

---

## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or transferred** all your shares in **BYD ELECTRONIC (INTERNATIONAL) COMPANY LIMITED**, you should at once hand this circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



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

*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*

**(Stock Code : 285)**

## **CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO PROVISION OF ENTRUSTED LOANS BY BYD PRECISION MANUFACTURE CO., LTD.\* TO BYD COMPANY LIMITED**

**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



**昱豐融資有限公司  
CERES CAPITAL LIMITED**

---

A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 39 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at the conference room of BYD Company Limited at No. 3009, BYD Road, Pingshan, Shenzhen, the People's Republic of China on Friday, 14 October 2011 at 10:00 a.m. is set out on pages 45 to 46 of this circular.

Whether or not you are able to attend and/or vote at the extraordinary general meeting in person, you are requested to complete the enclosed proxy form and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjournment thereof in person should you so wish.

\* *for identification purpose only*

28 September 2011

---

## CONTENTS

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	4
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	12
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISER</b> .....	14
<b>APPENDIX — GENERAL INFORMATION</b> .....	40
<b>NOTICE OF THE EGM</b> .....	45

---

## DEFINITIONS

---

*In this circular, the following expressions shall have the following meanings unless the context otherwise requires:*

“Banks”	licensed banks in the PRC entrusted by BYD Precision as entrusted lending agents to make the Entrusted Loans, which to the best of the knowledge, information and belief of the Board, and having made all reasonable enquires, are independent third parties who are independent of and not connected with the directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates
“Board”	the board of directors of the Company
“BYD”	BYD Company Limited (比亞迪股份有限公司), a joint stock limited company incorporated in the PRC whose H shares are listed on the Main Board of the Stock Exchange and A shares are listed on the SME Board of the Shenzhen Stock Exchange, and the controlling shareholder of the Company indirectly interested in approximately 65.76% of the issued share capital of the Company as at the Latest Practicable Date
“BYD Group”	BYD and its subsidiaries (excluding, except where the context indicates otherwise, the Group)
“BYD HK”	BYD (H.K.) Co., Limited, a direct wholly owned subsidiary of BYD and the holding company of Golden Link
“BYD Precision”	BYD Precision Manufacture Co., Ltd.* (比亞迪精密製造有限公司), an indirect wholly owned subsidiary of the Company incorporated in the PRC
“Company”	BYD Electronic (International) Company Limited (比亞迪電子(國際)有限公司), a company incorporated under the laws of Hong Kong, whose shares are listed on the Main Board of the Stock Exchange
“Conditions”	the conditions precedent for the provision of the Entrusted Loans by BYD Precision to BYD under the Memorandum of Understanding as detailed in the paragraph headed “Conditions” under the section headed “Provision of the Entrusted Loans” in the Letter from the Board of this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules

---

## DEFINITIONS

---

“Deed of Undertaking”	the deed of undertaking proposed to be given by BYD, BYD HK and Golden Link in favour of the Company and BYD Precision, the form and substance of which were agreed among the parties thereto as at the date of the Memorandum of Understanding
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Friday, 14 October 2011 to consider and, if thought fit, approve, the provision of the Entrusted Loans
“Entrusted Loans”	the entrusted loans of a total principal amount of RMB 1 billion proposed to be provided by BYD Precision as lender to BYD as borrower through the Banks as entrusted lending agents
“Entrusted Loan Agreements”	the agreements proposed to be made by BYD Precision (as lender) and BYD (as borrower) with each of the Banks (as entrusted lending agents) in relation to BYD Precision entrusting the Banks to arrange the Entrusted Loans to BYD after the fulfilment of the Conditions, the form and substance of which were agreed among BYD Precision, BYD and the Banks as at the date of the Memorandum of Understanding
“Golden Link”	Golden Link Worldwide Limited, a direct wholly owned subsidiary of BYD HK incorporated in the British Virgin Islands and is directly interested in approximately 65.76% interest in the Company as at the Latest Practicable Date. BYD HK is in turn directly wholly owned by BYD and as such BYD is indirectly interested in approximately 65.76% interest in the Company through Golden Link
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a committee of the Board comprising Mr. CHAN Yuk-tong, Mr. Antony Francis MAMPILLY and Mr. LIANG Ping, being the independent non-executive directors of the Company
“Independent Financial Adviser”	Ceres Capital Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the provision of the Entrusted Loans

---

## DEFINITIONS

---

“Independent Shareholders”	shareholders of the Company (other than BYD, Ms. LI Ke, Mr. SUN Yi-zao, Mr. WU Jing-sheng and their respective associates) who are not required to abstain from voting at the EGM
“Latest Practicable Date”	26 September 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum of Understanding”	the legally binding Memorandum of Understanding dated 9 September 2011 made between BYD as borrower and BYD Precision as lender in relation to the Entrusted Loans, as amended and supplemented by the Supplemental Memorandum of Understanding
“PRC”	the People’s Republic of China (for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“Supplemental Memorandum of Understanding”	the legally binding Supplemental Memorandum of Understanding dated 15 September 2011 made between BYD as borrower and BYD precision as lender for amendment of interest rate of the Entrusted Loans as originally agreed under the Memorandum of Understanding
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

\* *for identification purpose only*

For the purposes of this circular and illustration only, conversions of RMB into HK\$ are based on the approximate exchange rate of RMB1.0000 to HK\$1.2196. No representation is made that any amount in HK\$ or RMB could have been or could be converted at the above rate or at any other rates.

---

LETTER FROM THE BOARD

---



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

*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*

**(Stock Code : 285)**

***Board of Directors:***

*Executive Directors*

Ms. LI Ke

Mr. SUN Yi-zao

*Non-executive Directors*

Mr. WANG Chuan-fu

Mr. WU Jing-sheng

*Independent Non-executive Directors*

Mr. CHAN Yuk-tong

Mr. Antony Francis MAMPILLY

Mr. LIANG Ping

***Registered Office:***

Part of Unit 1712, 17th Floor

Grand Central Plaza, Tower 2

138 Shatin Rural Committee Road

Shatin, New Territories

Hong Kong

***Head Office and Principal Place  
of Business in PRC:***

No. 3001, Bao He Road

Baolong, Longgang

Shenzhen, 518116

The PRC

28 September 2011

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION  
IN RELATION TO  
PROVISION OF ENTRUSTED LOANS BY BYD PRECISION  
MANUFACTURE CO., LTD.\* TO BYD COMPANY LIMITED**

**INTRODUCTION**

Reference is made to the announcements of the Company dated 9 September 2011 and 15 September 2011 in relation to proposed provision by BYD Precision of the Entrusted Loans in a total principal amount of RMB1 billion to BYD through the Banks as entrusted lending agents.

This circular gives you further information in relation to the provision of the Entrusted Loans and contains the advice of the Independent Financial Adviser to the independent Board Committee and the Independent Shareholders in relation to the provision of the Entrusted Loans.

---

## LETTER FROM THE BOARD

---

### PROVISION OF THE ENTRUSTED LOANS

#### (1) Date and Parties

On 9 September 2011, BYD Precision (as lender), a wholly-owned subsidiary of the Company entered into the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding dated 15 September 2011) with BYD (as borrower) pursuant to which BYD Precision will, subject to the fulfilment of the Conditions, provide the Entrusted Loans in a total principal amount of RMB1 billion to BYD through the Banks (as entrusted lending agents), which are the licensed banks in the PRC, in order to satisfy the need for further working capital of BYD.

BYD Precision and BYD propose to enter into the Entrusted Loan Agreements with each of the Banks within two (2) business days (or such other day as may be agreed between the parties) after the fulfilment of the Conditions pursuant to which BYD Precision shall, as principal, entrust the Banks to arrange the Entrusted Loans be lent to BYD. The terms of each of the Entrusted Loan Agreements will be substantially the same. The principal terms of the Entrusted Loans under the Memorandum of Understanding are summarized in this Letter from the Board.

#### (2) Conditions

The provision of the Entrusted Loans by BYD Precision to BYD is conditional upon fulfilment of the following Conditions:

- (a) the Independent Shareholders having approved by way of poll at the EGM of the provision of the Entrusted Loans by BYD Precision to BYD contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding dated 15 September 2011) and the Entrusted Loan Agreements; and
- (b) the Deed of Undertaking having been signed by BYD, BYD HK and Golden Link in favour of the Company and BYD Precision.

#### (3) Total principal amount of the Entrusted Loans

RMB1 billion, to be lent by BYD Precision to BYD through the Banks as entrusted lending agents.

#### (4) Term

The term for the Entrusted Loans is 36 months commencing from the date of drawdown of the Entrusted Loans and there is no provision under the Memorandum of Understanding providing for extension of term by unilateral request or mutual consent of the parties. Any extension of the term after maturity of the Entrusted Loans upon agreement of the parties will be in compliance with relevant requirements, including those under the Listing Rules.

---

## LETTER FROM THE BOARD

---

### (5) Interest rate

At a floating interest rate equivalent to the RMB benchmark interest rate for 3-year term loans effective on the date when each batch of borrowing is drawn down as announced by the People's Bank of China plus 10% thereof, and to be adjusted every three months after drawdown. The adjustment date is the first date of each of the three-month period after drawdown. The adjusted interest rate will be the prevailing RMB benchmark lending rate for 3-year term on the adjustment date as announced by the People's Bank of China plus 10% thereof.

For illustration purpose only, the RMB benchmark interest rate for 3-year term loans as at the Latest Practicable Date announced by the People's Bank of China was 6.65% per annum and the interest rate for the Entrusted Loans would therefore be 7.315% per annum (i.e. 6.65% X 1.1) assuming the Entrusted Loans were drawn down on the Latest Practicable Date. The interest rate of the Entrusted Loans (being 10% on top of the RMB benchmark interest rate for 3-year term loans announced by the People's Bank of China) was arrived at after arm's length negotiation between BYD Precision and BYD with reference to the liquidity position of BYD Precision and the capital costs of BYD under prevailing monetary-tightening market in the PRC.

If BYD cannot make repayment of any part of the Entrusted Loans or interest accrued thereto upon maturity, penalty interest will be incurred on all outstanding sum from the maturity date up to the actual payment date calculated with reference to this formula: the RMB benchmark interest rate for 3-year term loans announced by the People's Bank of China on the maturity date x 1.1 x 1.5. For illustration purpose only, if the RMB benchmark interest rate for 3-year terms loans announced by the People's Bank of China on the maturity date is 6.65% per annum, the penalty interest rate applicable up to the actual payment date would be 10.9725% per annum (i.e. 6.65% x 1.1 x 1.5).

### (6) Repayment schedule of the principal of the Entrusted Loans

One-off repayment of the principal by BYD upon maturity of the Entrusted Loans, subject to early repayment as demanded by BYD Precision or opted by BYD.

### (7) Payment schedule of interests of the Entrusted Loans

Interests for the Entrusted Loans shall be settled by BYD on the twentieth (20th) day of each month after drawdown.

### (8) Repayment upon demand by BYD Precision or early repayment opted by BYD

BYD Precision shall have the right to require BYD to repay all or part of the outstanding principal amount of the Entrusted Loans and all the accrued interests before maturity of the Entrusted Loans by serving a written notice on BYD. BYD shall repay such sum within three (3) months after receiving the written notice from BYD Precision (the "**Repayment Demand Notice**").

BYD shall have the right to repay all or part of the outstanding principal amount of the Entrusted Loans and all the accrued interests before maturity of the Entrusted Loans after serving three (3) months' prior written notice and having obtained the consent to early repayment from BYD Precision.

---

## LETTER FROM THE BOARD

---

### (9) Handling charge

The handling charge for arranging the Entrusted Loans under the Entrusted Loan Agreements is calculated at 0.03% of the total principal amount of the Entrusted Loans. BYD Precision shall pay the handling charge on a one-time basis to the Banks when the Entrusted Loans are released to BYD.

### (10) Deed of Undertaking

As one of the Conditions for the provision of the Entrusted Loans, BYD, BYD HK and Golden Link would give undertakings in favour of the Company and BYD Precision under the Deed of Undertaking, the principal terms of which are as below:

#### *Non-disposal undertaking*

- (a) BYD undertakes that as long as any part of the Entrusted Loans and/or any interest accrued thereto remains outstanding (the “**Relevant Period**”), it will maintain holding at least 25% interest in the total issued share capital of the Company from time to time (the “**Relevant Interests**”), and Golden Link undertakes that it shall not (and BYD shall procure Golden Link not to), within the Relevant Period sell, transfer or dispose of, nor enter into any agreement to sell, transfer or dispose of or otherwise create any options, rights, interests, pledge, lien, trust arrangement or encumbrances (the “**Restricted Acts**”) in respect of the Relevant Interests;
- (b) Within the Relevant Period, (i) BYD shall not conduct any Restricted Acts in respect of its interest in BYD HK and (ii) BYD HK shall not conduct any Restricted Acts in respect of its interest in Golden Link, which would lead to BYD ceasing to have the Relevant Interests in the Company; and
- (c) The undertakings given by each of BYD, BYD HK and Golden Link in (a) and (b) above are irrevocable and absolute unless otherwise waived in writing by the Company and BYD Precision after taking into account that such waiver is justifiable and beneficial to the Group and the Independent Shareholders as a whole and such waiver must be endorsed by all the independent non-executive Directors of the Company and approved by the Independent Shareholders.

#### *Right of disposal and indemnity*

- (a) BYD grants a right to the Company that if BYD fails to repay any part of the principal amount of the Entrusted Loans and/or any interest accrued thereto at the maturity of the Entrusted Loans or upon expiry of the Repayment Demand Notice, the Company shall be entitled to dispose up to 25% of total issued shares of the Company for and on behalf of Golden Link (as registered and beneficial shareholder) at the sole discretion of the Company as settlement of the Entrusted Loans with reference to the prevailing market condition on the prerequisite that the terms and conditions of such disposal shall be subject to all applicable laws and regulations and shall be, in the opinion of the Directors of the Company (including the independent non-executive Directors of the Company), beneficial to the Group and the Independent Shareholders as a whole

---

## LETTER FROM THE BOARD

---

(the “**Right of Disposal**”). In the event of any deficiency in the proceeds raised from the exercise of the Right of Disposal against any outstanding loan amount, BYD shall indemnify the Company and BYD Precision to the effect that any deficiency would be paid by BYD in full as final settlement of the Entrusted Loans;

- (b) Golden Link shall provide all necessary assistance to the Company if it exercises the Right of Disposal; and
- (c) BYD and Golden Link agree to fully indemnify the Company on demand against and hold it free and harmless from all liabilities, losses, damages, costs, taxes and expenses incurred by it arising out of or in connection with the exercise of the Right of Disposal.

For reference purposes only, based on the average closing prices of the 5 trading days quoted on the Stock Exchange immediately prior to the date of the Memorandum of Understanding, the market value of the 25% shares in the Company amounted to approximately HK\$1.27 billion (equivalent to approximately RMB1.04 billion).

### REASONS FOR AND BENEFITS OF THE TRANSACTION

As at 30 June 2011, the Group had cash and bank balances of approximately RMB2,471 million, of which approximately RMB1,897 million was held by BYD Precision. Based on the evaluation of the cashflow under contractual commitment of the Group and its business development plan, the Directors (including independent non-executive Directors) are satisfied that the Company will have enough cash to meet its needs for daily operation and capital expenditures. Further, BYD Precision could exercise its right to demand BYD to repay all or any part of the outstanding principal amount of the Entrusted Loans and accrued interest before the maturity of the Entrusted Loans by serving 3-month notice on BYD.

The RMB benchmark interest rate for 3-year term loans announced by the People’s Bank of China as at the Latest Practicable Date was 6.65% per annum and the interest rate of the Entrusted Loans would be 7.315% per annum (i.e. 6.65% x 1.1) (for illustration purpose only). The surplus cash of the Group is generally placed at banks as demand deposit or time deposit for up to 3-month term with deposit interest rate of up to 3.1% per annum as stipulated by the People’s Bank of China. Therefore, BYD Precision is expected to enjoy a premium of 4.213% per annum over the 3-month time deposit interest rate and the provision of the Entrusted Loans will enable the Group to enhance the return on its surplus cash resources.

To the best knowledge of the Directors, entrusted loan arrangement is not uncommon in the PRC recently given the prevailing monetary-tightening policies adopted in the PRC. The Directors considered that the risk associated with the provision of the Entrusted Loans is the default of repayment by BYD. However, the Directors believed that the Group has been safeguarded against such risk in view of the Right of Disposal and the indemnities granted by BYD in favour of the Company under the Deed of Undertaking. Further, the Directors noted that, as disclosed in an announcement of BYD dated 9 September 2011, the shareholders of BYD approved at its extraordinary general meeting held on 9 September 2011 the proposed issuance by BYD of corporate bonds in an aggregate principal amount of not more than RMB6 billion in the PRC. The issuance is still subject to approval by relevant authorities in the PRC. If the issuance proceeds, the repayment ability of BYD will be further strengthened.

---

## LETTER FROM THE BOARD

---

The Directors (including the independent non-executive Directors of the Company after considering the advice of the Independent Financial Adviser) are of the view that the provision of the Entrusted Loans and the Entrusted Loan Agreements have been reached upon arm's length negotiation between BYD Precision, BYD and the Banks, and the Memorandum of Understanding and Entrusted Loan Agreements are on normal commercial terms which are fair and are reasonable and in the interests of the Company and its shareholders as a whole.

Mr. WANG Chuan-fu, who is a non-executive Director of the Company, is also an executive director and Chairman of the board of BYD and was interested in approximately 24.24% of the total issued share capital of BYD as at the Latest Practicable Date. Mr. WU Jing-sheng, who is a non-executive Director of the Company, is also a Vice President, Chief Financial Officer and board secretary of BYD and was interested in approximately 0.5% of the total issued share capital of BYD as at the Latest Practicable Date. Mr. WANG and Mr. WU abstained from voting on the board resolution of the Company concerning provision of the Entrusted Loans. Ms. LI Ke and Mr. SUN Yi-zao, being the executive Directors of the Company, have no directorship and management role in BYD nor have any employment relationship with BYD and they have not abstained from voting on the board resolutions.

### INFORMATION ON THE GROUP AND BYD GROUP

The Group is principally engaged in the business of the manufacture and sales of handset components and modules and the provision of handset assembly services.

The BYD Group is principally engaged in the manufacture and sale of (a) rechargeable batteries, (b) electro-mechanical parts for electronic devices and handsets; and (c) automobiles.

### LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, BYD is the controlling shareholder of the Company indirectly interested in approximately 65.76% of the issued share capital of the Company. Therefore, BYD is a connected person of the Company and the provision of the Entrusted Loans 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 provision of the Entrusted Loans exceed 5%, the provision of the Entrusted Loans as connected transaction is subject to the reporting, announcement and Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules. Further, based on the applicable percentage ratio calculations under the Listing Rules, the provision of the Entrusted Loans also constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

The Company, being a non wholly-owned subsidiary of BYD, is not a connected person of BYD under Rule 14A.11(5) of the Listing Rules as, to the best knowledge, information and belief of the Directors after making all reasonable enquiry, (a) none of the connected persons of BYD is or are

---

## LETTER FROM THE BOARD

---

(individually or together) entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company; and (b) the Company is not an associate of the connected persons of BYD. Accordingly, the obtaining of the Entrusted Loans does not constitute a connected transaction for BYD under Chapter 14A of the Listing Rules.

### EGM

A notice convening the EGM to be held at the conference room of BYD at No. 3009, BYD Road, Pingshan, Shenzhen, the People's Republic of China on Friday, 14 October 2011 at 10:00 a.m. is set out on pages 45 to 46 of this circular. At the EGM, ordinary resolution will be proposed to consider and, if thought fit, to approve the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding), the Entrusted Loan Agreements and the Deed of Undertaking by way of poll. BYD and its associates are required to abstain from voting of the resolution at the EGM. Ms. LI Ke, Mr. SUN Yi-zao and Mr. WU Jing-sheng, being the Directors of the Company, are the beneficiaries of BF Trust which is an employees' trust of the Company with HSBC Trustee (Hong Kong) Limited acting as the trustee of the trust. Ms. LI Ke, Mr. SUN Yi-zao and Mr. WU Jing-sheng are respectively interested in approximately 0.38%, 0.26% and 0.38% of the total issued share capital of the Company as at the Latest Practicable Date through BF Trust. Ms. LI Ke, Mr. SUN Yi-zao and Mr. WU Jing-sheng are also respectively interested in approximately 0.50%, 0.46% and 0.50% of the total issued share capital of BYD as at the Latest Practicable Date. The trustee of BF Trust is required to abstain from voting of the resolution at the EGM in respect of the interest owned by Ms. LI Ke, Mr. SUN Yi-zao and Mr. WU Jing-sheng.

A proxy form for use in connection with the EGM is accompanied with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon to the branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from subsequently attending and voting in person at the extraordinary general meeting or any adjournment thereof (as the case may be) should you so wish.

### RECOMMENDATION

The Independent Board Committee, after taking into account the advice from the Independent Financial Adviser, considers that the terms of the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding), the Entrusted Loan Agreements and the Deed of Undertaking are fair and reasonable and on normal commercial terms and the provision of the Entrusted Loans as contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) are in the interest of the Company and the Shareholders as a whole, and are fair and reasonable so far as Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the provision of the Entrusted Loans as contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding).

---

## LETTER FROM THE BOARD

---

The text of the letter from the Independent Board Committee is set out on pages 12 to 13 of this circular. The text of the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice is set out on pages 14 to 39 of this circular. Independent Shareholders are strongly recommended to read carefully these two letters for details of the advice.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendix to this circular and the notice of the EGM.

By order of the board of  
**BYD Electronic (International) Company Limited**  
**LI Ke**  
*Director*

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

*The following is the full text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the provision of the Entrusted Loans:*



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

*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*

**(Stock Code : 285)**

28 September 2011

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION**  
**IN RELATION TO**  
**PROVISION OF ENTRUSTED LOANS BY BYD PRECISION**  
**MANUFACTURE CO., LTD.\* TO BYD COMPANY LIMITED**

We refer to the circular dated 28 September 2011 issued by the Company (the “Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the provision of the Entrusted Loans contemplated under Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) and to advise the Independent Shareholders as to the fairness and reasonableness of the same. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **RECOMMENDATION**

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 11 of the Circular, and the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) as set out on pages 14 to 39 of the Circular.

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---

After taking into consideration the advice from the Independent Financial Adviser, we concur with the views of the Independent Financial Adviser and consider that the terms of the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding), the Entrusted Loan Agreements and the Deed of Undertaking are fair and reasonable and on normal commercial terms and the provision of the Entrusted Loans as contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) are in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the provision of the Entrusted Loans as contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding).

Yours faithfully  
Independent Board Committee

**CHAN Yuk-tong**  
*Independent non-executive  
Director*

**Antony Francis MAMPILLY**  
*Independent non-executive  
Director*

**LIANG Ping**  
*Independent non-executive  
Director*

\* *for identification purpose only*

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

*The following is the full text of the letter dated 28 September 2011 from Ceres Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding), prepared for the purpose of incorporation in this circular.*



Suite 901, Level 9  
The Hong Kong Club Building  
3A Chater Road  
Central, Hong Kong

28 September 2011

*To the independent board committee and  
the independent shareholders of  
BYD Electronic (International) Company Limited*

Dear Sirs,

### **CONNECTED TRANSACTION — PROVISION OF ENTRUSTED LOANS TO BYD COMPANY LIMITED**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the independent board committee (the “Independent Board Committee”) and the independent shareholders (the “Independent Shareholders”) of BYD Electronic (International) Company Limited (the “Company”) in respect of the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding), details of which are set out in the circular to the shareholders of the Company dated 28 September 2011 (the “Circular”), of which this letter forms part. This letter contains our advice to the Independent Board Committee and the Independent Shareholders in respect of the provision of the Entrusted Loans. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 9 September 2011, the Board announced that BYD Precision, a wholly-owned subsidiary of the Company, has entered into the legally binding Memorandum of Understanding with BYD in respect of the provision of the Entrusted Loans. On 15 September 2011, the Board further announced that the Supplemental Memorandum of Understanding was signed to amend the interest rate on the

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Entrusted Loans. BYD is the controlling shareholder of the Company which was indirectly interested in approximately 65.76% of the total issued share capital of the Company as at the date of the Memorandum of Understanding, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the provision of the Entrusted Loans constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Since the provision of the Entrusted Loans is not in the ordinary and usual course of business of the Group and the applicable percentage ratios in respect of the amount of the Entrusted Loans are more than 5%, the provision of the Entrusted Loans is required to be subject to, among other things, the approval of the independent shareholders at a general meeting of the Company pursuant to Chapter 14A of the Listing Rules. In this regard, the Independent Board Committee, comprising three independent non-executive directors of the Company, has been formed to advise the Independent Shareholders.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) is in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Entrusted Loans are normal commercial terms and are fair and reasonable; and (iii) whether the Independent Shareholders should vote in favour of the ordinary resolution to approve the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) at the EGM.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company and the Directors and for which they are solely and wholly responsible, were true and accurate at the time they were made and continue to be so at the date hereof. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in the Circular, including this letter, or the Circular misleading. We consider that we have reviewed sufficient information which enables us to form a reasonable basis for our opinion. We also consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules to ascertain the reliability of the information provided to us and to form our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business, financial results and positions and affairs of the Group or any parties involved in the provision of the Entrusted Loans, or the prospects of the markets in which they respectively operate.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Our opinion is necessarily based upon economic, market and other conditions and circumstances existing on, and the facts, information and representations made available to us up to and including, the Latest Practicable Date. Although subsequent developments may affect our opinion, we do not have any obligation to update, revise or reaffirm our opinion contained herein.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Listing Rules.

### PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding), we have taken into consideration the following principal factors:

#### 1. Background information

##### (a) *Overview of the business operation and performance of the Group*

The Group is principally engaged in the business of the manufacture and sale of handset components and modules, the provision of handset assembly services, and the provision of parts and assembly services of other electronic products. The Group's handset components and module business includes the manufacture and sale of handset components such as handset casings and keypads, and handset modules which are semi-finished handsets equipped with various mechanical components such as microphones and connectors. The Group also provides assembly services, namely, high level assembly services, PCB assembly services, and parts and assembly services of other electronic products.

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011 which are extracted from the Company's annual reports for 2009 and 2010 and the interim results announcement for the six months ended 30 June 2011.

	Year ended 31 December			6 months
	2008	2009	2010	ended
	RMB'000	RMB'000	RMB'000	30 June 2011
	(audited)	(audited)	(audited)	RMB'000
				(unaudited)
Turnover	8,555,112	11,198,670	16,647,129	7,753,679
Gross profit	1,709,547	1,561,783	2,069,991	808,046
Profit for the year/period	765,825	758,856	1,037,836	334,682

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

For the year ended 31 December 2008, the Group recorded an audited turnover of approximately RMB8.6 billion and a gross profit of approximately RMB1.7 billion, representing a gross profit margin of approximately 20.0%. The Group's profit for 2008 was approximately RMB766 million. As indicated in the Company's annual report for 2008, the handset component and module business accounted for approximately 55% of the Group's total turnover, with the remaining 45% attributable to assembly services.

For the year ended 31 December 2009, the Group recorded an audited turnover of approximately RMB11.2 billion, representing an increase of approximately 31% over that for the preceding year. As noted in the Company's annual report for 2009, the revenue generated from the handset components and module business and the assembly services remained at substantially the same proportion of 55:45 as in the preceding year. Although the Group's sales performance improved, the gross profit margin dropped to approximately 13.9% due primarily to the effects on the handset components and module business as a result of the change of product structures and increasing market competition. Consequently, the Group's profit for 2009 dropped slightly to approximately RMB759 million from approximately RMB766 million of the preceding year.

Since the first half of 2010, the global handset industry showed signs of recovery as consumer confidence and consumption power received a boost from the U.S. and China stimulus programs. The Group recorded a turnover of approximately RMB16.6 billion for the year ended 31 December 2010, representing approximately 48.7% growth from the preceding year. Despite a slight drop in the profit margins, the Group's gross profit reached almost RMB2.1 billion and profit for 2010 exceeded RMB1 billion.

Following the strong growth in 2010, the global economy consolidated in the first half of 2011 amid the political instability in the Middle East, the earthquake in Japan and the ongoing financial crisis in the U.S. and Europe. Despite the depressed market conditions, the increasing popularity and strong demand for smart phones and 3G handsets have channeled business opportunities to "one-stop" suppliers which are highly vertically integrated with global manufacturing and service platforms in the mobile phone industry, such as the Group. The Group recorded stable turnover of approximately RMB7.8 billion for the six months ended 30 June 2011. Due to increasing competition in the mobile phone industry, the handset manufacturers became more cost-conscious and exercised stringent control over their production costs and rigorous selection of upstream handset components suppliers. The price reduction pressure from the customers had affected the profit margins of both the handset components and the module businesses of the Group. With further decline in its gross profit margin, the Group reported an 11% decline in its unaudited gross profit to approximately RMB808 million, and a 7.6% drop in its profit for the first half of 2011 to approximately RMB335 million.

As indicated in the Company's interim results announcement for the six months ended 30 June 2011, the Group will continue putting resources on research and development of 3G handset business, further develop its ODM business for 3G handsets, and target at international and domestic leading handset manufacturers with a view to gaining market share in the 3G market as a source for business growth of the Group.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

(b) *Relationship between the parties under the Entrusted Loans and reasons for the provision of the Entrusted Loans*

The Entrusted Loans are proposed to be made by BYD Precision, a wholly-owned subsidiary of the Company, to BYD. BYD is the controlling shareholder of the Company which was indirectly interested in approximately 65.76% of the total issued share capital of the Company as at the Latest Practicable Date.

The Company was a wholly-owned subsidiary of BYD until its spin-off listing from the BYD Group on the Stock Exchange in December 2007. Following the spin-off listing, the BYD Group is principally engaged in the manufacture and sale of rechargeable batteries, and electro-mechanical parts for electronic devices and handsets and automobiles, while the mobile handset components and assembly business is principally carried out by the Group.

Despite the distinctive lines of business carried out by the BYD Group and the Group, there remain some inter-group business transactions which are conducted in the ordinary and usual course of business of the two groups on an on-going basis. In particular, the Group purchases from the BYD Group products such as flexible printed circuits (“FPC”) and liquid crystal displays (“LCD”), for its advanced assembly business and handset modules, and also materials for use in the production of handset cases and keypads and chargers, etc. The BYD Group also provides certain utilities services, including water and electricity, and maintenance services to the Group in an industrial park in Shenzhen where both the operations of the Group and the BYD Group are located. We understand from the Company that by purchasing certain products and services from the BYD Group, the Group can continue to take advantage of the advanced production and processing facilities, as well as the infrastructural facilities of the BYD Group without making its own investment in such areas. Due to the historical business relationship, the Group and the BYD Group adopt similar quality standards and the BYD Group is in a good position to cater to the Group’s product and quality requirements. As a vertically integrated service provider, it is essential for the Group to have a stable and reliable source of supply of quality materials to meet its production requirements.

Meanwhile, in order to better utilize its production facilities, the Group is also a supplier to the BYD Group in such products as plastic components, moulds and miscellaneous spare parts, for use in the automobile production process and in the production of batteries, LCD and FPC, etc. All these inter-group sale and purchase transactions have been conducted in the ordinary and usual course of business of the BYD Group and the Group, and have been duly approved by the independent shareholders of the Company.

As stated in the Letter from the Board, the Entrusted Loans will provide the BYD Group with additional general working capital, while enabling the Group to have better return on its surplus cash resources. The arrangement of the Entrusted Loans can be understood as an exercise in group cash management which is designed to optimize the efficient use of cash resources within the BYD Group, of which the Group forms part. This cash management exercise aims to channel the idle surplus cash resources from the Group which is capable of generating strong cash flows from its relatively established and profitable business, to the BYD Group which can better utilize the funds as additional working capital to support its business which is in a development and expansion phase.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Given the shareholding and business relationship between the Group and the BYD Group, we consider that the well-being of the BYD Group is of vital importance to the Group. It is reasonable and understandable that the BYD Group should at this point move to plan for a more efficient utilization of the BYD Group's cash resources, including those of the Group, so that the BYD Group as a whole can function in an optimal fashion in terms of resource allocation and utilization. Having said that, since the Company is a non-wholly owned subsidiary of BYD, there should be adequate terms and measures under the Entrusted Loans to safeguard the interests of the Independent Shareholders. We therefore consider that the provision of the Entrusted Loans is in the interest of the Company and the Shareholders as a whole so long as the terms of the Entrusted Loans are on normal commercial terms and are fair and reasonable.

### 2. The principal terms of the Entrusted Loans

#### (a) *Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding)*

On 9 September 2011, BYD Precision (as lender), a wholly-owned subsidiary of the Company entered into the Memorandum of Understanding with BYD (as borrower) pursuant to which BYD Precision will, subject to the fulfillment of the Conditions, provide the Entrusted Loans in a total principal amount of RMB1 billion to BYD through the Banks (as entrusted lending agents), which are licensed banks in the PRC, in order to satisfy the need for additional working capital of BYD. On 15 September 2011, the Supplemental Memorandum of Understanding was signed between BYD Precision and BYD to amend the interest rate on the Entrusted Loans.

BYD Precision and BYD propose to enter into the Entrusted Loan Agreements with each of the Banks within two business days (or such other day as may be agreed between the parties) after the fulfillment of the Conditions pursuant to which BYD Precision shall, as principal, entrust the Banks to arrange for the Entrusted Loans to be lent to BYD. The terms of each of the Entrusted Loan Agreements will be substantially the same.

The principal terms of the Entrusted Loans under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) are summarized below:

#### (i) *Principal amount*

The total principal amount of the Entrusted Loans is RMB1 billion which will be lent by BYD Precision to BYD through the Banks as entrusted lending agents.

#### (ii) *Term*

The term for the Entrusted Loans is 36 months commencing from the date of drawdown of the Entrusted Loans, subject to early repayment as described below. There is no provision under the

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Memorandum of Understanding for extension of the term by unilateral request or mutual consent of the parties. Any extension of the term after maturity of the Entrusted Loans upon agreement of the parties will be made in compliance with relevant requirements, including those under the Listing Rules.

(iii) *Interest rate and interest payment*

The Entrusted Loans shall be interest bearing at floating interest rate equivalent to the RMB benchmark interest rate for 3-year term loans as announced by the People's Bank of China (the "Benchmark Interest Rate") effective on the date when each batch of the borrowing is drawn down plus 10% thereof (i.e. Benchmark Interest Rate x 1.10), subject to adjustment as announced by the People's Bank of China ("PBOC"), if any, every three months after drawdown. For illustration purposes, based on the Benchmark Interest Rate of 6.65% as at the Latest Practicable Date and assuming drawdown of the Entrusted Loans on the Latest Practicable Date, the interest rate for the Entrusted loans would be 7.315% per annum (i.e. 6.65% x 1.10). Interest on the Entrusted Loans shall be settled by BYD monthly on the twentieth day of each month.

If BYD fails to repay any part of the Entrusted Loans or interest accrued thereto upon maturity, BYD will be required to pay penalty interest on all outstanding sum from the maturity date up to the date of actual repayment at a rate equivalent to an extra 50% of the original interest rate applicable to the Entrusted Loans. For illustration purposes, if the Benchmark Interest Rate effective on the date of maturity of the Entrusted Loans was 6.65% per annum, the penalty interest rate applicable up to the date of actual repayment would be 10.9725% per annum (i.e. 6.65% x 1.10 x 1.50).

(iv) *Repayment of the principal of the Entrusted Loans*

The principal of the Entrusted Loans will be repaid by a one-off payment by BYD upon maturity at the 36-month term, subject to early repayment as demanded by BYD Precision or opted for by BYD.

(v) *Early repayment*

BYD Precision shall have the right to require BYD to repay all or part of the outstanding principal amount of the Entrusted Loans and all the accrued interests before maturity of the Entrusted Loans by serving a written notice on BYD (the "Repayment Demand Notice"). BYD shall repay such sum within three months after receiving the Repayment Demand Notice.

BYD shall have the right to repay all or part of the outstanding principal amount of the Entrusted Loans and all the accrued interests before maturity of the Entrusted Loans after serving three months' prior written notice and having obtained the consent to early repayment from BYD Precision.

(vi) *Handling charge*

The handling charge for arranging the Entrusted Loans under the Entrusted Loan Agreements is calculated at 0.03% of the total principal amount of the Entrusted Loans. BYD Precision shall pay the handling charge on a one-time basis to the Banks when the Entrusted Loans are released to BYD.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As indicated in the Letter from the Board, the purpose of the Entrusted Loans is to provide BYD with additional general working capital while enabling the Group to have a better return on its surplus cash resources. The Entrusted Loans are intended for general working capital purpose and have an initial term of three years. Since BYD Precision shall have the right to demand early repayment of all or part of the Entrusted Loans together with all interests accrued by serving a written notice on BYD and BYD shall repay such sum within three months, the Group shall have the flexibility to shorten its commitment to the term of the Entrusted Loans if and when it considers necessary. Similarly, BYD shall have the right to repay the Entrusted Loans and any interests accrued before the 36-month loan maturity date by serving three months' prior written notice and having obtained the consent to early repayment from BYD Precision. This arrangement renders the Entrusted Loans to be in effect a short term loan, rather than a 36-month term loan. On this basis, we consider the 3-year term of the Entrusted Loans acceptable and the early repayment arrangements fair and reasonable.

The Entrusted Loans shall bear floating interest rate equivalent to the Benchmark Interest Rate plus 10% thereof (i.e. Benchmark Interest Rate x 1.10), subject to adjustment as announced by PBOC, if any, every three months after drawdown. The adjusted interest rate on the Entrusted Loans shall be equivalent to the Benchmark Interest Rate prevailing on the adjustment date (being the first date of each of the three-month period after loan drawdown) plus 10% thereof (i.e. the adjusted Benchmark Interest Rate x 1.10). As at the Latest Practicable Date, the Benchmark Interest Rate was 6.65% per annum. For illustration purposes and assuming drawdown of the Entrusted Loans on the Latest Practicable Date, the interest rate for the Entrusted Loans would be 7.315% per annum (i.e. 6.65% x 1.10). Interest on the Entrusted Loans shall be settled by BYD monthly.

As advised by the Company, the surplus fund of the Group is generally placed at banks as demand deposit or time deposit for up to three months' term, and receives interests at deposit rates of up to 3.1% per annum as currently stipulated by PBOC. Assuming that BYD Precision places its surplus cash as deposits with financial institutions in the PRC for a 3-year term as in the Entrusted Loans, it will receive a deposit interest rate at 5% per annum as currently stipulated by PBOC. The lending interest rate of 7.315% for the Entrusted Loans represents a premium of 2.315% per annum over the deposit interest rate that would be available to BYD Precision for 3-year time deposit. However, BYD Precision is required to lock up the deposit for 3 years in order to earn such interest at 5% per annum. As above-mentioned, the Entrusted Loans are repayable on demand by BYD Precision serving three months' prior written notice. The Entrusted Loans is in effect a 3-month short term loan with automatic rollover in the absence of the Repayment Demand Notice. If BYD Precision places its surplus cash as 3-month time deposit, it will receive interest at 3.1% per annum as currently stipulated by PBOC. In other words, based on the prevailing lending and deposit interest rates as stipulated by PBOC, BYD Precision can enjoy a premium of 4.215% per annum over the 3-month time deposit interest rate by providing the Entrusted Loans to BYD at an interest rate equivalent to the Benchmark Interest Rate plus 10% thereof without tying up its surplus funds for a period longer than three months.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

The aforesaid interest premium available to the Group for provision of the Entrusted Loans to BYD is a recognition of a higher risk involved, compared to placing a time deposit with a licensed bank in the PRC. However, it should be noted that the Entrusted Loans will be supported by the Right of Disposal which represents a substantial and valuable stake in the Company and comprises of marketable securities. Based on the closing price of HK\$1.80 per share of the Company as at the Latest Practicable Date, the 25% stake in the Company under the Right of Disposal had a market value of approximately HK\$1.01 billion. It should also be noted that the benchmark loan interest rate announced by PBOC applies to all kinds of commercial loans including loans granted on a clean unsecured basis. Having regard the collateralized nature of the Entrusted Loans, and the fact that the interest rate for the Entrusted Loans, which is in effect a 3-month short term loan, is significantly higher than the 3-month deposit interest rate, and is still much higher than the 3-year deposit interest rate, we consider that the risk associated with the Entrusted Loans is adequately compensated.

Given the fact that (i) BYD Precision shall have the right to demand early repayment of the Entrusted Loans by serving 3 months' written notice, (ii) the interest rate for the Entrusted Loans represents a substantial premium over the 3-month RMB time deposit interest rate as stipulated by PBOC and is subject to adjustment as announced by PBOC, if any, every three months after the loan drawdown; (iii) the interest on the Entrusted Loans shall be settled by BYD on a monthly basis, and (iv) the provision of the Entrusted Loans will be supported by the Deed of Undertaking, details of which are discussed below, we consider that the terms of the Entrusted Loans, including the interest rate at the Benchmark Interest Rate plus 10% thereof (i.e. Benchmark Interest Rate x 1.10), are fair and reasonable.

Pursuant to the Entrusted Loan Agreements, BYD Precision shall pay a one-time handling fee equivalent to 0.03% of the principal amount of the Entrusted Loans to the Banks at the time when the Entrusted Loans are released to BYD. As advised by the Company, the handling fee under the Entrusted Loan Agreements has been negotiated between BYD Precision, BYD and the Banks on an arm's length basis and on normal commercial terms. Since BYD Precision is the entrusting party under the Entrusted Loan Agreements, it is legally sensible for BYD Precision to pay the Banks for their services as the entrusted lending agents. When amortized over the 3-year term of the Entrusted Loans, the one-off handling fee of 0.03% represents 0.01% per annum of the principal of the Entrusted Loans. Such handling fee is insignificant taking into consideration the amount of interest receivable under the Entrusted Loans.

(b) *Conditions*

As provided in the Memorandum of Understanding, the provision of the Entrusted Loans by BYD Precision to BYD is conditional upon fulfillment of the followings:

- the Independent Shareholders having approved by way of poll at the EGM of the provision of the Entrusted Loans by BYD Precision to BYD contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) and the Entrusted Loan Agreements; and

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- the Deed of Undertaking having been signed by BYD, BYD HK and Golden Link in favour of the Company and BYD Precision.

### 3. Deed of Undertaking

As one of the Conditions for the provision of the Entrusted Loans, BYD, BYD HK and Golden Link (being intermediate holding companies) would give undertakings in favour of the Company and BYD Precision under the Deed of Undertaking, the principal terms of which are as below:

#### (a) *Non-disposal undertaking*

- (i) BYD undertakes to the Company and BYD Precision that as long as any part of the Entrusted Loans and/or any interest accrued thereto remains outstanding (the “Relevant Period”), it will maintain holding at least 25% interest (direct or indirect) in the total issued share capital of the Company from time to time (the “Relevant Interests”), and Golden Link undertakes that it shall not (and BYD shall procure Golden Link not to), within the Relevant Period sell, transfer or dispose of, nor enter into any agreement to sell, transfer or dispose of or otherwise create any options, rights, interests, pledge, lien, trust arrangement or encumbrances (the “Restricted Acts”) in respect of the Relevant Interests;
- (ii) within the Relevant Period, (1) BYD shall not conduct any Restricted Acts in respect of its interests in BYD HK and (2) BYD HK shall not conduct any Restricted Acts in respect of its interests in Golden Link, which would lead to BYD ceasing to have the Relevant Interests in the Company; and
- (iii) The undertakings given by each of BYD, BYD HK and Golden Link in (i) and (ii) above are irrevocable and absolute unless otherwise waived in writing by the Company and BYD Precision after taking into account that such waiver is justifiable and beneficial to the Group and the Independent Shareholders as a whole and such waiver must be endorsed by all the independent non-executive directors of the Company and approved by the Independent Shareholders.

#### (b) *Right of disposal and indemnity*

- (i) BYD grants a right to the Company that if BYD fails to repay any part of the principal amount of the Entrusted Loans and/or any interest accrued thereto at the maturity of the Entrusted Loans or upon expiry of the Repayment Demand Notice, the Company shall be entitled to dispose up to 25% of the total issued shares of the Company for and on behalf of Golden Link (as registered and beneficial shareholder) at the sole discretion of the Company as settlement of the Entrusted Loans with reference to the prevailing market condition on the prerequisite that the terms and conditions of such disposal shall be subject to all applicable laws and regulations and shall be, in the opinion of the directors of the Company (including the independent non-executive directors of the Company), beneficial

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

to the Group and the Independent Shareholders as a whole (the “Right of Disposal”). In the event of any deficiency in the proceeds raised from the exercise of the Right of Disposal against any outstanding loan amount, BYD shall indemnify the Company and BYD Precision to the effect that any deficiency would be paid by BYD in full as final settlement of the Entrusted Loans;

- (ii) Golden Link shall provide all necessary assistance to the Company if it exercises the Right of Disposal; and
- (iii) BYD and Golden Link agree to fully indemnify the Company on demand against and hold it free and harmless from all liabilities, losses, damages, costs, taxes and expenses incurred by it arising out of or in connection with the exercise of the Right of Disposal.

Based on the average of the closing prices of the Shares for the five trading days quoted on the Stock Exchange immediately prior to the date of the Memorandum of Understanding, the market value of 25% of the issued shares in the Company amounted to approximately HK\$1.27 billion (equivalent to approximately RMB1.04 billion).

The Right of Disposal serves as a form of security to the Group for the provision of the Entrusted Loans. As a 25% stake of the Company’s own listed shares, such security has a market value of approximately RMB831 million as at the Latest Practicable Date, which represents a discount of approximately 16.9% to the total principal amount of the Entrusted Loans.

As at 30 June 2011, the Group’s unaudited net asset value was approximately RMB7.85 billion. 25% stake in the Company thus represents a pro-rata share of approximately RMB1.96 billion of its consolidated net assets, which translates into a 96% premium over the total principal amount of the Entrusted Loans. Such high premium is because the security arrangement has been structured at the present depressed market level of the Company’s valuation, which means the Company’s shares are trading at a deep discount to its net asset value.

A 25% stake in the Company is a valuable and important holding for the BYD Group. The Group has a good reputation in the industry and is one of the largest mobile handset components manufacturers in the world, with a proven track record, a continuous history of profitability and a well established presence in the mobile handset industry. It is an attractive asset for the BYD Group to hold. Thus it can be expected that the BYD Group will not easily give in to a potential dilution of its holding or do anything to jeopardize its majority shareholding position in the Company and thus be vulnerable to any takeover attempts.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

As at 30 June 2011, the Group held a cash balance of approximately RMB2.47 billion and historically has proven to be a strong cash generator. As a 65.76% controlling shareholder of the Company, the BYD Group could easily arrange for a distribution of the Group's cash to the Shareholders, and would have been entitled to at least RMB1.6 billion of the cash in a pro rata share without potential dilution of its shareholding interest in the Company. The fact that the BYD Group has chosen to borrow only RMB1 billion from the Group by way of the Entrusted Loans, and offered to pay an attractive interest rate of 7.315% per annum (based on the prevailing Benchmark Interest Rate plus 10% thereof), and further agreed to put up security for the Entrusted Loans by way of the Deed of Undertaking demonstrates the BYD Group's prudence and conservatism in its management of the Group. As such, the Entrusted Loans arrangement can be appreciated from the perspective of an exercise in overall group cash management, designed to confer benefits to all parties involved.

We therefore consider that the security arrangement of the Entrusted Loans is structured at an appropriately conservative level, and the Group's risks under the Entrusted Loans appear to be adequately managed by way of the Right of Disposal and the indemnities under the Deed of Undertaking.

---

**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

---

**4. Information on BYD as the borrower of the Entrusted Loans**

**(a) Operating results of the BYD Group**

The following table sets out a summary of the BYD Group's audited results of operations by business segments for each of the three years ended 31 December 2008, 2009 and 2010 and the unaudited results for the six months ended 30 June 2011, which are extracted from BYD's annual reports for 2009 and 2010, and the interim report for 2011.

	<b>Rechargeable batteries and other products</b>	<b>Mobile handset components and assembly services</b>	<b>Automobiles and related products</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>For the year ended</b>					
<b>31 December 2008 (audited)</b>					
Segment revenue	6,207,557	11,933,013	8,645,898	1,785	26,788,253
Segment profit	835,494	827,459	504,279	161	2,167,393
Profit attributable to shareholders					1,021,249
<b>For the year ended</b>					
<b>31 December 2009 (audited)</b>					
Segment revenue	4,081,494	14,396,593	20,991,093	274	39,469,454
Segment profit/(loss)	529,252	775,707	3,513,244	(951)	4,817,252
Profit attributable to shareholders					3,793,576
<b>For the year ended</b>					
<b>31 December 2010 (audited)</b>					
Segment revenue	4,581,758	20,553,382	21,550,209	—	46,685,349
Segment profit/(loss)	252,350	1,606,877	1,742,896	(89)	3,602,034
Profit attributable to shareholders					2,523,414
<b>For the six months ended</b>					
<b>30 June 2010 (unaudited)</b>					
Segment revenue	2,042,470	9,213,124	12,990,176	—	24,245,770
Segment profit/(loss)	185,902	719,040	2,059,060	(83)	2,963,919
Profit attributable to shareholders					2,421,178
<b>For the six months ended</b>					
<b>30 June 2011 (unaudited)</b>					
Segment revenue	2,423,908	9,512,503	9,546,365	—	21,482,776
Segment profit	15,903	548,579	464,663	—	1,029,145
Profit attributable to shareholders					275,363

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

(i) *For the year ended 31 December 2008*

The BYD Group recorded total revenue of approximately RMB26.8 billion and profit attributable to shareholders of approximately RMB1 billion for the year ended 31 December 2008. In terms of revenue, the handset components business was the largest contributor followed by the automobile business and accounted for approximately 44.5% and 32.3%, respectively, of the BYD Group's total revenue for 2008. The rechargeable batteries business made up another 23.2% of the BYD Group's revenue. In terms of segment profit, the handset components business and the rechargeable batteries business contributed approximately 38.2% and 38.5%, respectively, to the BYD Group's total segment profit while the automobile business made up the remaining 23.3%.

(ii) *For the year ended 31 December 2009*

Amid the global economic downturn, the automakers in China had benefitted from the government's economic stimulus measures in 2009, which included incentives and tax reduction to encourage sale of small cars and sale of cars in rural areas. Driven by the strong demand for its passenger cars, in particular the best-selling F3 model, the BYD Group posted total revenue of approximately RMB39.5 billion, up 47.3% from the preceding year, and its profit attributable to shareholders soared to RMB3.79 billion from RMB1.02 billion in 2008. In 2009, the automobile business overtook the mobile handset components business and became the largest contributor to the BYD Group and accounted for approximately 53.2% of its total revenue. Although there was favorable growth in the revenue from the mobile handset components business and its contribution to the BYD Group increased from 32.3% in 2008 to 36.5% in 2009, its profit dropped and accounted for only 16.1% of the BYD Group's total segment profit, down from 38.2% in 2008. Meanwhile, both the revenue and profit from the rechargeable batteries business shrank and made up just above 10% of the BYD Group's total revenue and total segment profit. Amid the shrinkage in its rechargeable batteries business and the global industry downturn for the mobile handset components business, the profit from the automobile business surged and accounted for almost 73% of the BYD Group's total segment profit.

(iii) *For the year ended 31 December 2010*

In 2010, BYD reported an 18.3% increase in revenue to RMB46.7 billion, of which approximately 46.2% came from the automobile business and 44% from the mobile handset components business. Due to slowing car sales growth, the revenue from the BYD Group recorded revenue of approximately RMB21.6 billion from its automobile business, up 2.7% from 2009, and the profit from the segment was approximately RMB1.7 billion, about half of that for 2009. During 2010, BYD launched a few new car models, including its first MPV (multi-purpose vehicle) model, which further diversified the product mix of the group while creating additional revenue sources. Despite the drop in profit, the automobile business remained the largest contributor accounting for approximately 48.4% of the BYD Group's total segment profit, followed closely by 44.6% from the mobile handset components business. Benefitting from the strong global demand and increasing popularity of smart phones and 3G handsets, the BYD Group's mobile handset business reported substantial growth in

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

both its revenue and profit. The rechargeable batteries business, which made up another 10% of the BYD Group' total revenue, also managed to maintain a stable growth in revenue from RMB4.1 billion in 2009 to RMB4.6 billion in 2010, but showed a further significant fall in profitability. Due to the drop in gross profit margin, the BYD Group's profit attributable to shareholders shrank 33.5% to RMB2.5 billion in 2010 from its record high of RMB3.8 billion in 2009. BYD reported that the decrease in the overall gross profit margin was mainly due to intense market competition and a change in product mix.

*(iv) For the first half of 2011*

The total revenue of the BYD Group dropped 11.4% to RMB21.5 billion while its profit attributable to shareholders plunged 88.6% to RMB275.4 million, both compared to the first half of 2010. The decline in both revenue and profit was due primarily to the drop in auto sales of the BYD Group after the government ended its subsidies for small passenger cars and reduced incentives on new vehicle purchases. BYD reported that following the expiration of the government's tax breaks for small passenger cars at the end of 2010, and the drop in revenue across the automobile business had been squeezing gross profit margins. The BYD Group's results were also hit by the deferral of orders by one of its biggest customers of its mobile handset components business, and by the further drop in gross profit margins as a result of the increasing competition. BYD has indicated that the sluggish market condition is expected to continue in the third quarter of the year and its profit for the first three quarters of 2011 is expected to decrease by 85-95% compared with the corresponding period last year.

The BYD Group's operating results for the first half of 2011 showed significant deterioration compared with that of the corresponding period in 2010, in particular in the automobile business. However, if we compare the BYD Group's segment results of the first half of 2010 and that of the full year 2010, it would show a segment revenue of approximately RMB8.6 billion and a segment loss of approximately RMB316 million for the BYD Group's automobile business for the second half of 2010. On this basis, the operating results of the BYD Group's automobile business for the first half of 2011 has in fact shown improvement from the preceding half year, and appeared to be stabilizing.

We understand that the automobile business is capital intensive and has a relatively long investment cycle. The automobile industry in China is subject to market cycles and seasonable factors, all of which can be impacted to a significant extent by government policies. Following the expiry of China's automobile industry stimulus policy in China and due to intense market competition, BYD's operating performance is expected to remain under pressure in the short term. In recent few years, BYD has made considerable investments in its property, plant and equipment, and land lease payments as part of the BYD Group's business expansion plan, in particular for the automobile business. Lately BYD has also focused on improving its product quality, distribution channel, technological innovation and customers' experience, all of which are designed to enhance the BYD brand image. It is expected that BYD will ride out the short-term market downturn. Meanwhile, the abovementioned strategic initiatives of BYD will help to position itself as a more competitive player in the automobile industry and to reap the benefits of its investments in the medium term. Further discussion on the BYD Group's business prospects is set out in the sub-section headed "BYD and the automobile industry in China" below.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

(b) *Financial position of the BYD Group*

Set out below are the major financial data and financial indicators of the BYD Group which are extracted from BYD's annual reports for 2009 and 2010 and the interim report for 2011.

	As at 31 December			As at
	2008	2009	2010	30 June
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Total assets ( <i>RMB' million</i> )	32,891	40,736	53,875	62,573
- Non-current assets	17,991	23,539	35,322	41,100
- Current assets	14,900	17,197	18,553	21,473
Total liabilities ( <i>RMB' million</i> )	19,554	21,708	32,723	39,682
- Current liabilities	14,395	18,377	28,675	32,820
- Non-current liabilities	5,159	3,331	4,048	6,862
Net assets less minority interests ( <i>RMB' million</i> )	11,286	16,682	18,460	20,085
Gearing ratio (%)*	66	8	65	58
Current ratio ( <i>times</i> )	1.04	0.94	0.65	0.65

\* Gearing ratio = Total borrowings net of cash and cash equivalents / net assets (less minority interests)

In considering whether it is in the interest of the Group to provide the Entrusted Loans to BYD, it is essential to assess the BYD Group's liquidity and gearing position and its repayment ability. As shown in the table above, the BYD Group had maintained a current ratio of around 1 time in 2008 and 2009 which indicated that its liquidity position was manageable. Since 2010, the BYD Group's current ratio had dropped to 0.65 and was held stable as at 30 June 2011. The drop in the BYD Group's current ratio was due primarily to the substantial increase in its current liabilities which rose from approximately RMB18.4 billion as at year end of 2009 to RMB28.7 billion as at year end of 2010, and further to RMB32.8 billion as at 30 June 2011. Meanwhile, the BYD Group's non-current liabilities had also increased from approximately RMB3.3 billion as at year end of 2009 to RMB4 billion as at year end of 2010, and further to RMB6.9 billion as at 30 June 2011. As indicated in BYD Group's financial statements, the amount of bank and other borrowings of the BYD Group had increased from approximately RMB3.7 billion as at 31 December 2009 to approximately RMB16.4 billion as at 30 June 2011. Of the total borrowings as at 30 June 2011, over 64% was current in nature and was repayable within one year. In line with the increase in borrowings, there was substantial increase in the BYD Group's non-current assets from approximately RMB23.5 billion as at 31 December 2009 to RMB41.1 billion as at 30 June 2011. As indicated in BYD Group's financial statements and as advised by the Company, the additional non-current assets investments were made primarily in respect of

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

property, plant and equipment and land lease payments as part of the BYD Group's business expansion plan, in particular for the automobile business. As the BYD Group's business is capital intensive in nature, especially the automobile business which is in a development and expansion phase, it is understandable and reasonable that substantial fixed assets investments are required of the BYD Group.

Based on our above observation, we consider that there has been a mismatch in the BYD Group's financing strategy by using short-term bank borrowings to finance its fixed asset investments. Having said that, we notice that BYD has actively taken steps to re-arrange its financing structure using both medium and long-term debts as well as equity. In particular, the shareholders of BYD approved at an extraordinary general meeting on 9 September 2011 the proposal to issue long-term corporate bonds of not more than RMB6 billion in the PRC with maturity of up to 10 years. Such corporate bond issue, if it proceeds, will be subject to approval by the relevant regulatory authorities in the PRC and BYD is now in negotiation with the relevant authorities and financial institutions. In June this year, BYD raised equity in a gross amount of approximately RMB1.4 billion by way of a public offering of A-shares in the PRC which are listed on the SME Board of the Shenzhen Stock Exchange. Despite the relatively weak market sentiments around the time of BYD's A-share issue, the offering was over-subscribed by 21 times. BYD successfully completed the issue and the market price of the A-shares gained 44% in its debut trading. The favourable market response indicated that the public investors had strong confidence in the BYD Group.

In its quest for new equity and longer term financing, BYD is helped by its high corporate profile, which in no small measure has been boosted by the 9.9% stake invested by the legendary investor, Mr. Warren Buffet, through his investment company. As reported by Reuters on 9 March 2011, the US Consulate in China had reportedly observed that Mr. Buffet's investment in BYD had put BYD in the spot-light and allowed it to be seen as "one of the most promising carmakers of the future".

To the extent that BYD is successful in re-arranging its debt maturity structure towards the longer end and continues to attract new equity, its current position and thus its repayment ability will correspondingly improve.

### *(c) BYD and the automobile industry in China*

As indicated in the table above regarding the operating results of the BYD Group, the automobile business and the mobile handset component and assembly services have accounted for over 90% of the BYD Group's total turnover, with the remaining attributable to the rechargeable batteries business. Since the purpose of the Entrusted Loans is to provide additional general working capital to the BYD Group and the mobile handset components business is primarily carried out by the Group, it is therefore expected that the Entrusted Loans will be used in the BYD Group's rechargeable batteries business and/or the automobile business. As the contribution from the rechargeable batteries business to the BYD Group is relatively low, we consider that the BYD Group's future operating results and financial position will substantially depend on the prospects of the automobile business, particularly in China. We would therefore focus on an analysis of the development and prospects of the automobile industry in China and the business strategy and market positioning of the BYD Group.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

China has in recent years experienced very rapid growth in its automobile industry, so much so that by 2009 it surpassed Japan to become the world's largest manufacturer of automobiles with 13.79 million vehicles produced. The pace of development accelerated after China's accession to the World Trade Organization in 2002. Between 2002 and 2007, China's automobile industry grew by an average of 21% per annum.

In 2010, according to the China Association of Automobile Manufacturers ("CAAM"), China produced a total of about 18.26 million auto vehicles, an increase of 32.4% over the preceding year. Total auto sales for the year were about 18.06 million units, representing also a 32.4% year-on-year increase. The 2010 level of sales set the world's record, surpassing the previous record of 17.4 million achieved by the U.S. in 2000. The 2010 figures also represent a doubling of the production level of its next rival, Japan, who achieved only 9 million vehicles.

The automobile industry in China is characterized by a large number of producers. There are more than 150 licensed vehicle manufacturers in China. However, a process of consolidation has been taking place in the industry in recent years, with the active encouragement of the government. According to CAAM, in 2010, the top ten auto manufacturers in China had a combined output of 15.6 million vehicles, accounting for a full 86.3% of the country's output in the sector. Of the top ten, the top four manufacturers all had annual production of over two million vehicles, and altogether account for about 62.1% of the total production in the sector.

Of the passenger cars produced in 2010 in China, about 45.6% are local brands produced by such local manufacturers as BYD, Chang'an, Geely, Chery, and Great Wall. The rest are by joint ventures with foreign car makers such as Volkswagen, Mitsubishi, General Motors, Hyundai, Nissan, Honda, Toyota, etc. Most of the automobiles manufactured in China are sold within China, with only 369,600 units exported in 2009.

In the China automobile market, BYD competes primarily in the passenger cars sector. According to CAAM, during the first seven months of 2011, BYD's F3 model of sedans ranked fifth in the passenger cars sector with total sales of 121,500 units. During the same period, BYD's sales of overall passenger cars ranked seventh, with sales of 247,900 units.

The China automobile industry experienced record growth in the two years following the global financial crisis of 2008 and was in no small measure due to government's policies aimed at stimulating China's economy in general and the automotive sector in particular. Stimulus measures for the automobile sector included direct subsidies and tax reductions, designed to encourage sales of cars in the rural area and sales of small cars of 1.6 liters or below. According to CAAM, during the 22-month period between March 2009 and December 2010, close to 5 million cars were sold under the government's subsidy and tax reduction programs.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

With the phasing out of the stimulus program beginning in 2011, however, growth in the automobile sector began to slow dramatically. The CAAM figures show that total production and sales volumes of automobile vehicles in China for the first half of 2011 were about 9.2 million units and 9.3 million units, respectively, representing an increase respectively of only 2.48% and 3.35% year-on-year. The only bright spot was in the sport utility vehicles (“SUV”), which registered still an impressive 20.58% year-on-year growth to 711,600 units.

The phasing out of the stimulus program for the automobile sector also negatively affected sales of domestic brand-name producers, for the latter mostly engaged in the production of small cars which were the beneficiary of the stimulus program. For the first half of 2011, sales of domestic brand-name passenger vehicles amounted to about 3.16 million units, representing a decrease of 0.82% year-on-year. Consequently, the share of the passenger vehicle market by domestic brand-name cars also retreated to about 44.39%, representing a decrease of 2.96% year-on-year. This was the first retreat in market share by the domestic brand-name producers after years of continuous gains in market share.

The overall slow down of the passenger vehicle market in 2011 brought about intense price competition in the market and translated into a substantial reversal in BYD’s performance. BYD recorded a 26.51% decline in sales during the first half of 2011 to about RMB9.5 billion, with a concomitant 10.73% fall of gross profit margin to 16.18%.

It would appear that the development of the automobile industry in China is at a crossroads. During the last two decades, China has been successful in building up an automobile industry from a non-consequential base to being the largest producer in the world. But it becomes obvious that China could not continuously rely on the old model of competitive mass production of the traditional gasoline engines. Environmental issues and the concern with energy security increasingly receive priority in the country’s planning process. Automobiles are responsible for much of the air borne pollutants in major Chinese cities and account for about a third of total oil consumption of the country. It is clear that the development of a clean energy vehicle would be highly appropriate for China’s next phase of development.

In 2010, the Chinese Government launched a pilot scheme to encourage the use of battery-powered electric and plug-in hybrid electric vehicles by offering up to RMB60,000 subsidy per vehicle in trial programs in major cities. To qualify for the subsidy, Chinese automakers must own the intellectual property right of at least one of the three core electric vehicle technologies: batteries, electric motors or electronic controls. In early 2011, the alternate-fuel car industry was listed as one of the seven major new strategic industries in the National 12th Five-Year Plan, for which favorable policies will be implemented to nurture their development over the next five years.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

It would seem that BYD as a leader in rechargeable battery technology is positioned to take advantage of the emergent trends of development in the automobile industry.

Capitalizing on the emergent popularity of SUVs in the Chinese auto market, BYD launched in May 2011 its first model of SUV-S6 and it rapidly became a top selling model in a number of Chinese provinces.

Being the world's leading producer of lithium-ion batteries, BYD is uniquely positioned to take advantage of the favorable government policies for the development of the battery-powered, all-electric vehicles. In this regard, BYD has introduced in May 2010 its all electric e6 vehicle as taxis in a trial run in Shenzhen. And in January 2011, BYD introduced its first model of electric bus, the K9, which commenced trial operation in Shenzhen with satisfactory results. BYD has also been chosen as the exclusive supplier of automobiles for the 26th Summer Universiade in Shenzhen, for which 250 units of the e6 and 200 units of the K9 models have been deployed, together with BYD's proprietary charging equipment and auxiliary facilities.

In August 2011, Hertz, a world's leading car rental company announced a new car rental service in Shenzhen employing BYD's e6 all-electric cars.

On 5 September 2011, the Hong Kong Economic Journal reported that The Kowloon Motors Bus Company, one of the largest franchised bus operators in Hong Kong, planned to lease a fleet of BYD's K9 buses for a trial run in its Tsim Sha Tsui route for a period of six months.

It seems for BYD the opportunity to introduce the all-electric vehicles to the China automobile market would best be achieved through first popularizing the use of their electric vehicles in the area of public transport, through their use as taxis and public buses. According to China Automotive Review, China has now an estimated 500,000 city buses and 1.2 million taxis. Annual government financial subsidies for the expansion of green public transportation already reached RMB1 billion in 2009, and are expected to steadily increase in future years. In addition, the number of pilot cities for new energy vehicle demonstration has increased to 25 in 2010.

The Chinese automobile market is intensively competitive with many players, both domestic and foreign, all vying for a share of a rapidly expanding market place. There is constant pressure on margins and market share. To succeed, an auto manufacturer in China must be adept at delivering the right product at the right time with a competitive price, capturing on the one hand, the ever changing taste and needs of the emergent middle class, and on the other, be ever responsive to the direction of governmental policies and the evolution of technological change in the industry.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

BYD's competitive strength lies in its ability to effectively carve out a market position in a relatively short time, its ability to adapt to changing market conditions with timely introduction of new products, and in its leading position in the rechargeable battery technology. These are important qualities which will enable BYD to compete and succeed in the China automobile market which is experiencing consolidation, differentiation and rapid changes in technological direction.

In this regard, the strategic direction of the BYD Group's automobile business towards the development of electric vehicles seems to be in alignment with the government's plan to promote the use of clean energy vehicles and away from exclusive reliance on gasoline based vehicles. BYD is in a leading position in the race to develop a commercially viable electric vehicle in China. However, whether it will succeed in this endeavor will depend on how quickly the support infrastructure for the operation of electric vehicles can be put into place, most important of which is the availability of battery re-charging networks.

It is in China's national interest for a home grown player to succeed in the race and there are signs that government policies are converging to help bring about positive development in the commercialization of electric vehicles. According to the State Grid Corporation of China, the country's largest and state-owned power grid operator, it is estimated that China will have 500,000 electric cars on the roads by 2015. To meet the requirements of electric vehicle development, State Grid Corporation of China plans to build 2,351 recharging and switching stations and 220,000 recharging poles in China during the National 12th Five-Year Plan. The Chief Economist of the State Grid Energy Research Institute also said that charging costs would be kept below those for petroleum products to maintain the competitiveness of electric vehicles.

It would appear that BYD anticipates the day of the ushering in of the electric vehicles and has devoted considerable resources to position itself at the leading edge of the technology. It would also seem that BYD stands at least an equal chance as any other player to succeed in the emerging clean energy vehicle field in China.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

### 5. Possible financial effects of the Entrusted Loans on the Group

As advised by the Company, the provision of the Entrusted Loans will be funded by the internal surplus cash resources of BYD Precision. Based on the financial position of the Group as at 30 June 2011 as indicated in the Company's interim results announcement for the six months ended 30 June 2011, the provision of the Entrusted Loans by BYD Precision to BYD is expected to have the following financial effects on the Group:

#### (a) *Liquidity and financial resources*

Set out below are the major financial data regarding the liquidity, cash flow and financial resources position of the Group which are extracted from the Company's annual reports for the relevant years and the interim results announcement for the six months ended 30 June 2011.

	As at 31 December				As at
	2007	2008	2009	2010	30 June
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Current ratio ( <i>times</i> )	1.89	1.87	1.78	1.94	1.96
Accounts and bills receivable turnover ( <i>days</i> )	78	71	75	75	84
Inventory turnover ( <i>days</i> )	68	77	72	49	47
 ( <i>RMB' million</i> )					
Net cash inflow from operating activities	187	676	799	948	1,244
Net cash outflow used in investing activities	(994)	(2,037)	(750)	(603)	(326)
Net cash inflow/(outflow) from financing activities	3,396	(649)	(18)	—	—
Net increase/(decrease) in cash and cash equivalents	2,589	(2,010)	31	345	918
Cash and bank balances	3,197	1,144	1,193	1,559	2,471

As shown in the table above, the Group always maintained a current ratio well above 1, indicating a comfortable liquidity position. As indicated in the Company's interim results announcement for the six months ended 30 June 2011, the Group had total current assets of approximately RMB7.9 billion and total current liabilities of approximately RMB4 billion as at 30 June 2011, representing a net working capital of approximately RMB3.9 billion and a current ratio close to 2 times which, we consider, indicates a very strong liquidity position of the Group.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Upon provision of the Entrusted Loans to BYD, the Group's cash and bank balances position will decrease by RMB1 billion, and an equivalent amount will be recorded as a non-current loan receivable from the ultimate holding company due to the 3-year term. Based on the balance sheet position of the Group as at 30 June 2011 and upon full drawdown of the Entrusted Loans, the Group's net working capital would decrease from approximately RMB3.9 billion to approximately RMB2.9 billion and current ratio would drop to about 1.71 times which, we consider, still indicates a very strong liquidity position.

The accounts and bills receivable turnover of the Group had been quite stable at around 71 to 78 days over the past few years, except for the six months ended 30 June 2011 during which the average collection period lengthened to 84 days due to the relatively lower sales for the first half of 2011. Meanwhile, the inventory turnover was kept at around 70 days and had been shortened to below 50 days in recent year following favorable growth in the Group's sales turnover. The stable accounts and bills receivable turnover and inventory turnover indicate that the Group has been able to manage its accounts receivable and inventory effectively as part of its overall cash flow management.

Throughout the four and a half years under review as above, the Group's was able to generate positive cash flows from its operating activities. Taking into account its investing activities and financing activities, there were also net increases in the Group's cash position year after year, except 2008. The decrease in the net cash position of the Group for 2008 was due primarily to the repayment of a substantial amount of bank loans and the substantial investments in its property, plant and equipment in 2008 by utilizing the funds raised under its initial public offering towards the end of 2007. If we examine the Group's investing and financing activities in 2007 and 2008 together, it will indicate a net increase of approximately RMB579 million in the Group's cash position.

Furthermore, the Group had cash and cash equivalents close to RMB2.5 billion as at 30 June 2011. In fact, during the past few years as indicated in the table above, the Group's surplus cash resources had always exceeded RMB1.1 billion, that is a level above the total principal amount of the Entrusted Loans of RMB1 billion.

Given the fact that the Group has been able to generate positive and substantial cash flow from its operations year after year throughout the recent past few years and has substantial surplus cash resources, the Group shall be in a position to provide the Entrusted Loans to BYD without posing negative impact on the working capital sufficiency for its operations.

(b) ***Earnings***

The Entrusted Loans shall be interest bearing at floating interest rate equivalent to the Benchmark Interest Rate plus 10% thereof (i.e. Benchmark Interest Rate x 1.10). Based on the Benchmark Interest Rate of 6.65% per annum as at the Latest Practicable Date and assuming that the total principal amount of the Entrusted Loans of RMB1 billion was drawn down on the Latest Practicable Date, the interest rate for the Entrusted Loans would be 7.315% per annum and the interest receivable by the Group would amount to RMB73.15 million per annum. On this basis and

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

subject to no early repayment as demanded by the Group or opted for by BYD, the Group would generate additional earnings of RMB72.85 million for the first year of the Entrusted Loans after paying the one-off 0.03% handling fee to the Banks, and RMB73.15 million for each of the following two years until maturity of the Entrusted Loans. As reported by the Group, it had received interest income of approximately RMB19 million for 2010 and approximately RMB13.6 million for the first half of 2011. Thus the Group is expected to substantially enhance the return on its surplus cash resources as well as its overall earnings by provision of the Entrusted Loans to BYD.

(c) *Net asset value*

Upon drawdown of the Entrusted Loans by BYD, the cash and bank balances of the Group will decrease by RMB1 billion, being the total principal amount of the Entrusted Loans, and the Group will record a loan receivable in an equivalent amount from its ultimate holding company. Accordingly, there will be no immediate effect on the overall net asset position of the Group as a result of the provision of the Entrusted Loans by BYD Precision to BYD.

### CONCLUSION

In conclusion, we consider that the provision of the Entrusted Loans by BYD Precision to BYD is an exercise in cash management of the overall BYD Group, of which the Group forms part. This group cash management exercise aims to channel the idle surplus cash resources from the Group which is capable of generating strong cash flows from its relatively established and profitable business, to the BYD Group which can better utilize the funds as additional working capital to support its business which is in a development and expansion phase. In this regard, we note in particular that:

- The BYD Group has reported declining operating results, in particular for the first half of 2011 with profit attributable to shareholders plunged by 88.6% year-on-year. BYD has indicated that the sluggish market condition is expected to continue in the third quarter of 2011 and its profit for the first three quarters of 2011 is expected to decrease by 85-95% compared with the corresponding period last year.
- The BYD Group's business, in particular the automobile business, is capital intensive and in a developmental stage, and requires substantial long-term capital investments. In this regard, the BYD Group has made a substantial amount of investments in respect of property, plant and equipment in recent two years in particular.
- There has been a mismatch in the BYD Group's financing strategy by using short-term bank borrowings to finance its fixed asset investments and, as a result, the BYD Group's ability to satisfy its short-term obligations is stretched.
- Further downturn in the global economy may have consequential impact on the economic conditions in China. As a result, consumer confidence may erode and demand for consumer durables such as automobile may drop which would have adverse impact on the BYD Group's business.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

Notwithstanding the aforesaid risks, we also have the following observations which are relevant in determining whether the interests of the Group in providing the Entrusted Loans to BYD have been adequately and effectively safeguarded:

- The Group is a part of the overall BYD Group. Due to historical business relationship, there is synergy between the BYD Group and the Group, and the well-being of the BYD Group will also translate into the well-being of its members, including the Group.
- The automobile industry in China is driven by government policies and direction. The strategic direction of the BYD Group's automobile business towards the development of electric vehicles seems to be in alignment with the government's plan to promote the use of clean energy vehicles and away from exclusive reliance on gasoline based vehicles. Being the world's leading producer of lithium-ion batteries, BYD is uniquely positioned to take advantage of the favorable government policies for the development of the battery-powered, all-electric vehicles.
- Notwithstanding the significant decline in the operating performance of BYD for the first half of 2011 and further weakness in the third quarter, we believe that the strength of BYD will be demonstrated in the medium term with its focus on enhancement of the BYD brand image by improving its product quality, distribution channel, technological innovation, and customers' experience, as well as the development of car models of "value for money", such as SUV-S6. BYD has also made considerable investments in the development of mass market electric vehicles, and is well-prepared for their popularization. With the help of the PRC government which encourages and subsidizes the building of the required infrastructure, the electric car market in the PRC is expected to develop rapidly. In all, BYD will therefore be in a good position to capture the opportunity and benefit from such market developments in China, and its operating performance is expected to improve accordingly in the medium term.
- The terms, including the interest rate and payment arrangement, of the Entrusted Loans are fair and reasonable.
- Although the Entrusted Loans have an initial term of three years, BYD Precision's right to demand early repayment before maturity by serving 3 months' prior written notice renders it a short-term loan in effect, and gives the Group flexibility to meet its capital requirements in the event of unforeseen circumstances.
- BYD has actively taken steps to re-arrange its financing structure using both medium and long-term debts as well as equity in financing its capital investments, and to reduce reliance on short-term borrowings. With the endorsement from the legendary investor, Mr. Warren Buffet who has a 9.9% stake in BYD through his investment company, and a successful listing on the SME Board of the Shenzhen Stock Exchange recently, BYD is in a good position to access the capital markets in both China and in the West.

---

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

---

- The Right of Disposal and indemnities under the Deed of Undertaking provide adequate safeguard to the Group against the risk of default by BYD. Given the Group's proven track record, a continuous history of profitability and a well established presence in the mobile handset industry, the Company represents an important and valuable investment of the BYD Group and therefore the BYD Group will not easily give in to potential dilution of its holding or losing its majority shareholding position in the Company by surrendering 25% stake in the Company under the Right of Disposal.
- The Group has a strong net assets and cash position, and the pro rata share of cash alone attributable to BYD's 65.76% shareholding in the Company far exceeds the total principal amount of the Entrusted Loans, and therefore the risk of non-repayment of the Entrusted Loans by BYD is low.
- By provision of the Entrusted Loans, the return on the Group's surplus resources as well as the overall earnings can be enhanced significantly.

Having regard to the above factors, we consider that adequate measures and indemnities are in place to safeguard the interests of the Group as a lender under the Entrusted Loans, and the potential benefits to be accrued to the Company and the Shareholders as a whole outweigh the risks and uncertainties associated with the provision of the Entrusted Loans.

### RECOMMENDATION

Although the provision of the Entrusted Loans is not in the ordinary and usual course of business of the Group, based on the above analysis and conclusion, we are of the opinion that the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) is in the interests of the Company and the Shareholders as a whole, and the terms of the Entrusted Loans are normal commercial terms and are fair and reasonable. Accordingly, we would advise the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the ordinary resolution to approve the provision of the Entrusted Loans contemplated under the Memorandum of Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding) at the EGM.

Yours faithfully,  
For and on behalf of  
**Ceres Capital Limited**

**Frank Moy**  
*Managing Director*

**Jinny Mok**  
*Executive Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interest and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### (i) Long position in the Shares

Name of Director	Capacity	Nature of interests	Number of Shares held	Approximate percentage of total issued share capital as at the Latest Practicable Date	Note
Ms. LI Ke	Beneficiary	Personal	8,602,000	0.38%	(1)
Mr. SUN Yi-zao	Beneficiary	Personal	5,797,000	0.26%	(1)
Mr. WU Jing-sheng	Beneficiary	Personal	8,602,000	0.38%	(1)

*Note:*

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

(ii) *Long positions in the shares of associated corporations*

Name of associated corporation	Name of Director (Note 3)	Capacity	Nature of interest	Number of shares held as Practicable at the Latest Date	Percentage of total issued share capital of the relevant associated corporation as at the Latest Practicable Date	Note
BYD Company Limited	Ms. LI Ke	Beneficial owner	Personal	11,884,500	0.50%	(1)
	Mr. SUN Yi-zao	Beneficial owner	Personal	10,824,680	0.46%	(1)
	Mr. WU Jing-sheng	Beneficial owner	Personal	11,675,880	0.50%	(1)
	Mr. WANG Chuan-fu	Beneficial owner	Personal	570,642,580	24.24%	(2)

*Note:*

- (1) These are the A shares of BYD held by Ms. LI Ke, Mr. SUN Yi-zao and Mr. WU Jing-sheng. The total issued share capital of BYD as at the Latest Practicable Date was RMB2,354,100,000, comprising 1,561,000,000 A shares and 793,100,000 H shares, all of par value of RMB1 each. The A shares of BYD held by Ms. LI Ke, Mr. SUN Yi-zao and Mr. WU Jing-sheng represented approximately 0.76%, 0.69% and 0.75% of the total issued A shares of BYD as of the Latest Practicable Date.
- (2) These are the A shares of BYD held by Mr. WANG Chuan-fu, which represented approximately 36.56% of total issued A shares of BYD as the Latest Practicable Date.
- (3) Mr. Wang Chuan-fu is also an executive director and Chairman of the board of BYD and Mr. Wu Jing-sheng is also a Vice President, Chief Financial Officer and board secretary of BYD.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or were required to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

(b) **Interests of substantial shareholders**(i) *Long Position in the Shares*

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than the Directors) having interests in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Capacity	Number of Shares	Percentage of total issued share capital as at the Latest Practicable Date		Note
Golden Link	Beneficial interest	1,481,700,000	65.76%		
BYD HK	Interest of controlled corporation	1,481,700,000	65.76%		(1)
BYD	Interest of controlled corporation	1,481,700,000	65.76%		(1)
Gold Dragonfly Limited	Beneficial Interest	168,300,000	7.47%		(2)
HSBC Trustee (Hong Kong) Limited	Trustee	168,300,000	7.47%		(2)

*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 are deemed to be interested in the shares of the Company held by Golden Link.
- (2) The shares of the Company are held by Gold Dragonfly Limited (“Gold Dragonfly”), a company incorporated in the British Virgin Islands and wholly owned by HSBC Trustee (Hong Kong) Limited as trustee of BF Trust, the beneficiaries of which are 35 employees of BYD and its subsidiaries and the Group. As such, HSBC Trustee (Hong Kong) Limited was deemed to be interested in the shares of the Company held by Gold Dragonfly.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, other than a Director or chief executive of the Company, there was no person who had an interest or short positions in the shares and underlying shares of the Company which would fall 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 who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group or any options in respect of such capital.

### 3. DIRECTORS' INTERESTS IN CONTRACTS

As at the Latest Practicable Date:

- (a) none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation;
- (b) none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 December 2010, being the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired to disposed of by or leased to any member of the Group; and
- (c) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

### 4. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates had any interest in a business which competed or might compete with the business of the Group, or had or might have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

### 5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2010, being the date to which the latest published audited financial statements of the Group were made up.

### 6. EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Ceres Capital Limited	a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any direct or indirect interest in any assets which had been, since 31 December 2010 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of any or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group.

## **7. GENERAL**

- (a) The registered office of the Company is at Part of Unit 1712, 17th Floor, Grand Central Plaza, Tower 2, 138 Shatin Rural Committee Road, Shatin, New Territories, Hong Kong.
- (b) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The Joint Company Secretaries of the Company are Mr. CHEUNG Hon-wan, an associate member of the Hong Kong Institute of Certified Public Accountants and Mr. LI Qian.
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

## **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Reed Smith Richards Butler at 20th Floor, Alexandra House, 18 Chater Road, Hong Kong during normal business hours from the date of this circular up to the date of the EGM (except Saturdays, Sundays and public holidays):

- (a) the Memorandum of Understanding;
- (b) the Supplemental Memorandum of Understanding;
- (c) the agreed forms of the Entrusted Loan Agreements;
- (d) the agreed form of the Deed of Undertaking;
- (e) letter from the Independent Board Committee dated 28 September 2011, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular; and
- (f) letter from the Independent Financial Adviser dated 28 September 2011, the text of which is set out in the section headed "Letter from the Independent Financial Advisor" of this circular.

---

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

---



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

*(incorporated in Hong Kong under the Companies Ordinance with limited liability)*

**(Stock Code : 285)**

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of BYD Electronic (International) Company Limited (the “Company”) will be held at the conference room of BYD Company Limited at No. 3009, BYD Road, Pingshan, Shenzhen, the People’s Republic of China on Friday, 14 October 2011 at 10:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modification, the following resolutions as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

“**THAT** the provision of the entrusted loans by BYD Precision Manufacture Co., Ltd. in the principal amount of RMB1 billion to BYD Company Limited through independent banks as entrusted lending agents subject to the terms and conditions contained in (1) the Memorandum of the Understanding (as amended and supplemented by the Supplemental Memorandum of Understanding), (2) the Entrusted Loan Agreements and (3) the Deed of Undertaking (each as defined in the circular of the Company dated 28 September 2011 and marked as documents (A) to (C) respectively and initialed by the Chairman of the Board for identification purpose at the EGM), and all transactions contemplated thereunder and in connection therewith, be and are hereby approved, confirmed and ratified in all respects and any one director of the Company or any other person authorized by the board of directors of the Company from time to time be and is hereby authorized for and on behalf of the Company to execute all such other documents and agreements and do such acts or things as he or she may in his or her absolute discretion consider to be necessary, desirable, appropriate or expedient to implement or give effect to the provision of the entrusted loans.”

By order of the board of  
**BYD Electronic (International) Company Limited**  
**LI Ke**  
*Director*

Hong Kong, 28 September 2011

---

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

---

***Registered Office:***

Part of Unit 1712, 17th Floor  
Grand Central Plaza, Tower 2  
138 Shatin Rural Committee Road  
Shatin, New Territories  
Hong Kong

***Head Office and Principal Place  
of Business in PRC:***

No. 3001, Bao He Road  
Baolong, Longgang  
Shenzhen, 518116  
The PRC

**Notes:**

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote on behalf of him. A proxy need not be a member of the Company.
2. The register of members of the Company will be closed from 13 October 2011 to 14 October 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the EGM, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 12 October 2011.
3. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof.