amount written off as uncollectible	(5,214)	(12,153)
At 31 December	102,527	28,001

20. TRADE AND BILLS RECEIVABLES *(Continued)*

IMPAIRMENT UNDER HKFRS 9 FOR THE YEAR ENDED 31 DECEMBER 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns by product type. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade and bills receivables using a provision matrix:

As at 31 December 2018

	Aging as at 31 December 2018				
	Within 90 days	91 to 180 days	181 to 360 days	Over 1 year	Total
Expected credit loss rate	0.27%	0.27%	0.27%	100.00%	1.40%
Gross carrying amount (RMB'000)	6,806,626	418,464	3,669	82,993	7,311,752
Expected credit losses (RMB'000)	18,394	1,130	10	82,993	102,527

IMPAIRMENT UNDER HKAS 39 FOR THE YEAR ENDED 31 DECEMBER 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB28,001,000 with a carrying amount before provision of RMB30,795,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	8,222,549
Less than one year past due	331,006
	8,553,555

20. TRADE AND BILLS RECEIVABLES *(Continued)*

IMPAIRMENT UNDER HKAS 39 FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

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 had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been any significant change in credit quality and the balances were still considered fully recoverable.

The net of loss allowance due from the holding companies, fellow subsidiaries included in the above are as follows:

	2018	2017
	RMB'000	RMB'000
Due from the ultimate holding company	**214,433**	259,914
Due from the intermediate holding company	**146,644**	290,727
Due from fellow subsidiaries	**565,035**	152,384
	926,112	703,025

The balances are unsecured, non-interest-bearing and on credit terms similar to those offered to the major customers of the Group.

The Group has neither pledged trade receivables nor pledged bills receivables to secure the bank borrowings (2017: Nil).

21. CASH AND BANK BALANCES AND RESTRICTED BANK DEPOSITS

	Notes	2018 RMB'000	2017 RMB'000
Cash and bank balances		**4,497,377**	2,637,267
Time deposits		**244,000**	185,071
		4,741,377	2,822,338
Less: Restricted bank deposits:			
Pledged deposit	(i)	**–**	(71)
Cash and cash equivalents	(ii)	**4,741,377**	2,822,267

Notes:

(i) At 31 December 2018, no bank deposits (2017: RMB71,000 bank deposits) were pledged for letter of credit.

(ii) At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to RMB2,734,539,000 (2017: RMB1,459,410,000). 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.

(iii) 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.

22. TRADE AND BILLS PAYABLES

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

	2018 RMB'000	2017 RMB'000
Within 90 days	**6,066,226**	6,948,227
91 to 180 days	**771,051**	988,718
181 to 360 days	**91,653**	372,276
1 to 2 years	**477,059**	670,930
Over 2 years	**486,007**	2,837
	7,891,996	8,982,988

The trade payables are non-interest-bearing and are normally settled within terms of 30 to 180 days.

22. TRADE AND BILLS PAYABLES (Continued)

The balances due to the holding shareholder, fellow subsidiaries and other related companies included in the above are as follows:

	2018 RMB'000	2017 RMB'000
Due to the ultimate holding company	138,576	141,678
Due to the intermediate holding company	990,292	508,801
Due to fellow subsidiaries	2,636,871	3,038,098
	3,765,739	3,688,577

The balances are unsecured, non-interest-bearing and are repayable on demand.

23. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Contract liabilities	(a)	279,240	–
Advance from customers	(a)	–	285,846
Other payables	(b)	766,860	686,269
Accrued payroll		1,077,243	883,293
		2,123,343	1,855,408

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Short-term advances received from customers	–	–
Sale of goods	279,240	285,846
Total contract liabilities	279,240	285,846

Contract liability includes short-term advances received to deliver industrial products.

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

24. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
At 1 January	**156,398**	–
Received during the year	**254,864**	378,392
Released to the statement of profit or loss	**(275,618)**	(221,994)
At 31 December	**135,644**	156,398
Less: Portion classified as current liabilities	**(15,987)**	(75,301)
Non-current portion	**119,657**	81,097

Various government grants have been received for basic research and development activities. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. A certain grant received relates to an asset is also credited to deferred income and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

25. DEFERRED TAX

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

DEFERRED TAX LIABILITIES

	Withholding taxes on the earnings anticipated to be remitted by subsidiaries RMB'000	Depreciation in excess of depreciation allowance RMB'000	Total RMB'000
At 1 January 2018	**25,912**	**–**	**25,912**
Deferred tax charged to the statement of profit or loss during the year	**18,736**	**141,596**	**160,332**
Gross deferred tax liabilities			
At 31 December 2018	**44,648**	**141,596**	**186,244**
At 1 January 2017	–	–	–
Deferred tax charged to the statement of profit or loss during the year	25,912	–	25,912
Gross deferred tax liabilities			
At 31 December 2017	25,912	–	25,912

25. DEFERRED TAX *(Continued)*

DEFERRED TAX ASSETS

	Depreciation in excess of depreciation allowance RMB'000	Impairment of inventories RMB'000	Government grants RMB'000	Tax losses RMB'000	Accruals RMB'000	Total RMB'000
At 1 January 2018	**179,147**	**33,447**	**12,511**	**752**	**–**	**225,857**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	**52,758**	**(10,149)**	**2,102**	**(611)**	**–**	**44,100**
At 31 December 2018	**231,905**	**23,298**	**14,613**	**141**	**–**	**269,957**
At 1 January 2017	140,654	31,431	–	41,768	2,137	215,990
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	38,493	2,016	12,511	(41,016)	(2,137)	9,867
At 31 December 2017	179,147	33,447	12,511	752	–	225,857

For presentation purposes, certain deferred tax assets and liabilities have been offset with an amount of RMB141,596,000 (2017: Nil) in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	128,361
Net deferred tax liabilities recognised in the consolidated statement of financial position	44,648

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

	2018 RMB'000	2017 RMB'000
Tax losses	**101,167**	17,278
Deductible temporary differences	**412,375**	367,309
	513,542	384,587

The above tax losses will expire in one to five years for offsetting against future taxable profits in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

As at 31 December 2018, the Group recognised the relevant deferred tax liabilities of RMB44,648,000 (2017: RMB25,912,000) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB11,256,904,000 at 31 December 2018 (2017: RMB9,404,287,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

26. SHARE CAPITAL

SHARES

	2018 RMB'000	2017 RMB'000
Issued and fully paid		
2,253,204,500 (2017: 2,253,204,500) ordinary shares	**4,052,228**	4,052,228

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2017	2,253,204,500	4,052,228
At 31 December 2017 and 1 January 2018	2,253,204,500	4,052,228
At 31 December 2018	**2,253,204,500**	**4,052,228**

27. OTHER RESERVES

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 page 69 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. CONTINGENT LIABILITIES

ACTION AGAINST FOXCONN

On 11 June 2007, a Hong Kong High Court action (the "June 2007 Action") was commenced by a subsidiary and an affiliate of Foxconn International Holdings Limited (the "Plaintiffs") against the Company and certain subsidiaries of the Group (the "Defendants") for using confidential information alleged to have been obtained improperly from the Plaintiffs. The Plaintiffs discontinued the June 2007 Action on 5 October 2007 with the effect that the June 2007 Action has been wholly discontinued against all the Defendants named in the action and this finally disposed of the June 2007 Action without any liability to the Defendants. On the same day, the Plaintiffs initiated a new set of legal proceedings in the Court (the "October 2007 Action"). The Defendants named in the October 2007 Action are the same as the Defendants in the June 2007 Action, and the claims made by the Plaintiffs in the October 2007 Action are based on the same facts and the same grounds in the June 2007 Action. The remedies sought by the Plaintiffs in the October 2007 Action include an injunction restraining the Defendants from using the alleged confidential information, an order for the disgorgement of profit made by the Defendants through the use of the confidential information, damages based on the loss suffered by the Plaintiffs and exemplary damages. The total damages sought by the Plaintiffs in the October 2007 Action have not been quantified.

28. CONTINGENT LIABILITIES *(Continued)*

On 2 October 2009, the Defendants instituted a counter-action against Foxconn International Holdings Limited and certain of its affiliates for their intervention, by means of illegal measures, in the operations involving the Company and certain of its subsidiaries, collusions, written and verbal defamation, and the economic loss as a result of the said activities.

As at the reporting date, the case remains in the process of legal proceedings. After consulting the Company's legal counsel representing the Company for the case, the board is of the view that the estimate of ultimate outcome and amount to settle the obligation, if any, of the litigation cannot be made reliably up to date.

29. 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 from three to five years.

There are no contingent rentals, renewal or purchase options, escalation clauses or any restrictions imposed on dividends, additional debt and further leasing within the lease arrangements.

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**28,901**	145,937
In the second year	**17,847**	552
In the third to fifth years, inclusive	**28,253**	564
	75,001	147,053

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
Plant and machinery	**298,914**	246,446
Building	**92,170**	40,905
	391,084	287,351

31. 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 2018 RMB'000	2017 RMB'000
Sales of plant and machinery	(i)	Ultimate holding company	**439**	70,653
		Fellow subsidiaries	**9,475**	12,821
Purchases of plant and machinery	(i)	Ultimate holding company	**1,551**	903
		Fellow subsidiaries	**25,399**	78,303
Purchases of inventories	(ii)	Ultimate holding company	**60,665**	22,760
		Fellow subsidiaries	**657,027**	592,291
Sales of inventories	(ii)	Ultimate holding company	**74,298**	36,859
		Fellow subsidiaries	**899,404**	357,999
Leasing and ancillary expenses paid	(iii)	Ultimate holding company	**182,181**	151,997
		Fellow subsidiaries	**716,679**	603,100
Exclusive processing services received	(iv)	Ultimate holding company	**295,840**	342,315
		Fellow subsidiaries	**43,615**	57,413
Exclusive processing services provided	(iv)	Ultimate holding company	**22,131**	42,944
		Fellow subsidiaries	**26,067**	5,150
Agent fee for procurement service	(v)	Intermediate holding company	**37,951**	35,434
		Fellow subsidiaries	**13,612**	15,364
Sales of glass casing products	(vi)	Fellow subsidiaries	**218,914**	–
Purchases automotive core components and special purpose electric vehicles	(vii)	Fellow subsidiaries	**89,418**	–

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 in accordance with prices and terms mutually agreed between the parties. In the opinion of the directors, the transactions were conducted in the ordinary and usual course of business.

(iii) The expenses were charged on an actually incurred basis or in accordance with terms mutually agreed between the parties. In the opinion of the directors, the transactions were conducted in the ordinary and usual course of business.

(iv) The processing service fees and revenue were charged and received for the depreciation of the relevant machinery and equipment during the year ended 31 December 2018.

31. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: (Continued)

(v) The agent fee for the procurement service was charged on a certain percentage of the total amount of procurement provided by the fellow subsidiaries on behalf of the Group. For the year ended 31 December 2018, the total amount of procurement provided was RMB14,983,202,000.

(vi) The sales of glass casing products were conducted 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.

(vii) The purchases of automative core components and special purpose electric vehicles were conducted 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.

(b) Outstanding balances with related parties:

BYD Precision, a wholly-owned subsidiary of the Company, provided entrusted loans of RMB400,000,000 to BYD Co., Ltd. ("BYD") through China Construction Bank. The loans were unsecured, bear a fixed interest rate of 4.75% and due in 2020. The provision for impairment of the loans receivables amounted to RMB1,080,000, were measured based on incurred credit losses under HKFRS 9.

Except for the entrusted loan to the ultimate holding company, the balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

Details of the Group's trade balances with the holding shareholder, fellow subsidiaries and other related companies as at the end of the reporting period are disclosed in notes 20 and 22 to the financial statements.

The Group had an outstanding balance due from its related company of RMB2,823,000 (2017: Nil) as at the end of the reporting period.

There was no outstanding balance due to its related company (2017: 940,000) as at the end of the reporting period. This balance as at 31 December 2017 is unsecured, interest-free and has no fixed terms of repayment.

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

	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**15,688**	13,170
Pension scheme contributions	**77**	77
	15,765	13,247

Further details of directors' emoluments are included in note 9 to the financial statements.

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

32. 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:

2018

Financial assets

		Financial assets at fair value through profit or loss	Financial assets at fair Value through through other comprehensive income	
	Financial assets at amortised cost RMB'000	Mandatorily classified RMB'000	Debt investments RMB'000	Total RMB'000
Other non-current financial asset	–	6,703	–	6,703
Trade receivables	7,209,225	–	–	7,209,225
Due from related party	2,823	–	–	2,823
Loan to the ultimate holding company	398,920	–	–	398,920
Financial assets included in prepayments, other receivables and other assets	28,605	–	38,826	67,431
Cash and cash equivalents	4,741,377	–	–	4,741,377
	12,380,950	6,703	38,826	12,426,479

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	7,891,996
Financial liabilities included in other payables	1,844,103
	9,736,099

32. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2017

Financial assets

	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	–	13,779	13,779
Loan to the ultimate holding company	400,000	–	400,000
Trade and bills receivables	8,556,349	–	8,556,349
Financial assets included in prepayments, deposits and other receivables	24,969	–	24,969
Pledged deposits	71	–	71
Cash and bank balances	2,822,267	–	2,822,267
	11,803,656	13,779	11,817,435

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	8,982,988
Financial liabilities included in other payables	686,269
	9,669,257

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Financial assets				
Loan to the ultimate holding company	**398,920**	400,000	**398,920**	400,000
Other non-current financial assets	**6,703**	–	**6,703**	–
Bills receivable included in prepayments, other receivables and other assets	**38,826**	–	**38,826**	–
	444,449	400,000	**444,449**	400,000

Management has assessed that the fair values of short-term deposits, cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables, amounts due from/to subsidiaries, amounts due from/to the ultimate holding company and the immediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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

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

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE HIERARCHY

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

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Bills receivables included in prepayments, other receivables and other assets	–	38,826	–	38,826
Other non-current financial assets	6,703	–	–	6,703
	6,703	38,826	-	45,529

Assets for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Loan to the ultimate holding company	–	398,920	–	398,920
	–	398,920	–	398,920

As at 31 December 2017

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

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

34. 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 main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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 portions of the 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 period 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.

	Increase/ (decrease) in United States dollar exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2018			
If RMB weakens against United States dollar	**5**	**172,604**	**–**
If RMB strengthens against United States dollar	**(5)**	**(172,604)**	**–**
2017			
If RMB weakens against United States dollar	5	133,354	–
If RMB strengthens against United States dollar	(5)	(133,354)	–

* Excluding retained profits and exchange fluctuation reserve

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. 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.

MAXIMUM EXPOSURE AND YEAR-END STAGING AS AT 31 DECEMBER 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables*	–	–	–	7,311,752	7,311,752
Due from related party				2,830	2,830
Financial assets included in prepayments, other receivables and other assets	77,206	–	–	–	77,206
– Normal**	77,206	–	–	–	77,206
– Doubtful**	–	–	–	–	–
Loan to the ultimate holding company	400,000	–	–	400,000	400,000
Cash and cash equivalent	4,741,377	–	–	–	4,741,377
	5,218,583	–	–	7,314,582	12,533,165

* For trade receivables the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

MAXIMUM EXPOSURE AS AT 31 DECEMBER 2017

The Group trades only with recognised and creditworthy third parties. Concentrations of credit risk are managed by analyses by customer. At the end of the reporting period, the Group had certain concentrations of credit risk as 31% (2017: 23%) and 67% (2017: 64%) 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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

MAXIMUM EXPOSURE AS AT 31 DECEMBER 2017 *(Continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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.

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. At 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, is as follows:

Financial liabilities

	2018			
	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 (note 22)	**963,066**	**6,066,226**	**862,704**	**7,891,996**
Other payables	**352,705**	**266,572**	**147,583**	**766,860**
	1,315,771	**6,332,798**	**1,010,287**	**8,658,856**

	2017			
	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 (note 22)	673,766	6,964,395	1,344,827	8,982,988
Other payables	329,818	213,362	143,089	686,269
	1,003,584	7,177,757	1,487,916	9,669,257

34. 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 healthy capital ratios 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 2018 and 31 December 2017.

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. As the Group did not have any interest-bearing bank borrowings, the gearing ratio was zero as at 31 December 2018 and 31 December 2017.

35. DIVIDENDS

	2018 **RMB'000**	2017 RMB'000
Interim Nil (2017: Nil) per ordinary share	**–**	–
Proposed final RMB0.195 (2017: RMB0.230) per ordinary share	**439,375**	518,237
	439,375	518,237

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

36. TRANSFERS OF FINANCIAL ASSETS

FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

In the ordinary course of business, the Group has factored a small amount of receivables measured at amortised cost to financial institutions without recourse for its short-term financing needs, and has entered into non-recourse receivables factoring agreements with a number of banks to transfer certain receivables to those banks (the "Receivable Factoring"). Under certain receivable factoring agreements, the Group is not required to undertake default risks and the delayed repayment risk from the debtors after the transfer of receivable, and all risks and rewards related to the ownership of the receivables are transferred. The definition of termination of financial assets is met. Therefore, the Group derecognised the receivables under the factoring agreements at carrying amount. As at 31 December 2018, the carrying amount of transferred trade receivables under relevant factoring agreements amounted to RMB7,643,615,000 (31 December 2017: RMB 14,802,801,000), and the loss related to derecognition amounted to RMB42,805,000 (31 December 2017:RMB44,040,000).

36. TRANSFERS OF FINANCIAL ASSETS *(Continued)*

FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY *(Continued)*

At 31 December 2018, the Group endorsed certain bills receivable accepted by certain banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to these suppliers with a carrying amount in aggregate of RMB1,202,000. The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

37. EVENTS AFTER THE REPORTING PERIOD

A final dividend in respect of the year ended 31 December 2018 of RMB0.195 per share (tax inclusive) was proposed pursuant to a resolution passed by the Board of Directors on 27 March 2019. This intended to distribute cash dividends of RMB439,374,878 in aggregate based on the total share capital of 2,253,204,500 shares of the Company as at 27 March 2019. The proposal of the final dividend is subject to consideration and approval at the Company's forthcoming general meeting. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**11,990,269**	10,477,811
CURRENT ASSETS		
Prepayments, deposits and other receivables	**14**	13
Trade receivable	**3,874,426**	3,712,138
Cash and bank balances	**5,815**	2,692
Total current assets	**3,880,255**	3,714,843
CURRENT LIABILITIES		
Due to subsidiaries	**–**	1
Trade payable	**1,340**	1,340
Total current liabilities	**1,340**	1,341
NET CURRENT ASSETS	**3,878,915**	3,713,502
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,869,184**	14,191,313
Net assets	**15,869,184**	14,191,313
EQUITY		
Share capital	**4,052,228**	4,052,228
Other reserves	**11,816,956**	10,139,085
Total equity	**15,869,184**	14,191,313

Wang Chuan-fu
Director

Wang Nian-qiang
Director

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's other reserves is as follows:

	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2017	(176,987)	7,878,981	7,701,994
Profit for the year	–	2,584,868	2,584,868
Exchange differences on translation of foreign operations	7,694	–	7,694
Total comprehensive income for the year	7,694	2,584,868	2,592,562
2016 Final dividend declared	–	(155,471)	(155,471)
At 31 December 2017 and at 1 January 2018	**(169,293)**	**10,308,378**	**10,139,085**
Profit for the year	**–**	**2,208,723**	**2,208,723**
Exchange differences on translation of foreign operations	**(12,615)**	**–**	**(12,615)**
Total comprehensive income for the year	**(12,615)**	**2,208,723**	**2,196,108**
2017 Final dividend declared	**–**	**(518,237)**	**(518,237)**
At 31 December 2018	**(181,908)**	**11,998,864**	**11,816,956**

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**41,047,139**	38,774,422	36,734,264	29,285,830	19,832,127
Cost of sales	**(36,875,156)**	(34,510,484)	(33,934,135)	(27,382,285)	(17,726,965)
Gross profit	**4,171,983**	4,263,938	2,800,129	1,903,545	2,105,162
Other income and gains	**558,070**	493,442	474,005	451,442	291,908
Government subsidies	**287,390**	240,161	25,502	47,852	–
Research and development costs	**(1,588,654)**	(1,200,632)	(978,772)	(722,270)	(709,087)
Selling and distribution costs	**229,238**	(229,098)	(184,698)	(152,044)	(162,091)
Administrative expenses	**(535,819)**	(434,024)	(562,215)	(453,609)	(386,929)
Impairment losses on financial assets, net	**(57,333)**	–	–	–	–
Other expenses	**(27,762)**	(97,620)	(113,914)	(35,390)	(121,229)
Finance costs	**(42,805)**	(44,040)	(26,953)	(3,089)	(5,530)
PROFIT BEFORE TAX	**2,535,832**	2,992,127	1,433,084	1,036,437	1,012,204
Tax	**(347,212)**	(407,259)	(199,593)	(128,292)	(110,507)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**2,188,620**	2,584,868	1,233,491	908,145	901,697
ASSETS AND LIABILITIES					
TOTAL ASSETS	**26,051,172**	25,386,326	23,994,987	22,244,401	16,834,457
TOTAL LIABILITIES	**10,225,840**	11,195,013	12,240,765	11,696,622	7,169,245
Total equity	**15,825,332**	14,191,313	11,754,222	10,547,779	9,665,212

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