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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

Turnover	5.86%	To RMB41,047 million
Gross profit	-2.16 %	To RMB4,172 million
Profit attributable to owners of the parent	-15.33%	To RMB2,189 million
Earnings per share	-15.33%	To RMB0.97
Proposed final dividend		RMB0.195 per share

HIGHLIGHTS

- The rapid growth of glass casing business drove the increases in revenue of the Group.
- The proactive expansion of new business sectors (such as ceramics and composite materials) cultivated new growth point for the Group's continuous development in the future.
- The Group actively develops its businesses of new intelligent products and automotive intelligent systems, leading the transformation and upgrade of the Group.

FINANCIAL RESULTS

The Board ("Board") of Directors (the "Directors") of BYD Electronic (International) Company Limited (the "Company" or "BYD Electronic") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Year") together with comparative figures in 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
REVENUE	*4*	**41,047,139**	38,774,422
Cost of sales		**(36,875,156)**	(34,510,484)
Gross profit		**4,171,983**	4,263,938
Other income and gains	*4*	**558,070**	493,442
Government grants and subsidies	*5*	**287,390**	240,161
Research and development expenses		**(1,588,654)**	(1,200,632)
Selling and distribution expenses		**(229,238)**	(229,098)
Administrative expenses		**(535,819)**	(434,024)
Impairment losses on financial assets[, net]		**(57,333)**	–
Other expenses		**(27,762)**	(97,620)
Finance costs	*6*	**(42,805)**	(44,040)
PROFIT BEFORE TAX	*7*	**2,535,832**	2,992,127
Income tax expense	*8*	**(347,212)**	(407,259)
PROFIT FOR THE YEAR			
Attributable to owners of the parent		**2,188,620**	2,584,868
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
—Basic and diluted			
—For profit for the year	*9*	**RMB0.97**	RMB1.15

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**7,633,550**	7,430,949
Prepaid land lease payments		**381,243**	280,970
Prepayments, other receivables and other assets		**398,701**	368,514
Other intangible assets		**14,231**	25,073
Loan to the ultimate holding company		**398,920**	400,000
Deferred tax assets		**128,361**	225,857
Available-for-sale investments		**–**	13,779
Other non-current financial asset		**6,703**	–
Total non-current assets		**8,961,709**	8,745,142
CURRENT ASSETS			
Inventories		**4,767,794**	4,607,845
Trade and bills receivables	*10*	**7,209,225**	8,556,349
Prepayments, other receivables and other assets		**368,244**	654,652
Due from related parties		**2,823**	–
Pledge bank deposits		**–**	71
Cash and cash equivalents		**4,741,377**	2,822,267
Total current assets		**17,089,463**	16,641,184
CURRENT LIABILITIES			
Trade and bills payables	*11*	**7,891,996**	8,982,988
Other payables		**2,123,343**	1,855,408
Due to related parties		**–**	940
Tax payable		**30,209**	173,367
Deferred income		**15,987**	75,301
Total current liabilities		**10,061,535**	11,088,004
NET CURRENT ASSETS		**7,027,928**	5,553,180
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,989,637**	14,298,322
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**44,648**	25,912
Deferred income		**119,657**	81,097
Total non-current liabilities		**164,305**	107,009
Net assets		**15,825,332**	14,191,313
EQUITY			
Share capital	*12*	**4,052,228**	4,052,228
Other reserves		**11,773,104**	10,139,085
Total equity		**15,825,332**	14,191,313

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2018

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results for the year ended 31 December 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (chapter 622 of the laws of Hong Kong) (the "Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability on 14 June 2007.

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

The registered office of the Company is located at Part of Unit 1712, 17th Floor, Tower 2, Grand Central Plaza, No. 138 Shatin Rural Committee Road, Shatin, New Territories, Hong Kong.

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

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

Information about subsidiaries

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

Company name	Place of incorporation or registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lead Wealth International Limited ("Lead Wealth") (領裕國際有限公司) ***	British Virgin Islands	US$50,000	–	100	Investment holding
BYD Precision Manufacture Co., Ltd. ("BYD Precision") (比亞迪精密製造有限公司)*	PRC/Mainland China	US$145,000,000	–	100	Manufacture and sale of mobile handset components and modules
Huizhou BYD Electronic Co., Limited ("Huizhou Electronic") (惠州比亞迪電子有限公司)**	PRC/Mainland China	US$110,000,000	–	100	High-level assembly

continued/...

Company name	Place of incorporation or registration and operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BYD India Private Limited ("BYD India")***	India	INR2,407,186,600	–	100	Manufacture and sale of mobile handset components and modules. Sale of battery, charger, Iron-phosphate batteries used in Electric Bus, Electric Truck, Electric car, Electric Forklift and its components and spare parts. Build and maintain monorail projects.
Xi'an BYD Electronic Co., Limited ("Xi'an Electronic") (西安比亞迪電子有限公司) *	PRC/Mainland China	RMB100,000,000	–	100	Manufacture and sale of mobile handset components
BYD (Wuhan) Electronic Co., Limited ("Wuhan Electronic") (武漢比亞迪電子有限公司) *	PRC/Mainland China	RMB10,000,000	–	100	Manufacture and sale of mobile handset components
BYD (Shaoguan) Electronic Co., Limited ("Shaoguan Electronic") (韶關比亞迪電子有限公司) *	PRC/Mainland China	RMB30,000,000	–	100	Manufacture and sale of mobile handset components

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

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

Classification and measurement

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

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

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

	Note	HKAS 39 measurement Category	Amounts RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	HKFRS 9 measurement Amounts RMB'000	Category
Financial liabilities								
Trade and bills payables		L&R[2]	8,982,988	–	–	–	8,982,988	AC[3]
Other liabilities		L&R[2]	1,855,408	–	–	–	1,855,408	AC[3]
Due to related parties		L&R[2]	940	–	–	–	940	AC[3]
Total liabilities			10,839,336	–		–	10,839,336	

1 AFS: Available-for-sale investments
2 L&R: Loans and receivables
3 AC: Financial assets or financial liabilities at amortised cost
4 FVOCI: Financial assets at fair value through other comprehensive income
5 FVPL: Financial assets at fair value through profit or loss

Notes:

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

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 10 to the financial statements.

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

Impact on reserves and retained profits

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

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

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

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

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

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

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

	Increase/ (decrease) *RMB'000*
Liabilities	
Contract liabilities	285,846
Advance from customer	(285,846)
Total liabilities	–

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

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

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

Consolidated statement of financial position as at 31 December 2018:

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

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

(i) Sale of industrial products with contract performance costs

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

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

(ii) Consideration received from customers in advance

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 No mandatory effective date yet determined but available for adoption

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

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

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

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

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

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

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

3. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customers

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

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

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

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

An analysis of revenue is as follows:

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

4. REVENUE, OTHER INCOME AND GAINS

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

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

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

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

(ii) ***Performance obligations***

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

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

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

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

5. GOVERNMENT GRANTS AND SUBSIDIES

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

Notes:

(a) In 2018, Huizhou Electronic, a subsidiary of the Company, received government grants with an amount of RMB72,420,000 from Huizhou government as subsidies on technical transformation (2017: Nil). The amount recognised in the statement of profit or loss for the year ended 31 December 2018 was RMB65,301,000 (2017: Nil).

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

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

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

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

7. PROFIT BEFORE TAX

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

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

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

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

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

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

8. INCOME TAX

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

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

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

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

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

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

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

No Hong Kong profits tax has been provided since no assessable profit arose in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions of which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No provision has been made for profits tax in America, Romania and Finland as the Group had no assessable profits derived from these countries.

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

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

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

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

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

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

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

The calculation of basic earnings per share is based on:

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

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

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

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

Impairment under HKFRS 9 for the year ended 31 December 2018

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

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

As at 31 December 2018

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

Impairment under HKAS 39 for the year ended 31 December 2017

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

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

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

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

Receivables that were neither past due nor impaired relate to recognised and creditworthy customers for whom there was no recent history of default.

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

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

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

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

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

11. TRADE AND BILLS PAYABLES

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

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

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

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

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

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

12. SHARE CAPITAL

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

13. DIVIDENDS

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

The final dividend will be denominated and declared in RMB but will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to RMB as announced by the People's Bank of China during the five business days prior to the date of declaration of the dividend at the AGM.

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

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

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

14. CONTINGENT LIABILITIES

Action against Foxconn

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

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

BUSINESS REVIEW

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

* *For Identification purpose only*

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

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

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

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

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

STRATEGY FOR FUTURE DEVELOPMENT

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

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

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

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

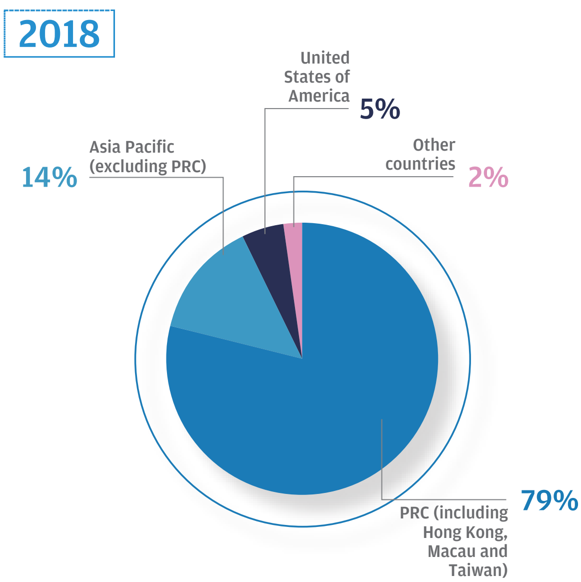
Looking forward to the future, BYD Electronic vows to continue upholding its core corporate values, to stay focused on technological innovation, and to upgrade intelligent manufacturing and constantly uplift its competitive advantages. The Group will move to consolidate its leading position in the field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

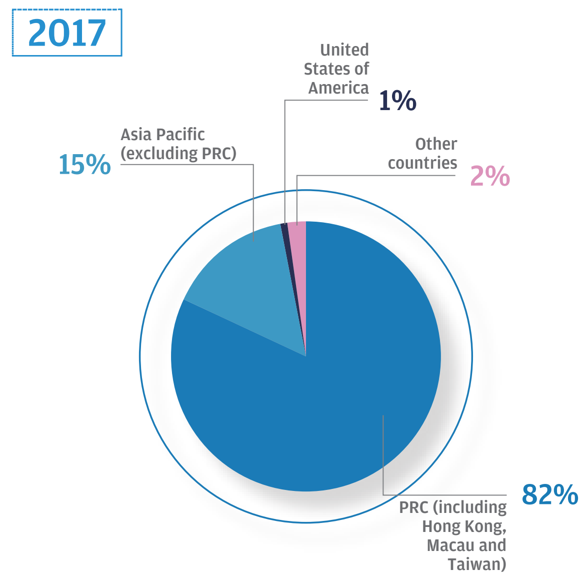
FINANCIAL REVIEW

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

Segmental Information

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





Gross Profit and Margin

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

Liquidity and Financial Resources

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

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

Capital Structure

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

The Group monitors capital using a gearing ratio, which is net debt divided by equity. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, less cash and bank balances. Equity represents equity attributable to owners of the parent. As the Group did not have any interest-bearing bank borrowings, the gearing ratio was zero as of 31 December 2018 and 31 December 2017.

Exposure to Foreign Exchange Risk

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

Charge on Assets

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

Employment, Training and Development

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

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

Dividend Distribution Policy

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

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

Final Dividend

The Board has resolved to declare a final dividend of RMB0.195 per Share (2017: RMB0.230 per Share) for the year ended 31 December 2018 which is subject to consideration and approval at the Company's AGM. Please refer to Note 13 of the financial statements included in this announcement for details of the final dividend.

Share Capital

As at 31 December 2018, the share capital of the Company was as follows:

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

Purchase, Sale or Redemption of Shares

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

Significant Investment Held

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

Material Acquisitions and Disposals of Subsidiaries and Associates and Material Investments of Capital Assets

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

Capital Commitments

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

Contingent Liabilities

Please refer to Note 14 of the financial statements included in this announcement for details of contingent liabilities.

Environmental Protection and Social Security

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

Corporate Governance

Corporate Governance Code (the "Code")

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

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

Compliance with the Model Code for Securities Transactions 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 of the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. 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.

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 27 March 2019 to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including the review of the financial statements for the year ended 31 December 2018) for recommendation to the Board for approval.

SCOPE OF WORK OF AUDITOR ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's independent auditors, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the Year. The work performed by Ernst & Young in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this preliminary announcement.

Disclosure of Information on the Website of the Stock Exchange

This annual 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
Wang Nian-qiang
Director

Hong Kong, 27 March 2019

As at the date of this announcement, the executive Directors are Mr. WANG Nian-qiang and Mr. WANG Bo; the non-executive Directors are Mr. WANG Chuan-fu and Mr. WU Jing-sheng; and the independent non-executive Directors are Mr. CHUNG Kwok Mo John, Mr. Antony Francis MAMPILLY and Mr. QIAN Jing-jie.