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**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)**

website : <http://www.byd-electronic.com>

**INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

Turnover	3.82%	to RMB7,754 million
Gross profit	-11.02%	to RMB808 million
Profit attributable to equity holders of the parent	-7.56%	to RMB335 million
Earnings per share	-7.56%	to RMB0.15

**HIGHLIGHTS**

- Profitability of the Company was under pressure as the growth of the handset industry slowed down
- Successfully optimized customer structure and enhanced market share among individual customers.
- Dedicated to develop 3G mobile phone ODM business, accounting for nearly 50% of revenue of ODM business during the Period.

**FINANCIAL RESULTS**

The board of directors (the “Board”) of BYD Electronic (International) Company Limited (the “Company” or “BYD Electronic”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2011 (the “Period”) together with comparative figures for the same period in 2010.

The Board does not recommend the payment of interim dividend for the Period.

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2011**

		<b>For the</b>	
		<b>six months ended</b>	
		<b>30 June</b>	<b>30 June</b>
	<i>Notes</i>	<b>2011</b>	<b>2010</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	5	7,753,679	7,468,299
Cost of sales		<u>(6,945,633)</u>	<u>(6,560,187)</u>
Gross profit		808,046	908,112
Other income and gains	5	126,571	95,823
Selling and distribution costs		(62,095)	(48,310)
Research and development costs		(258,460)	(340,342)
Administrative expenses		(205,776)	(157,297)
Other expenses		(29,087)	(63,159)
Finance costs	6	<u>(125)</u>	<u>(71)</u>
PROFIT BEFORE TAX	7	379,074	394,756
Income tax expense	8	<u>(44,392)</u>	<u>(32,707)</u>
PROFIT FOR THE PERIOD		<u>334,682</u>	<u>362,049</u>
Attributable to:			
Owners of the parent		334,682	362,049
Non-controlling interests		<u>—</u>	<u>—</u>
		<u>334,682</u>	<u>362,049</u>
Earnings per share attributable to equity holders of the Company — Basic and diluted	9	<u>RMB0.15</u>	<u>RMB0.16</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE  
INCOME**

*FOR THE SIX MONTHS ENDED 30 JUNE 2011*

	<b>For the</b>	
	<b>six months ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2011</b>	<b>2010</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
PROFIT FOR THE PERIOD	<u>334,682</u>	<u>362,049</u>
Exchange differences on translation of foreign operations	<u>(8,691)</u>	<u>7,237</u>
Total comprehensive income for the period, net of tax	<u>325,991</u>	<u>369,286</u>
Attributable to:		
Owners of the parent	325,991	369,286
Non-controlling interests	<u>—</u>	<u>—</u>
	<u>325,991</u>	<u>369,286</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
*AS AT 30 JUNE 2011*

	<i>Notes</i>	<b>30 June 2011 (Unaudited) RMB'000</b>	<b>31 December 2010 (Audited) RMB'000</b>
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	10	3,535,725	3,481,239
Prepaid land lease payments		145,708	147,893
Prepayment for property, plant and equipment		175,141	39,540
Other intangible assets		12,070	15,705
Deferred tax assets		<u>120,534</u>	<u>102,307</u>
		<u>3,989,178</u>	<u>3,786,684</u>
<b>Current Assets</b>			
Inventories	11	1,542,293	1,890,319
Trade and bills receivables	12	3,419,313	3,819,712
Prepayments, deposits and other receivables		191,980	275,385
Due from fellow subsidiaries		82,011	44,901
Due from the intermediate holding company		108,817	109,082
Due from the ultimate holding company		45,994	—
Cash and bank balances		<u>2,471,110</u>	<u>1,559,025</u>
Total current assets		<u>7,861,518</u>	<u>7,698,424</u>
Total assets		<u>11,850,696</u>	<u>11,485,108</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	3,164,882	2,789,910
Other payables and accruals		669,869	740,291
Tax payable		43,084	80,994
Interest-bearing bank borrowings		—	—
Due to fellow subsidiaries		124,747	337,933
Due to the ultimate holding company		<u>—</u>	<u>13,857</u>
Total current liabilities		<u>4,002,582</u>	<u>3,962,985</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
(CONTINUED)**

*AS AT 30 JUNE 2011*

	<i>Notes</i>	<b>30 June 2011 (Unaudited) RMB'000</b>	<b>31 December 2010 (Audited) RMB'000</b>
NET CURRENT ASSETS		<u>3,858,936</u>	<u>3,735,439</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,848,114</u>	<u>7,522,123</u>
EQUITY			
Issued capital		216,999	216,999
Reserves		<u>7,631,115</u>	<u>7,305,124</u>
Total equity		<u>7,848,114</u>	<u>7,522,123</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	Issued capital	Capital redemption reserve	Share premium account	Contributed Surplus	Statutory Surplus reserve	Exchange fluctuation reserve	Proposed final dividend	Retained profits	Total
	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000	<i>(Unaudited)</i> RMB'000
At 1 January 2010	216,999	1,670	3,833,559	(46,323)	289,518	(79,322)	150,965	2,260,878	6,627,944
Profit for the period	—	—	—	—	—	—	—	362,049	362,049
Other comprehensive income	—	—	—	—	—	7,237	—	—	7,237
Total comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,237</u>	<u>—</u>	<u>362,049</u>	<u>369,286</u>
2009 final dividends declared	—	—	—	—	—	—	(150,965)	—	(150,965)
At 30 June 2010	<u>216,999</u>	<u>1,670</u>	<u>3,833,559</u>	<u>(46,323)</u>	<u>289,518</u>	<u>(72,085)</u>	<u>—</u>	<u>2,622,927</u>	<u>6,846,265</u>
At 1 January 2011	216,999	1,670	3,833,559	(46,323)	399,670	(72,014)	—	3,188,562	7,522,123
Profit for the period	—	—	—	—	—	—	—	334,682	334,682
Other comprehensive income	—	—	—	—	—	(8,691)	—	—	(8,691)
Total comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,691)</u>	<u>—</u>	<u>334,682</u>	<u>325,991</u>
At 30 June 2011	<u>216,999</u>	<u>1,670*</u>	<u>3,833,559*</u>	<u>(46,323)*</u>	<u>399,670*</u>	<u>(80,705)*</u>	<u>—</u>	<u>3,523,244*</u>	<u>7,848,114</u>

\* These reserve accounts comprise the consolidated reserves of RMB7,631,115,000 in the consolidated balance sheet as at 30 June 2011.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2011**

	<b>For the six months</b>	
	<b>ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,244,116	372,726
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(325,838)	(321,301)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>—</u>	<u>(150,965)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	918,278	(99,540)
Cash and cash equivalents at beginning of period	1,559,025	1,192,943
Effect of foreign exchange rate changes, net	<u>(6,193)</u>	<u>37,724</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>2,471,110</u>	<u>1,131,127</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>2,471,110</u>	<u>1,131,127</u>
	<u>2,471,110</u>	<u>1,131,127</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT 30 JUNE 2011

### 1. CORPORATE INFORMATION

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

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

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

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

### 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statement, and should be read in conjunction with the annual financial statements for the year ended 31 December 2010.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010, except for the adoption of the new standards and interpretations as noted below.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the Group has also adopted Improvements to HKFRSs 2010\* issued by the HKICPA which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

\* Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.

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

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

#### 4. SEGMENT INFORMATION

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

#### 5. REVENUE, OTHER INCOME AND GAINS

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

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Revenue</u>		
Sale of mobile handset components and modules	3,406,511	3,329,118
Assembly services income	<u>4,347,168</u>	<u>4,139,181</u>
	<u>7,753,679</u>	<u>7,468,299</u>

**For the six months ended**  
**30 June 2011    30 June 2010**  
*(Unaudited)    (Unaudited)*  
*RMB'000        RMB'000*

<u>Other income and gains</u>		
Bank interest income	13,581	5,263
Gain on disposal of scrap	68,138	72,473
Sale of materials	5,151	2,254
Others	<u>39,701</u>	<u>15,833</u>
	<u>126,571</u>	<u>95,823</u>

**6. FINANCE COSTS**

**For the six months ended**  
**30 June 2011    30 June 2010**  
*(Unaudited)    (Unaudited)*  
*RMB'000        RMB'000*

Interest on bank borrowings	<u>125</u>	<u>71</u>
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**7. PROFIT BEFORE TAX**

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

**For the six months ended**  
**30 June 2011    30 June 2010**  
*(Unaudited)    (Unaudited)*  
*RMB'000        RMB'000*

Cost of inventories sold	2,788,101	2,676,252
Cost of services provided	4,132,343	3,854,184
Depreciation	329,906	268,328
Amortisation of other intangible assets	3,683	2,554
Impairment of trade receivables	364	—
Impairment losses of trade receivables reversed	(3,210)	(12,893)
Write-down of inventories	25,189	29,751
Loss on disposal of items of property, plant and equipment	<u>9,113</u>	<u>8,186</u>

## 8. INCOME TAX

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Current-Mainland	62,619	32,442
Deferred	<u>(18,227)</u>	<u>265</u>
Total tax charge for the period	<u>44,392</u>	<u>32,707</u>

The Company's subsidiaries registered in the PRC are subject to Corporate Income Tax ("CIT"). Under the relevant PRC CIT Law and the respective regulations, certain preferential treatments are available to the Company's subsidiaries, which are taxed at preferential rate of 12% (2010:11%) during the period.

Certain subsidiaries operating in Mainland China are approved to be high and new technology enterprises and are entitled to enjoy reduced enterprise income tax rates of 15% of the estimated assessable profits for the period.

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

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

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

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the Company, as in the basic earnings per share calculation	<u>334,682</u>	<u>362,049</u>
	<b>Numbers of shares</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
<u>Shares</u>		
Number of ordinary shares in issue during the period	<u>2,253,204,500</u>	<u>2,253,204,500</u>

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

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired assets with a cost of RMB 640,868,000 (six months ended 30 June 2010 : RMB419,732,000) on additions to property, plant and equipment.

Assets with a net book value of RMB48,440,000 were disposed of by the group during the six months ended 30 June 2011 (six months ended 30 June 2010 : RMB12,909,000), resulting in a net loss on disposal of RMB9,113,000 (six months ended 30 June 2010: loss of RMB8,186,000).

## 11. INVENTORIES

	<b>30 June 2011</b>	<b>31 December 2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Raw materials	686,247	769,198
Work-in-progress	23,895	26,455
Finished goods	764,088	1,025,860
Mould held for production	<u>68,063</u>	<u>68,806</u>
	<u>1,542,293</u>	<u>1,890,319</u>

## 12. TRADE AND BILLS RECEIVABLES

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

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

	<b>30 June 2011</b>	<b>31 December 2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within 3 months	3,211,132	3,731,230
3 to 6 months	193,413	85,866
6 months to 1 year	<u>14,768</u>	<u>2,616</u>
	<u>3,419,313</u>	<u>3,819,712</u>

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

### 13. TRADE AND BILLS PAYABLES

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

	<b>30 June</b> <b>2011</b> <i>RMB'000</i> <i>(Unaudited)</i>	<b>31 December</b> <b>2010</b> <i>RMB'000</i> <i>(Audited)</i>
Within 90 days	2,770,820	2,734,752
91 to 180 days	384,559	46,300
181 to 360 days	6,142	3,023
1 to 2 years	444	2,863
Over 2 years	<u>2,917</u>	<u>2,972</u>
	<u><u>3,164,882</u></u>	<u><u>2,789,910</u></u>

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

### 14. CONTINGENT LIABILITIES

- (a) In June 2007, the High Court of the Hong Kong Special Administrative Region (the “Court”) action (the “June 2007 Action”) was commenced by a subsidiary and an affiliate of Foxconn International Holdings Limited (the “Plaintiffs”) against the ultimate holding company, the intermediate holding company, the immediate holding company and subsidiaries of the Group (the “Defendants”) for using confidential information obtained improperly from the Plaintiffs. The Plaintiffs alleged that the defendants have directly or indirectly through the assistance of certain employees of the Plaintiffs, induced and procured certain former employees of the Plaintiffs (some of whom were subsequently employed by the holding companies of the Group) to breach their contractual and fiduciary duties with their former employer, the Plaintiffs, by disclosing to the Defendants confidential information that such employees have acquired through their employment with the Plaintiffs. In addition, it was alleged that the Defendants knew or ought to have known the confidential nature of such information and that the Defendants allowed or acquiesced its misuse in establishing a handset production system that is highly similar to the Plaintiffs’ handset production system and using the Plaintiffs’ confidential information with respect to their suppliers and customers. The Plaintiffs discontinued the June 2007 Action on 5 October 2007 with the effect that the June 2007 Action has been wholly discontinued against all the defendants named in the action and that this finally disposed of the June 2007 action without any liability to the ultimate holding company, the intermediate holding company, the immediate holding company and subsidiaries of the Group. On the same day, the plaintiffs initiated a new set of legal proceedings in the Court (the “October 2007 Action”). The defendants named in the October 2007 Action are the same as the defendants in the June 2007 Action, and the claims made by the plaintiffs in the October 2007 Action are based on the same facts and the same allegations arising in the June 2007 Action. In essence, the plaintiffs allege that the defendants have misappropriated and misused

confidential information belonging to the plaintiffs. The remedies sought by the Plaintiffs in the October 2007 Action include an injunction restraining the Defendants from using the alleged confidential information, an order for the disgorgement of profit made by the Defendants through the use of the confidential information, damages based on the loss suffered by the Plaintiffs and exemplary damages.

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

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

On 2 November 2007, the ultimate holding company and the intermediate holding company, the Defendants which had been served with the writ at that time, applied for a stay of the legal proceedings. The hearing of the stay application took place on 11 and 12 June 2008 and the judgment in respect of the stay application was handed down on 27 June 2008. The stay application was turned down and an order was issued, of which the legal cost for the application of stay by the Plaintiff is to be borne by the ultimate holding company and the intermediate holding company. The legal cost, if not agreed, will be determined by the court. On 2 September 2009, the above-mentioned Plaintiffs make an amendment to the writ with the High Court of the Hong Kong Special Administration Region for inclusion of Foxconn Precision Component (Beijing) Co., Ltd. as a Plaintiff. The Group also filed a counterclaim on 2 October 2009 against the Plaintiffs, including Foxconn Precision Component (Beijing) Co., Ltd., the documents of which have been served on all parties of the Plaintiffs. The counterclaim mainly related to the release of defamatory remarks to prejudice of the Defendants' reputation and the interference with the Defendants' business, and the request for remedies by the Plaintiffs.

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

## 15. COMMITMENTS

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

	<b>30 June 2011</b>	<b>31 December 2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Contracted, but not provided for:		
Plant and machinery	249,686	197,964
Building	<u>48,112</u>	<u>62,943</u>
	<u>297,798</u>	<u>260,907</u>

## 16. RELATED PARTY TRANSACTIONS

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

Nature of Transaction	Note	Related parties	For the	
			30 June 2011	30 June 2010
			<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Unaudited)</i>	<i>(Unaudited)</i>
Purchases of plant and machinery	(i)	Ultimate holding company Fellow subsidiaries	175 148,575	28,011 24,762
Sales of plant and machinery	(i)	Ultimate holding company Fellow subsidiaries	5,131 11,263	— 2,383
Purchases of inventories	(ii)	Ultimate holding company Fellow subsidiaries	959 393,795	171,800 609,469
Sales of inventories	(ii)	Ultimate holding company Fellow subsidiaries	14,205 155,115	55,433 64,681
Ancillary expenses paid to	(iii)	Ultimate holding company Fellow subsidiaries	82,338 13,084	84,540 21,020
Exclusive processing service received by	(iv)	Ultimate holding company	27,322	—
Exclusive processing service provided to	(iv)	Ultimate holding Fellow subsidiaries	21 <u>35</u>	— <u>—</u>

*Notes:*

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

- (iii) Expenses were charged on an actually incurred basis or in accordance with terms mutually agreed between the parties. In the opinion of the directors, the transactions were conducted in the ordinary and usual course of business.
  - (iv) The processing service fees were charged for the use of the relevant machinery and equipment at the depreciation basis as mutually agreed between related parties.
- (b) Compensation of key management personnel of the Group:

	<b>For the six months ended</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Short term employee benefits	7,664	7,070
Pension scheme contributions	<u>12</u>	<u>10</u>
	<u>7,676</u>	<u>7,080</u>

## 17. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approval and authorised for issue by the board of directors on 22 August 2011.

## MANAGEMENT DISCUSSIONS AND ANALYSIS

### OPERATING ENVIRONMENT REVIEW

During the six months ended 30 June 2011(the “Period”), global economic growth temporarily declined after the rapid expansion in 2010. Political instability in Middle East and South Africa, earthquake and nuclear disaster in Japan, together with the sovereign debt crisis in Europe, contributed to a slowdown of the growth in various regions of the world. In respect of the handset market, demand for smart phones increased rapidly along with its growing popularity driving the explosive growth in the output of smart phones which led to favorable growth of the global handset market despite the depressed market conditions. According to the statistics from a market research institution, the global handset output was approximately 723 million units in the first half of 2011, representing a year-on-year increase of 13.20%, of which global smart phones output was 209 million units in the first half of 2011, representing a significant increase of 74.02% when compared with the same period of the previous year.

With the golden period of market development brought about by smart phones, market scale expanded even more fiercely. Meanwhile, the smart phone market tended to gradually segmented, with handsets having more distinctive features, such as ladies’ handset, GPS handset and handset for the elderly. The increasing popularity of smart phones also gradually changes the competitive landscape of the global

handset market. Manufacturers of smart phones under new brands and new platform systems have emerged one after another to seize this rapid growing segment. Therefore, despite fluctuated market condition, the strong demand for smart phones has nurtured diversifying development opportunities for “one-stop” suppliers with high capability of vertical integration and global manufacturing and service platforms.

The booming development of smart phones and 3G handset market has changed the competition condition of the handset market, and hit the traditional handset manufacturers. Although traditional handsets still surpassed smart phones in output during the Period, its growth was significantly slowing down, while the market share of traditional handset manufacturers was also shrinking. Though handset manufacturers of traditional brands were eager to penetrate into the smart phones market, they were under pressure from manufacturers that specialized in smart phones.

## **BUSINESS REVIEW**

BYD Electronic (International) Company Limited (“BYD Electronic” or the “Company”) and its subsidiaries (collectively, the “Group”) has always been to provide one-stop service with perfect and high capability of vertical integration, which is to provide handset manufacturers with two main services, including production of handset components and module business, and providing vertical integration of handset design and assembly services. During the first half of 2011, the Group’s major customer slowed down their launch of new products. This, coupled with limited contributions to sales during the initial launch period of new models, has led to the decline of market share for that brand in the first half of the year, and deferred the purchase order for components with higher margin in second quarter, which inevitably affected BYD Electronic’s business. Even through there was a slight increase in overall sales, BYD Electronic still recorded a decrease in profit in the first half of the year. During the Period, the Group recorded sales of approximately RMB7,754 million, increased by approximately 3.82% year-on-year. Profit attributable to shareholders decreased by 7.56% year-on-year to approximately RMB335 million.

BYD Electronic is one of the manufacturers of handset components and modules in the industry with the highest cost competitiveness. Its principal business includes the manufacturing and sales of handset components, including handset casings and keypads, and handset modules equipped with various mechanical components such as handset casings, microphones, connectors and other components, as well as the provision of complete handset design and assembly services (namely high level assembly services and printed circuit board (PCB) assembly services) and the provision of parts and assembly services of other electronic products.

During the Period, the Group's major customers deferred the purchase order under the fierce competition of smart phone market. However, leveraging on the Group's high capability for vertical integration, strong product competitiveness and advantage with higher value for money, the Group successfully increased sales to other customers and enhanced market share among the customers during the Period. Among those customers, there included international high-end consumer electronics producer which was the first to enter the smart phone market, and well-known domestic telecommunications equipment manufacturers who are rapidly expanding their market shares in the smart phone market. On the other hand, as the global handset market has become increasingly competitive, leading international handset manufacturers were cost-cautious and exercised stringent controls over production cost and rigorous selection of upstream handset components producers, which added challenges to the Group's operation environment, while price reduction pressure continuously from customers affected the profitability in both the handset component and module production businesses.

Besides providing customers with handset components and modules, BYD Electronic also provides handset design and assembling services according to the requirements of its customers. BYD Electronic has been devoted to develop and research high-end handset original design manufacturing (ODM) services. As purchase orders from major customer slowed down, ODM business was under pressure during the Period. However, developing ODM business would not only help propel the Group to shift towards the high value-added segment of the industry chain and effectively enhances its business structure, but also enable the Group to gradually shift to high-end market strategically, which are favourable to the enhancement of the Group's market share in high-end market and the profitability of its business in general in the long run.

The first half of 2011 saw the continuous steady development of China's 3G market and growing number of 3G subscribers. With accelerating mobile internet penetration and increasing effect of mobile operators on promotion of 3G mobile phone, the 3G handset market continued to heat up. In view of this, the Group continued to develop 3G mobile phone ODM business. During the period, 3G mobile phone ODM business accounted for nearly 50% of income of ODM business.

## **FUTURE STRATEGY**

Looking forward, in the second half of 2011, global economy is still shrouded in uncertainties such as the slowdown in economic recovery and the financial crunch in the European countries. However, the Group believes that the smart phone market will continue to grow in the future and dominate the development trend of the whole global mobile phone market. IMS Research, the market research company, expects that global sales of smart phone will reach 420 million units this year, accounting for

one-fourth of total handset sales. Facing the vigorous emerging of smart phones, the Company has actively adjusting its development strategy, and is well prepared for the coming smart phone new era. The Group has qualified by an international recognized Taiwan based smart phone producers, and started to provide it with handset parts. Furthermore, the Group will actively seize the purchase orders for the most popular smart phone and its related high-end electronic consumer goods, aiming to continue to enhance the market share of smart phone and further expand our income sources.

On the other hand, the Group will go on putting resources on research and development of 3G handset business, further develop ODM business for 3G handsets. Currently, the number of qualified ODM suppliers in the PRC is limited. As one of the earliest to manufacture TD-SCDMA handsets, the Group will uphold its vertical integration strategy, leverage handset products with higher value for money and strengthen ODM attractiveness targeting at international and domestic leading handset manufacturers with a view to gaining market shares in the 3G market and creating greater driving forces for the growth of the Group.

The advent of the smart phones and 3G handsets era has brought a new revolution to the handset industry. No matter in brand competition or product structure, the handset industry has developed new features and trends which are totally different from those of the past. BYD Electronic, as a quality one-stop provider, will surely move with the times. In the future, the Group will, based on its great efforts on the development of smart phones and 3G handsets business, aggressively explore new business and enrich product portfolio by pursuing new product lines including tablet and procure more new customers among international branded manufacturers, so as to create new growth points, optimize product portfolio and customer structure gradually and thus foster new sources of income and profit for the Group.

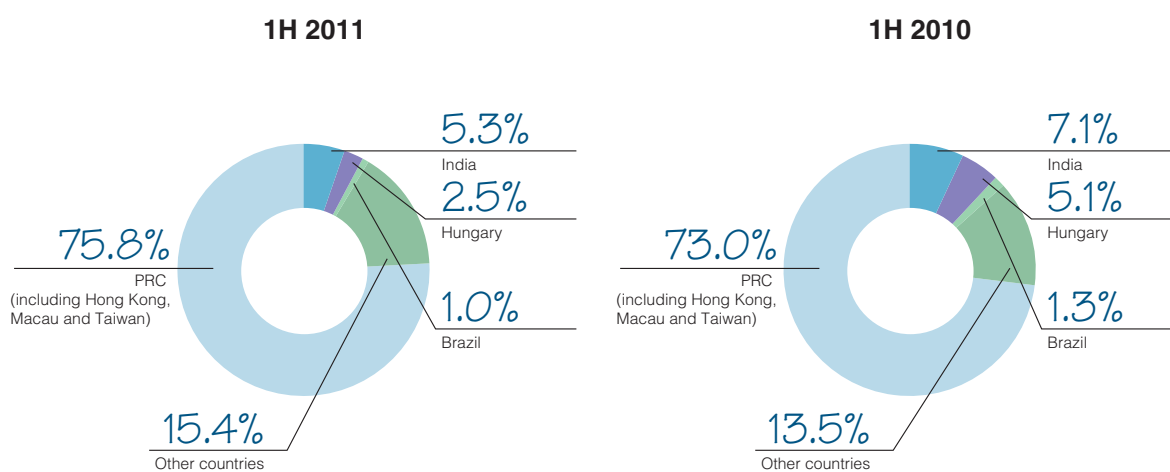
Looking forward, second half is the traditional peak season for handset market. In the second half, it is expected that the Group's major customer will gradually recover, and will launch Smart phones based on new platform in the fourth quarter. With the enormous opportunities brought to the Group by smart phones and 3G handsets, the development strategies and objectives of BYD Electronic remain unchanged — a commitment to continuously enhance its research and development capabilities and technological standards, maintain and improve its product quality and cost advantage and a determination to develop an integrated global manufacturing and service platform in order to enhance its market position and create substantial returns for our shareholders.

## FINANCIAL REVIEW

Turnover recorded a slight increase compared with the same period of the previous year. Profit attributable to equity owners of the parent decreased year-on-year, mainly attributable to the fact that the Group's major customer have deferred the purchasing orders, resulting in a decrease in the proportion of handset components manufacturing and sales business with higher gross profit margin.

### Segmental Information

Set out below is the comparison of geographical information by customer location for the six months ended 30 June 2010 and 2011:



### Gross Profit and Margin

The Group's gross profit for the Period decreased by approximately 11.02% to approximately RMB808 million. Gross profit margin declined from approximately 12.16% in the first half of 2010 to approximately 10.42% during the Period. The decrease in gross margin was mainly due to a decrease in the proportion of handset components manufacturing and sales business with higher gross profit margin while the proportion of assembly business with lower gross profit margin increased.

### Liquidity and Financial Resources

During the Period, the Group recorded cash inflow from operations of about RMB1,244 million, compared with approximately RMB 373 million recorded in the first half of 2010. During the Period, funds were obtained from the net cash derived from the Company's operations. As at 30 June 2011 and 31 December 2010, the Group did not have bank borrowings.

The Company maintained sufficient daily liquidity management and capital expenditure requirements, so as to control internal operating cash flows. During the Period, the turnover days of accounts and bills receivables were approximately 84 days, while the turnover days were approximately 76 days for the six months ended 30 June 2010. The increase in turnover days was mainly due to the fact that increase in sales is less than increase in average balance of accounts and bills receivables. Inventory turnover reduced from approximately 56 days for the six months ended 30 June 2010 to approximately 47 days during the Period. The reduction in inventory turnover days was mainly due to the increase in sales and cost of sales and decrease in average inventories as compared with the corresponding period last year.

### **Capital Structure**

The duty of the Company's financial division is to oversee the Company's financial risk management, and to operate in accordance with the policies approved and implemented by the senior management. As at 30 June 2011, the Company had no borrowings and its cash and cash equivalents were mainly held in Renminbi and US dollars. The Company's current bank deposits and cash balances and fixed deposits as well as the Company's bank facilities and net cash derived from operating activities will be sufficient to satisfy the Company's material commitments and the requirements for working capital, capital expenditure, business expansion, investments and expected debt repayment needs for at least the next six months.

### **Exposure to Foreign Exchange Risk**

Most of the Company's income and expenditure are settled by Renminbi and US dollars. During the Period, the Group recorded a decrease in foreign exchange losses, which were mainly attributed to the change in exchange rates of US dollar against Renminbi and of Hungarian Forint against US dollar. During the Period, the Company did not encounter any significant difficulties or come under any impact on its operations or liquidity due to fluctuations in currency exchange rates. The directors believe that the Company will have sufficient foreign exchange to meet its own foreign exchange requirements.

### **Employment, Training and Development**

As at 30 June 2011, the Company had over 53,000 employees. During the Period, total staff cost accounted for approximately 12.43% of the Company's turnover. Employee remuneration is determined on the basis of the Company employees' performance, experience and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission may also be awarded to employees based on their annual performance evaluation. In addition, incentives may be offered for personal drive and encouragement.

## **Share Capital**

As at 30 June 2011, the share capital of the Company was as follows:

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

## **Purchase, Sale or Redemption of Shares**

From 1 January 2011 to 30 June 2011, the Company did not redeem any shares. During the Period, neither the Company nor any of its subsidiaries purchased or sold any shares of the Company.

## **Capital Commitments**

As at 30 June 2011, the Company had capital commitment of approximately RMB298 million (31 December 2010: approximately RMB 261 million).

## **Contingent Liabilities**

Please refer to note 14 to this announcement for details of contingent liabilities.

## **SUPPLEMENTARY INFORMATION**

### **CORPORATE GOVERNANCE**

#### **Compliance with the Code on Corporate Governance Practices (the “Code”)**

The Board is committed to maintaining and ensuring high standards of corporate governance practices.

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

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

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

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## **AUDIT COMMITTEE**

The audit committee consists of three independent non-executive directors and two non-executive directors. A meeting was convened by the Company's audit committee on 22 August 2011 to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including reviewing the financial statements for the Period before recommending them to the Board for approval).

## **INTERIM DIVIDEND**

The Board does not recommend the payment of interim dividend for the Period (six months ended 30 June 2010: Nil).

## **Disclosure of Information on the Stock Exchange's Website**

This interim results announcement is published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

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

Hong Kong , 22 August 2011

*As at the date of this announcement, the executive Directors are Ms. LI Ke and Mr. SUN Yi-zao; the non-executive Directors are Mr. WANG Chuan-fu and Mr. WU Jing-sheng; and the independent non-executive Directors are Mr. CHAN Yuk-tong, Mr. Antony Francis MAMPILLY and Mr. LIANG Ping.*