



比亞迪股份有限公司
BYD COMPANY LIMITED

Stock Code 股份代號 : 1211

2017 Annual Report 年報

THE NEXT LEGEND



Company Profile

公司簡介

BYD Company Limited ("BYD" or "the Company" together with its subsidiaries, "the Group"; stock code: H Shares: 01211; A Shares: 002594) is principally engaged in automobile business which includes traditional fuel-engined vehicles and new energy vehicles, handset components and assembly services, as well as rechargeable battery and photovoltaic business while taking advantage of its technological superiority to actively develop urban rail transportation business segment.

Since tapping into the automobile business in 2003, by leveraging on its advanced technology and cost advantages and international quality products, the Group has achieved remarkable growth in automobile business and has rapidly grown into a leading automobile manufacturer in China with domestic self-owned brand. As a pioneer in the research and development and promotion of new energy vehicles in the world, the Group has accumulated extensive skills and gained leading market share in the new energy vehicles area, which has established the leading position of BYD in the global new energy vehicles sector.

As one of the world's leading suppliers for handset components and assembly services, the Group can provide customers with vertically integrated one-stop services from whole product design, components manufacturing to whole product assembly services, with the product portfolio covering handsets, tablets, notebook computers and other consumer electronic products, but the Group does not produce its own brand of whole products. Main customers of the business include Samsung, Huawei, Apple, Lenovo, vivo, Xiaomi and other intelligent mobile terminal leaders.

BYD is one of the leading rechargeable battery manufacturers in the global arena. Major clients include leading handset manufacturers such as Samsung and Huawei, as well as global electric power tools and other portable electronic equipment manufacturers such as Bosch and Cooper. Lithium-ion and nickel batteries produced by the Group are widely applied in handsets, digital cameras, power tools, electric toys and other portable electronic devices and electric products.

In September 2008, MidAmerican Energy Holdings Company (now renamed as Berkshire Hathaway Energy), a subsidiary of Berkshire Hathaway, entered into an agreement with the Company, pursuant to which MidAmerican Energy Holdings Company acquired 225 million H Shares of the Company, representing approximately 8.25% of the Company's total capital at present, to become the Group's long term investment strategic partner. In February 2011, the joint venture of the Group and Daimler AG was formally established for the joint research and development of electric vehicles. In June 2011, the Company made an IPO of 79 million RMB ordinary shares (A shares) which were listed on the SME Board of Shenzhen Stock Exchange ("the Shenzhen Stock Exchange").

New energy vehicles and sky rails businesses are important areas for BYD's future development. By leveraging its technology and quality advantages in related business areas, the Group will actively develop the application of new energy vehicles and sky rails at home and abroad to facilitate the Group's long-term and sustainable development.

比亞迪股份有限公司（「比亞迪」或「本公司」，連同其附屬公司統稱「本集團」；股份代號：（H股：01211；A股：002594））主要從事包含傳統燃油汽車及新能源汽車在內的汽車業務、手機部件及組裝業務，以及二次充電電池及光伏業務，同時利用自身的技術優勢積極拓展城市軌道交通業務領域。

自二零零三年拓展汽車業務以來，憑藉集團產品領先的技術及成本優勢及具備國際標準的卓越質量，集團的汽車業務實現高速增長，迅速成長為領先的中國自主品牌汽車廠商。作為全球新能源汽車研發和推廣的引領者，集團於新能源汽車領域擁有雄厚的技術積累、領先的市場份額，奠定了比亞迪於全球新能源汽車領域的行業領導地位。

作為全球領先的手機部件及組裝服務的供應商之一，本集團可以為客戶提供從整機設計、部件生產到整機組裝的垂直整合的一站式服務，產品覆蓋手機、平板電腦、筆記本電腦及其他消費類電子產品等領域，但不生產自有品牌的整機產品。該業務的主要客戶包括三星、華為、蘋果、聯想、vivo、小米等智能移動終端領導廠商。

比亞迪為全球領先的二次充電電池製造商之一，主要客戶包括三星、華為等手機領導廠商，以及博世、庫柏等全球性的電動工具及其他便攜式電子設備廠商。本集團生產的鋰離子電池及鎳電池廣泛應用於手機、數碼相機、電動工具、電動玩具等各種便攜式電子設備和電動產品。

二零零八年九月，Berkshire Hathaway旗下附屬公司MidAmerican Energy Holdings Company（中美能源控股公司，現更名為Berkshire Hathaway Energy）與本公司簽署協議，認購本公司2.25億股H股（佔目前本公司總股本的約8.25%），成為集團的長期投資戰略夥伴。二零一一年二月，集團與Daimler AG（戴姆勒）的合資公司正式成立，以共同研究及開發電動車。二零一一年六月，公司首次向中國社會公眾公開發行人民幣普通股（A股）7,900萬股並在深圳證券交易所（「深交所」）中小企業板上市。

新能源汽車和雲軌業務是比亞迪未來發展的重要範疇，憑藉自身在相關業務領域的技術和品質優勢，集團將積極拓展新能源汽車及雲軌於國內外的應用，推動集團的長遠及可持續發展。



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Financial Highlights

Five-Year Comparison of Key Financial Figures

	For the year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	102,650,614	100,207,703	77,611,985	55,366,384	49,767,887
Gross profit	17,935,074	19,018,263	11,859,244	7,623,458	6,516,314
Gross profit margin (%)	17	19	15	14	13
Profit attributable to equity holders of the parent	4,066,478	5,052,154	2,823,441	433,525	553,059
Net profit margin (%)	4.0	5.0	3.6	0.8	1

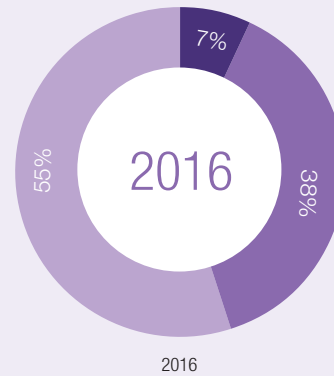
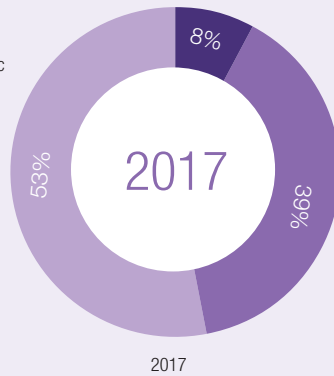
	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Net assets (less minority interests)	55,004,194	51,255,929	32,294,404	25,365,597	21,709,764
Total assets	178,099,430	145,070,778	115,485,755	94,008,855	78,014,834
Gearing ratio (%) (Note)	93	74	109	103	94
Current ratio (times)	0.98	1.00	0.82	0.77	0.69
Accounts and bills receivables turnover (days)	175	132	116	118	86
Inventory turnover (days)	81	76	73	71	68

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

Financial Highlights

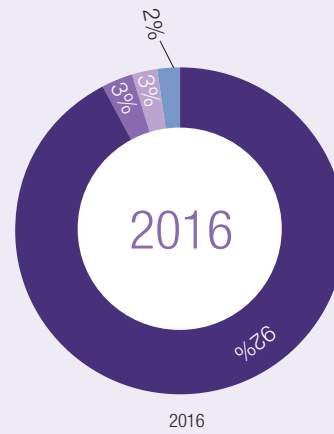
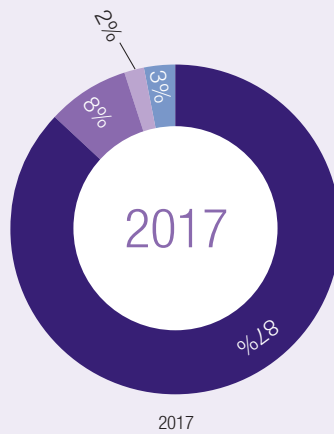
Revenue Breakdown by Product Categories

- Rechargeable Battery and Photovoltaic
- Handset components and Assembly Services
- Automobiles and related products



Revenue Breakdown by Locations of Customers

- PRC (including Hong Kong, Macau and Taiwan)
- Asia Pacific (excluding PRC)
- U.S.A.
- Others



Corporate Information

Executive Director

Wang Chuan-fu

Non-executive Directors

Lv Xiang-yang

Xia Zuo-quan

Independent Non-executive Directors

Wang Zi-dong

Zou Fei

Zhang Ran

Supervisors

Dong Jun-qing

Li Yong-zhao

Wang Zhen

Yang Dong-sheng

Huang Jiang-feng

Company Secretary

Li Qian

Audit Committee

Lv Xiang-yang

Wang Zi-dong

Zou Fei

Zhang Ran (Chairman)

Remuneration Committee

Wang Chuan-fu

Xia Zuo-quan

Wang Zi-dong

Zou Fei (Chairman)

Zhang Ran

Nomination Committee

Wang Chuan-fu

Lv Xiang-yang

Wang Zi-dong (Chairman)

Zou Fei

Zhang Ran

Strategy Committee

Wang Chuan-fu (Chairman)

Lv Xiang-yang

Xia Zuo-quan

Wang Zi-dong

Zou Fei

Authorized Representatives

Wang Chuan-fu

Li Qian

Legal Address

No. 1, Yan' an Road

Kuichong Street

Dapeng New District

Shenzhen

Guangdong Province

The PRC

International Auditors

Ernst & Young

Domestic Auditors

Ernst & Young Hua Ming (LLP)

Corporate Information

Place of Business in Hong Kong

Unit 1712, 17th Floor
Tower 2 Grand Central Plaza
No. 138 Shatin Rural Committee Road
New Territories
Hong Kong

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Investor and Media Relations Consultant

iPR Ogilvy Ltd.
Tel: (852) 2136 6185
Fax: (852) 3170 6606

Website

www.byd.com.cn

Stock Code

H Shares: 01211 (The Stock Exchange of Hong Kong Limited) ("Hong Kong Stock Exchange")
A Shares: 002594 (Shenzhen Stock Exchange)

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of BYD Company Limited ("BYD" or the "Company") and its subsidiaries (collectively referred to as the "Group"), I hereby present the annual report of the Group for the year ended 31 December 2017 (the "Year").

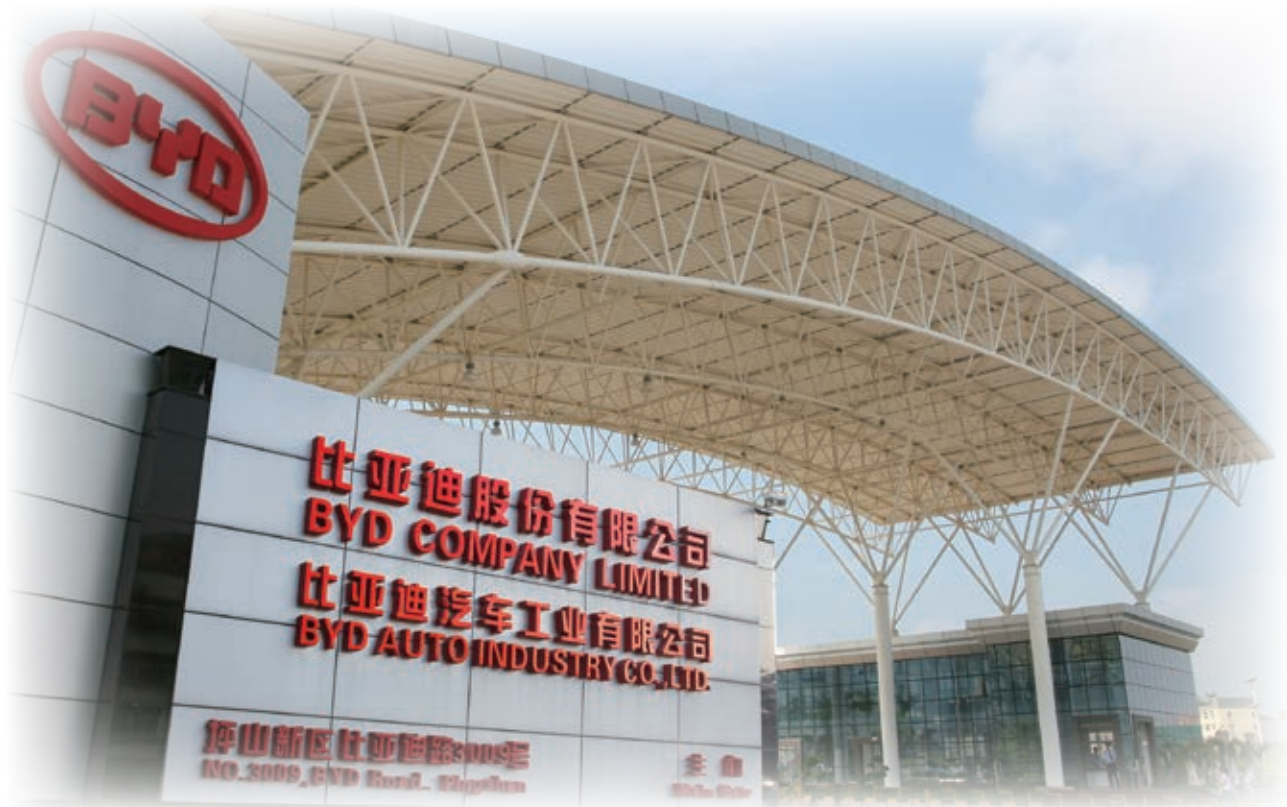
In 2017, China reversed the six-year slowdown in the pace of economic growth, with gross domestic product up by 6.9%. Macroeconomic improvement provided favorable external factors for the development of automobile industry. During the Year, the sales volume of automobiles in China reached 28,879,000 units, up by 3% year-on-year, ranking the first in the world for nine consecutive years. As for the new energy vehicles, the sales volume continued to maintain rapid growth during the Year, which increased by 53.3% year-on-year to 777,000 units, continuing to lead the global market. However, owing to the impact of subsidy policy change, sales volume of new energy vehicles declined substantially in the first quarter which affected the profitability of new energy vehicles industry to a certain extent.

Revenue of the Group increased by 2.44% to RMB102,651 million during the Year. Profit attributable to owners of the parent company decreased by 19.51% to RMB4,066 million. Earnings per share were

RMB1.40. The Board recommended the payment of final dividends of RMB0.141 per share (tax inclusive) for the year ended 31 December 2017.

During the Year, BYD proactively pushed forward the new energy vehicle business, and reinforced its leading position in the global market. In 2017, the Group achieved sales volume of over 110,000 units of new energy vehicles, up by over 15% year-on-year. It topped the global market in terms of sales volume for three consecutive years. Of which, the competitiveness of BYD electric buses continued to increase, with the market share increased by 3.16 percentage points year-on-year to 14.73%. In respect of passenger vehicles, BYD's plug-in hybrid electric vehicles still maintained leading market position and accounted for 60% market share in the plug-in hybrid electric passenger vehicle market.

In the field of traditional fuel vehicle business, due to the impact of product life cycle of old models and the new model was launched late last year, during the Year, sales volume of the Group's traditional fuel vehicles declined. In September 2017, the Group launched "Song Max", the first model featuring the new Dragon Face appearance design, which showed remarkable improvement in appearance, performance, configuration and details and received overwhelming response from



Chairman's Statement

the market. The monthly sales volume of "Song Max" exceeded 10,000 units quickly and continued to rise, which rapidly became the new growth point of the Group's automobiles business.

In September 2017, the first commercially operated "Skyrail" line with proprietary intellectual property right, completed construction in Yinchuan and was delivered and put into operation, heralding the official commercial operation of BYD's urban rail transportation business.

As for the handset component and assembly business, major global handset manufacturers introduced popular models during the Year, BYD, as the leading supplier, continued to provide them with products of metal casings and metal middle frames, with the continuous growth in the scale of sales, thereby driving the robust growth in the profits of the metal parts business. In addition, the Group already made sufficient technology preparation for and put strategic production capacity plans in place for the field of 3D glass. The Group started shipping 3D glass products to the global leading handset brand manufacturers during the Year, laying a foundation for the long-term sustained growth of the handset components business.

Regarding the field of rechargeable battery and photovoltaic, while the sales of the Group's traditional batteries increased significantly, its solar business remained mired in loss due to intensified market competition.

Looking into 2018, it will be a year for BYD to get back on a fast growth track. The Group is confident of the development of its various businesses. In the field of automobile business, the Group expects that the adoption of brand new appearance design in the new vehicle series will significantly enhance the competitiveness of the automobiles products, drive the sales of automobiles to resume rapid growth and usher in the new product cycle of the Group's automobiles business. In addition, the implementation of dual-credit scheme in the future will bring sale profits of credit, bringing additional profit contribution to the Group's new energy vehicle business.

For the handset component and assembly business, the Group will continue to push forward with the development of its metal parts and glass casings business and also actively seek business from new customers at home and abroad to establish a more diverse customer base. Meanwhile, the Group will strive to enhance product yield rate

and expand product capacity, so as to grasp the industry opportunities and achieve sustainable growth of the Group's handset component and assembly business.

For the business of rechargeable batteries, the Group will continue to maintain the development of its traditional battery business, while actively expanding its presence in the domestic and international photovoltaic and energy storage markets, with a view to propelling the growth of photovoltaic business and energy storage business, and striving to increase the revenue and profitability.

Going forward, BYD will continue to regard new energy vehicles and "Skyrail" as the key strategic development directions. BYD will provide cities with a comprehensive solution to address problems ranging from air pollution to traffic congestion through new energy vehicles and "Skyrail". BYD is committed to solving the problems of air pollution and traffic congestion in cities while achieving sustainable growth of the Group in the long term.

In light of the new development trend, BYD will actively transform its operating strategies, open up its supply and distribution system, increase marketization of every product line, foster more efficient competitive culture, enhance operating efficiency and the comprehensive competitiveness of all businesses, strive to realize the long-term prosperity and business growth of the Group and establish BYD as a century-old enterprise of China's national industry

Lastly, on behalf of BYD, I would like to express sincere gratitude to our customers, business partners, investors and shareholders for their support in the Group. I also give my heartfelt thanks to all the staff members for their efforts and professionalism in the past year. BYD will continue to seize market opportunities, exert our unique advantages, endeavour to promote the development of the Group and focus on maximizing returns for shareholders.

Wang Chuan-fu

Chairman

Shenzhen, the PRC, 27 March 2018



Using Technological Innovation to Meet People's
Yearning for a Better Life



Management Discussion and Analysis

Industry Analysis and Review

Automobiles Business

Looking back to 2017, China's economy continued the trend of steady and favorable development and the benefits of the supply-side structural reform gradually emerged. The overall economy was better than expected. China recorded a GDP growth of 6.9% in 2017, reversing the slowdown seen since 2011 for the first time. China has been constantly adjusting and optimizing its economic structure, and consumption continued to be the main driving force of economic growth and further supported the economic vitality and stability.

According to the statistics from China Association of Automobile Manufacturers, the production and sales volume of automobiles in China reached 29,015,000 units and 28,879,000 units, respectively in 2017, up by 3.2% and 3% year on year respectively, ranking the first in the world for nine consecutive years. In particular, new energy automobiles maintained strong development momentum. The production and sales volume of new energy vehicles in 2017 reached 794,000 units and 777,000 units, respectively, up by 53.8% and 53.3% year-on-year respectively. The market share of new energy vehicles increased by 0.9 percentage points over the previous year and its market share increased to 2.7%.

In 2017, the central government continued to give strong policy support to new energy vehicle industry. Against the backdrop of extension

of financial subsidies as well as tax exemption and reduction, the government actively adjusted its supportive measures and policy structure so as to establish an effective market-driven mechanism in the long run. "The Notice on the Adjustment of Financial Subsidy Policies for the Promotion of Application of New Energy Vehicles" (《關於調整新能源汽車推廣應用財政補貼政策的通知》) jointly issued by four ministries, officially took effect on 1 January 2017. The notice raised the barrier to market entrants and significantly reduced the amount of subsidies, thereby putting pressure on the profitability of the related enterprises in the industry in the short term. In September 2017, five ministries jointly issued the "Parallel Administrative Measures for Average Fuel Consumption of Passenger Vehicle Enterprises and New Energy Vehicles' Credit Scores" (《乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法》), pursuant to which, passenger vehicle enterprises will be assessed by credit scores for passenger vehicles' average fuel consumption and credit scores for the proportion of new energy vehicles. New energy vehicle manufacturers will benefit from the trading of credit score and obtain additional profit. It is expected that the implementation of the credit score policy will partially mitigate the impact of reduction in subsidies and provide leading new energy vehicle manufacturers with a more sustainable and stable source of profit. The market-driven mechanism will consolidate the advantages and positions of leading manufacturers while eliminating weaker players in the industry, so as to ultimately achieve the long-term healthy development of new energy vehicle industry.



Management Discussion and Analysis

Handset Components and Assembly Business

According to the statistical data from IDC (a research institution), the total global smartphone shipments amounted to 1.462 billion units in 2017, down by 0.5% year-on-year. According to the latest data released by China Academy of Telecommunication Research, handset shipments in China were 491 million units in 2017, down by 12.3% year-on-year. In particular, smartphone shipments were 461 million units, down by 11.6% year-on-year and accounted for 93.9% of domestic handset shipments over the same period. The smartphone market became more saturated.

In face of slowing market demand and increasingly fierce market competition, domestic and foreign handset manufacturers have become more focused on the appearance design and material selection to achieve differentiation and enhance market competitiveness. During the Year, smartphone industry extended the development trend of adopting thinner, lighter and all-screen display. The penetration of metal parts and glass casings in mobile intelligent terminals including smartphones continued to increase, and the market saw increasingly robust demand for metal parts and glass casings.

Rechargeable Batteries and Photovoltaic Business

During the Year, the sales of global consumer electronics continued to decline, thus the market demand for their upstream components lithium batteries remained sluggish. As for the photovoltaic industry, the global photovoltaic market saw strong growth in 2017, with new installed capacity up by 37% year-on-year to 102 GW. Due to the multiple stimulus factors such as the adjustment of the on-grid tariff, the scale of China's photovoltaic market expanded rapidly in 2017 but the market competition remained fierce.

Business Review

BYD Company Limited ("BYD" or the "Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in the automobiles business including the production and sales of new energy vehicles and traditional fuel vehicles, the handset components and assembly business, the rechargeable batteries and photovoltaic business while actively expanding its urban rail transportation business. During the year, the Group's revenue achieved approximately RMB102,651 million, representing a year-on-year increase of 2.44%, among which, revenue generated by the business of automobiles and related products amounted to approximately RMB54,501 million, representing a year-on-year decrease of 0.95%. The revenue from the handset components and assembly business amounted to approximately RMB39,708 million, representing a year-on-year increase of 4.27%. The revenue from the rechargeable batteries and photovoltaic business was approximately RMB8,442 million, representing a year-on-year increase of 18.85%. The three business segments

accounted for 53.09%, 38.69% and 8.22% of the Group's total revenue, respectively. During the year, the revenue of the new energy automobile business achieved approximately RMB38,546 million, representing a year-on-year increase of 13.06%, the proportion of the Group's revenue further increased to 37.55%.

Automobiles Business

Against the backdrop of robust development of new energy automobile market, BYD actively seized the industry opportunities and continued investing in research and development, upgrading technology and expanding production capacity to maintain its leading position in the new energy vehicle industry. In 2017, the Group achieved sales volume of over 110,000 units of new energy vehicles, up by over 15% year-on-year. According to statistics of EV sales, the sales of BYD new energy vehicles won the worldwide champion again in 2017 and ranked first in global sales volume for three consecutive years, further consolidating the industry position and brand influence of the Group.

In the field of pure electric buses, the Group achieved well sales performances amid the broader market downturn, with the market share increased by 3.16 percentage points year-on-year to 14.73%. Up to now, BYD's pure electric public transportation products have been put into operation in numerous cities across the country including Shenzhen, Guangzhou, Tianjin, Dalian, Changsha, Wuhan, Xi'an, Nanjing, Hangzhou and Shantou. The overall operation was in good condition and the brand reputation has been gradually established. In overseas markets, the Group successively received orders from all around the world in 2017, including London in Britain, Los Angeles in the U.S., Sydney Airport in Australia, Novara in Italy and Okinawa in Japan. The "Electrification of Urban Public Transportation" program is making headway from China to the globe and China's traffic wisdom continues leading the global trend of electrification of urban public transportation.



Management Discussion and Analysis



With regard to new energy passenger vehicle segment, in the first half of 2017, the Group launched a plug-in hybrid version of “Song” vehicle model, namely “Song DM”, which was well received by the market. The Group also launched a pure electric version of “Song EV300”, which further diversified the Group’s product line of new energy vehicles. Meanwhile, the Group also successively launched the upgraded versions of “Qin”, “Tang”, “e5” and so on, resulting in the rapid rebound in sales of the Group’s new energy vehicles in the second quarter of 2017, and sustained strong development momentum.



While strengthening its foothold in the new energy vehicle market, the Group also promoted the development of traditional fuel vehicle business. In September 2017, the Group launched “Song Max”, the first model featuring the new Dragon Face appearance design, which received overwhelming responses from the market. The monthly sales volume of “Song Max” exceeded 10,000 units quickly and continued to rise, becoming the new growth engine of the traditional fuel vehicle business. Since the new model was launched late last year, together with the impact of product life cycle of old models, during the Year, the Group’s fuel vehicle sales volume amounted to 245,000 units, down by 24.62% year-on-year.

Concerning the urban rail transportation segment, since the launch of straddle monorail “Skyrail” in 2016, the related business achieved satisfactory progress and the Group has successively received orders from numerous cities in domestic and overseas markets. The first commercially operated Skyrail line with proprietary intellectual property rights also completed construction and was delivered in September 2017, marking the official commercial operation stage of BYD’s “Skyrail” business.

Handset Components and Assembly Business

As one of the most comprehensive competitive handset component and assembly service suppliers in the world at present, BYD provides complete device design, component manufacturing and complete device assembly services for both domestic and overseas handset manufacturers as well as other mobile intelligent terminal manufacturers through its vertically integrated one-stop operating model. The revenue from the handset components and assembly business of the Group in 2017 amounted to approximately RMB39,708 million, representing a year-on-year increase of approximately 4.27%.

During the Year, the market penetration of metal parts continued to increase, thus the Group’s metal parts business saw continuous growth. Leveraging on its longtime experience, leading technology and mature craftsmanship accumulated in the field of metal parts, during the Year, the Group continued to receive orders for high-end flagship handset models from leading smartphone brand manufacturers. During the Year under review, the Group continued to maintain close cooperation with leading handset manufacturers in both domestic and overseas markets and actively acquired new customers. With the increasing adoption of wireless charging and development of 5G communications, metal middle frames integrated with glass casings has become the new development trend of smartphones. During the Year, the Group actively



Management Discussion and Analysis

developed its glass casings business and successfully won the orders from both domestic and overseas leading smartphone manufacturers and realized volume production and shipment, fostering a new growth point for the Group.

Rechargeable Batteries and Photovoltaic Business

BYD's rechargeable batteries mainly include lithium-ion batteries and nickel batteries, which are widely used in portable electronic devices, including handsets, digital cameras, power tools and electrical toys. During the year, the Group's rechargeable batteries business achieved well sales growth under the weak market environment, strengthening our industry position continuously. In addition, the Group also actively developed energy storage battery and solar cell products for applications in storage power stations and photovoltaic power plants. In 2017, rechargeable batteries and photovoltaic business recorded revenue of approximately RMB8,442 million, representing a year-on-year increase of 18.85%.

Prospect and Strategy

Looking ahead to 2018, China's economic development will continue to stay steady and positive. Structural upgrade and transformation of the industry will further enhance the quality of economic growth. Strategic emerging industries including new energy vehicle will have a larger room for growth.

Automobiles Business

BYD will seize the historic opportunities arising from the robust development of new energy vehicle industry and further strengthen research and development, bolster weakness, enhance product competitiveness and accelerate the launch of new models so as to satisfy the fast-growing market demand.



The year 2018 is a critical year for the Group's implementation of strategic transformation and product iteration. It is also a year for the Group to get itself well-prepared for future opportunities and regain growth momentum. In 2018, BYD will launch a series of heavyweight models, including new generation of "Tang" and "Qin" models, compact pure electric SUV models and a new energy vehicle version of "Song Max". The related models will feature the brand new Dragon Face appearance design and higher product performance, which are expected to usher in a new growth cycle for the Group's automobiles business. In addition, the Group will push ahead with the expansion of new energy vehicle market from first-tier cities and cities under purchase restrictions to second and third-tier cities, and eventually realize the nationwide sales of new energy vehicles.



In the field of public transportation, leveraging on its established reputation and influence in the domestic and overseas markets, BYD will actively promote the electrification of urban public transportation at home and abroad and continue to increase its penetration and market share in the global market. The development of urban rail transit in China will usher in the peak development era during the period of "13th Five-year Plan". Currently, numerous provinces and cities have included the construction of rail transit into their major development projects in the "13th Five-year Plan". The Group will forge ahead with the promotion of low-carbon and green Skyrail products, aiming at the huge demand from the second- and third-tier cities in China, to resolve the increasingly serious traffic problems in the cities and provide a comprehensive solution to solve problems ranging from air pollution to traffic congestion.

Management Discussion and Analysis



In the field of traditional fuel vehicles, BYD will leverage on the brand new appearance design and platformization of product research and development to realize effective cost control while substantially enhancing the quality and aesthetic appearance of the vehicle models, so as to get the fuel vehicle business back on a growth track. In the future, the Group will focus on improving the quality and brand image of its automobiles, so as to provide consumers with well-designed and high-quality automobile products, thus to build positive word-of-mouth to achieve the synchronous improvement of quality and quantity of traditional fuel vehicle business.



Handset Components and Assembly Business

Looking ahead, with more handset brand manufacturers adopting 3D glass, the market penetration rate of 3D glass casings will continue to rise and the demand will increase rapidly. The Group already put effective comprehensive plans in place for the 3D glass market. Along with the gradual increase in production capacity and successive production of orders, 3D glass is expected to make significant revenue contribution to the Group in the future.

In addition, the Group will continue to push forward the development of metal parts business, expand the application scope of metal parts and strive for more orders from leading brand manufacturers. Meanwhile, the Group will continue to deepen its collaborations with existing well-known handset brand customers at home and abroad, actively acquire new customers in both domestic and overseas markets and establish a more diversified customer base so as to achieve continuous growth of handset components and assembly business.

Rechargeable Batteries and Photovoltaic Business

For the rechargeable batteries business, the Group will continue to expand the range of applications of lithium-ion batteries and nickel batteries in order to consolidate its leading market position. In respect of photovoltaic business, in 2018, the Group will continue to expand its presence in both domestic and overseas markets, enhance rate of capacity utilization and sales volume, actively control costs and stay committed to improving its revenue and profitability.

Management Discussion and Analysis

Forecasted operating results for January to March 2018

Estimated operating results for January to March 2018:

Change (in percentage) of net profit attributable to shareholders of the listed company for January to March 2018	-91.75%	to	-75.24%
Range of net profit attributable to shareholders of the listed company (RMB10,000) for January to March 2018	5,000	to	15,000
Net profit attributable to shareholders of the listed company (RMB10,000) for January to March 2017	60,580		
Reasons for changes in results	For the first quarter of 2018, the sales volume for new energy vehicles is expected to grow rapidly as compared to the same period of the previous year. However, being affected by reduction in new energy vehicles subsidies, the profitability of the business, especially for electric buses, has declined substantially so as to bring great pressure to the Group's overall profit. In spite of the expecting fast increase in sales volume of traditional fuel vehicle business, the intensive market competition has affected the profitability of traditional fuel vehicle business to a certain extent. As for the handset component and assembly business, the Group continues to be the major supplier for metal parts of flagship models of global leading brand handset manufacturers. The glass and ceramics businesses have achieved positive progress to jointly promote the steady development in handset component and assembly business. For solar business, the Group will actively expand its presence in the market and achieve cost control, the expecting loss will be narrowed down.		

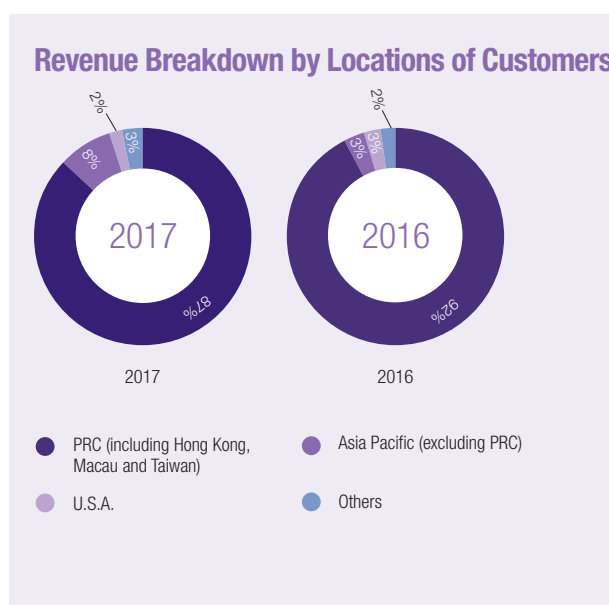
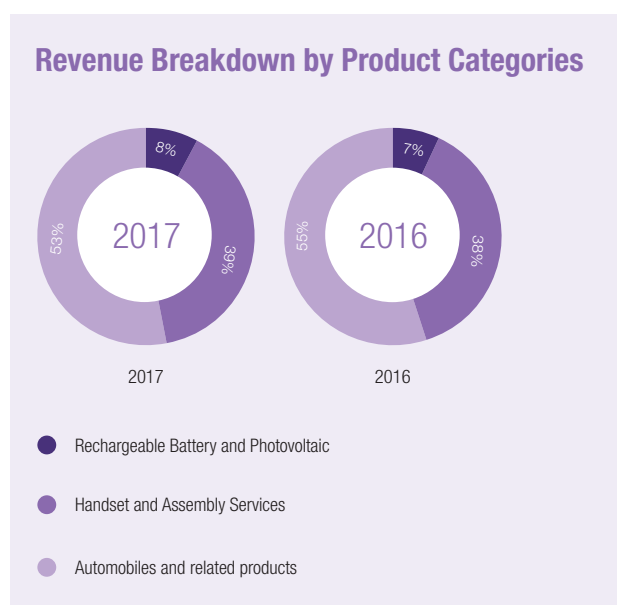
Financial Review

Revenue and Profit attributable to Owners of the Parent Company

During the Year, revenue increased by 2.44% as compared to that of 2016, which was mainly driven by the growth of the new energy automobile businesses and metal parts businesses. Profit attributable to equity holders of the parent company decreased by 19.51% as compared to the same period of the previous year, mainly attributable to the decline in profitability of vehicle business affected by reduction in new energy subsidies and market competition.

Segmental Information

The charts below set out comparisons of the Group's revenue by product category for the years ended 31 December 2017 and 2016:



Management Discussion and Analysis

Gross Profit and Margin

During the Year, the Group's gross profit decreased by approximately 5.70% to approximately RMB17,935 million. Gross profit margin decreased from approximately 18.98% in 2016 to approximately 17.47% during the year. The decrease in gross profit margin was mainly due to the decline in profitability of vehicle business affected by reduction in new energy subsidies and market competition.

Liquidity and Financial Resources

During the Year, BYD generated operating cash inflow of approximately RMB6,368 million, compared with operating cash outflow of approximately RMB1,846 million in 2016. Cash inflow of the Group during the period was mainly arising from the increase in cash received from sales of goods and provision of services during operating activities. Total borrowings as at 31 December 2016, including all bank loans and bonds, were approximately RMB42,267 million, compared with approximately RMB56,511 million as at 31 December 2017. The maturity profile of the bank loans and bonds thereof spread over a period of thirteen years, with approximately RMB45,649 million repayable within one year, approximately RMB7,865 million in the period of second year, approximately RMB2,984 million within the third to the fifth years and approximately RMB13 million over five years. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

For the year ended 31 December 2017, turnover period of accounts and bills receivables was approximately 175 days, as compared to approximately 132 days for the same period in 2016. The increase in trade and bill receivables turnover days is mainly due to the increase in the new energy automobile business which has a longer account receivable turnover period. The inventory turnover period was approximately 81 days for the year ended 31 December 2017 as compared to about 76 days for the same period in 2016, the change was mainly due to the increase in average inventory for the same period is higher than that in cost of sales..

The Company completed the 2017 first tranche of debt financing plan of Beijing Financial Assets Exchange on 17 March 2017. The debt financing plan was simplistically described as "17 Yue BYD ZR001", with an actual listing amount of RMB3.0 billion and a fixed rate of interest of 4.94%, for a term of two years. The interest payment shall be made once every three months (it will be postponed to the next working day should it be a statutory festival or holiday in PRC), without compound interest, and the principal will be repaid on one-off basis upon maturity, the last interest payment shall be made together with the principal repayment. The interest accrued period commenced on 17 March 2017, the date for the first interest payment was 17 June 2017.

On 11 July 2015, the Company received the Approval of the Public Offering of Corporate Bonds by BYD Company Limited to Qualified Investors (ZJXK [2015] No. 1461) (《關於核准比亞迪股份有限公司向合格投資者公開發行公司債券的批復》(證監許可[2015]1461號)) from China Securities Regulatory Commission, pursuant to which the public offering of corporate bonds with a par value of not exceeding RMB3.0 billion by the Company to qualified investors has been approved. The Company has completed the first tranche of corporate debts ("15YD01") of RMB1.5 billion on 14 August 2015. As at 15 June 2017, the Company commenced the issuance of 2017 corporate bonds (the first tranche) with an aggregate amount of RMB1.5 billion and a fixed rate of interest at 4.87%. The interest payment shall be made once every year, and the principal will be repaid on one-off basis upon maturity. The bonds are repayable in five years. The bonds were listed on Shenzhen Stock Exchange on 14 July 2017. Investors are entitled to resell all or parts of the bonds they hold to the issuers on the third interest payment date, i.e. the end of the third year, 15 June 2020, at principal amount, alternatively, or give up sell-back options and continue to hold the bonds.

Capital Structure

The Group's Financial Division is responsible for the Group's financial risk management which operates according to policies implemented and approved by senior management. As at 31 December 2017, borrowings were primarily settled in RMB, while cash and cash equivalents were primarily held in RMB and US dollar. The Group plans to maintain an appropriate mix of equity and debt to ensure an efficient capital structure during the period. As at 31 December 2017, the Group's outstanding loans included RMB loans and foreign currency loans and approximately 68% (2016: 66%) of such outstanding loans were at fixed interest rates, with the remaining at floating interest rates.

Management Discussion and Analysis

The Group monitors its capital by using 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 and other borrowings less cash and cash equivalents. Equity represents equity attributable to owners of the parent. Therefore, the gearing ratios of the Group was 93% and 74% as at 31 December 2017 and 31 December 2016, respectively.

The Group completed the issue of 2017 Tranche I corporate bonds on 16 June 2017. The issue price was RMB100 each for a term of 5 years. The issuance scale was RMB1,500 million and the nominal interest rate was 4.87%. The corporate bonds issued during the period were used to repay bank loans and supplement the Company's liquidity.

At 31 December 2017, certain items of the Group's land and buildings with a net carrying amount of approximately RMB73,807,000 (2016: RMB79,509,000) were pledged to secure general banking facilities granted to the Group; and certain items of the Group's construction in progress with a net carrying amount of approximately RMB9,210,000 (2016: RMB9,778,000) were pledged to secure general banking facilities granted to the Group. Further, at 31 December 2017, a pledged bank deposit of RMB323,249,000 (2016: RMB335,072,000) was pledged for bank acceptance bills and Guarantee deposits, and restricted bank deposit was RMB643,487,000.

Exposure to Foreign Exchange Risk

Most of the Group's income and expenditure are settled in RMB and US dollar. During the period, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical measures to prevent exposure to exchange rate risk.

Employment, Training and Development

As at 31 December 2017, the Group had approximately 201,000 employees. During the period, total staff cost accounted for approximately 16.78% of the Group's turnover. Employees' remuneration was determined

based on performance, qualifications and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission were also awarded to employees, based on their annual performance evaluation. Incentives were offered to encourage personal motivation.

Share Capital

As at 31 December 2017, the share capital of the Company was as follows:

	Number of shares issued	Percentage (%)
Domestic shares	1,813,142,855	66.46
H shares	915,000,000	33.54
Total	2,728,142,855	100.00

Purchase, Sale or Redemption of Shares

The Company did not redeem any of its shares during the period from 1 January 2017 to 31 December 2017. During the period, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

Capital Commitment

Please refer to note 41 to the financial statements for details of capital commitments.

Contingent Liabilities

Please refer to note 38 to the financial statements for details of contingent liabilities.

Environmental Protection and Social Security

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

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Directors, Supervisors and Senior Management

Executive Director

Wang Chuan-fu

Mr. Wang Chuan-fu, born in 1966, Chinese national with no right of abode overseas, master's degree holder, senior engineer, younger brother of Mr. Wang Chuan-fang and younger cousin of Mr. Lv Xiang-yang. Mr. Wang graduated from Central South University of Technology (中南工業大學) (currently Central South University) in 1987 with a bachelor's degree majoring in metallurgy physical chemistry, and then graduated from Beijing Non-Ferrous Research Institute (北京有色金屬研究總院) in the PRC in 1990 with a master's degree majoring in material science. Mr. Wang held positions as vice supervisor in Beijing Non-Ferrous Research Institute, general manager in Shenzhen Bi Ge Battery Co. Limited (深圳市比格電池有限公司). In February 1995, he founded Shenzhen BYD Battery Company Limited (深圳市比亞迪實業有限公司) ("BYD Industries", became BYD Company Limited on 11 June 2002) with Mr. Lv Xiang-yang and took the position of general manager. He is the Chairman, an Executive Director and the President of the Company and is responsible for the general operations of the Group and the development of business strategies for the Group. He is a non-executive director and the chairman of BYD Electronic (International) Company Limited (Stock Code: 0285), a director of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司) (formerly known as Shenzhen BYD Daimler New Technology Co., Ltd. (深圳比亞迪戴姆勒新技術有限公司)) vice chairman of Shenzhen Pengcheng Electric Automobiles Renting Co. Ltd. (深圳市騰程電動汽車出租有限公司), a director of Tianjin BYD Auto Co., Ltd. (天津比亞迪汽車有限公司), a director of China Railway Engineering Consulting Group Co., Ltd., (中鐵工程設計諮詢集團有限公司) an independent director of Renren Inc., a director of South University of Science and Technology of China (南方科技大學) and a director of BYD Charity Foundation.

Mr. Wang, being a technology expert, enjoyed special allowances from the State Council. In June 2003, he was awarded Star of Asia by BusinessWeek. He was awarded with Mayor award of Shenzhen in 2004 (二零零四年深圳市市長獎), "The 2008 CCTV Man of the Year China Economy Innovation Award" (二零零八年CCTV中國經濟年度人物年度創新獎), Southern Guangdong Meritorious Service Award (南粵功勳獎) in 2011, and Zayed Future Energy Prize Lifetime Achievement Award (扎耶德未來能源獎個人終身成就獎) in 2014 and Best Business Leader in China (中國最佳商業領袖) in 2015 etc.

Non-executive Directors

Lv Xiang-yang

Mr. Lv Xiang-yang, born in 1962, Chinese national with no right of abode overseas, bachelor's degree holder, economist and elder cousin of Mr. Wang Chuan-fu. Mr. Lv worked at Chaohu Centre Branch of the People's Bank of China (中國人民銀行巢湖中心分行). In February 1995, he founded BYD Industries with Mr. Wang Chuan-fu. He is the Vice Chairman and a Non-Executive Director of the Company and also the chairman of Youngy Investment Holding Group Co., Ltd. (融捷投資控股集團有限公司) and Youngy Co., Ltd (融捷股份有限公司), chairman of Chengdu Jieyi Electronic Technology Limited (成都捷翼電子科技有限公司), chairman of Onyx International Inc. (廣州文石信息科技有限公司), chairman of Hainan Shiyin Energy Technology Co., Ltd (海南世銀能源科技有限公司), chairman of Hefei Youngy Technology Industrial Company Limited (合肥融捷科技實業有限公司), chairman of Wuhu Youngy Optoelectronic Material Technology Company Limited (蕪湖融捷光電材料科技有限公司), executive director of Guangdong Youngy Optoelectronics Technology Co., Ltd (廣東融捷光電科技有限公司), vice chairman of Guangzhou Shengguang Microelectronics Limited (廣州盛光微電子有限公司), vice chairman of Guangzhou OED Technologies Co., Ltd (廣州奧翼電子科技有限公司), a director of Anhua Agricultural Insurance Company Limited (安華農業保險股份有限公司), chairman of Guangdong Youngy Financing Guarantee Company Limited (廣東融捷融資擔保有限公司), chairman of Guangdong Youngy Financing Renting Company Limited (廣東融捷融資租賃有限公司), executive director of Shenzhen Youngy Guarantee Company Limited (深圳市融捷融資擔保有限公司), executive director of Guangdong Youngy Supply Chain Management Co., Ltd (廣東融捷供應鏈管理有限公司), chairman of Shenzhen Youngy Asset Management Co., Ltd (深圳融捷資產管理有限公司), chairman of Shenzhen Manqian Network Technology Limited (深圳市慢錢網絡科技有限公司), honorary chairman of Anhui Chamber of Commerce in Guangdong province (廣東安徽商會) and vice chairman of BYD Charity Foundation.

Directors, Supervisors and Senior Management

Xia Zuo-quan

Mr. Xia Zuo-quan, born in 1963, Chinese national with no right of abode overseas, master's degree holder. Mr. Xia studied computer science in Beijing Institute of Iron and Steel Engineering (北京鋼鐵學院) (now known as University of Science & Technology of Beijing (北京科技大學)) from 1985 to 1987 and he graduated from Guanghua School of Management of Peking University (北京大學光華管理學院) with an MBA in 2007. Mr. Xia worked in the Hubei branch of The People's Insurance Company (中國人民保險公司) and joined BYD Industries in 1997 and held positions as an executive Director and Vice President of the Company. He is a non-executive Director of the Company and chairman of Shenzhen Zhengxuan Investment (Holdings) Co., Ltd (深圳市正軒投資有限公司), Shenzhen Zhengxuan Qianhai Equity Investment Fund Management Co., Ltd (深圳正軒前海股權投資基金管理有限公司), Shenzhen Zhengxuan Qianzhan Venture Capital Co. Ltd. (深圳市正軒前贍創業投資有限公司) and Beijing Zhengxuan Investment Co., Ltd (北京正軒投資有限責任公司), a director of Shenzhen Youbixuan Technology Company Limited (深圳市優必選科技有限公司), a director of Sinocompound Catalysts Co. Ltd. (formerly known as "Zhangjiagang Applica Technology Co., Ltd.") (江蘇欣諾科催化劑有限公司, 前稱“張家港雅普利華生物科技有限公司”), a director of Shenzhen UniFortune Supply Chain Service Co., Ltd. (深圳市聯合利豐供應鏈管理有限公司), a director of Beijing Lingyi Space Technology Limited (北京零壹空間科技有限公司), chairman of Shenzhen Zhengxuan Venture Capital Co. Ltd. (深圳市正軒創業投資有限公司), chairman of Annuo Youda Gene Technology (Beijing) Co. Ltd. (安諾優達基因科技(北京)有限公司), a director of Guangdong Beizhi Cepin Network Technology Co., Ltd. (廣東倍智測聘網路科技股份有限公司), an independent director of China Baofeng (International) Limited (formerly known as "Mastercraft International Holdings Limited") (中國寶豐國際有限公司, 前稱馬仕達國際控股有限公司), an independent director of China Yuhua Education Corporation Limited (中國宇華教育集團有限公司), executive (managing) director of Shenzhen Zhengxuan Makerspace Technology Limited (深圳市正軒創客空間科技有限公司), chairman of Shenzhen Dichuanghui Technology Limited (深圳市迪創會科技有限公司), vice chairman of BYD Charity Foundation and vice chairman of Shenzhen Lianxia Charity Foundation (深圳市蓮夏慈善基金會).

Independent Non-executive Directors

Wang Zi-dong

Mr. Wang Zi-dong, born in 1958, Chinese national with no right of abode overseas, bachelor's degree holder and a senior engineer. Mr. Wang graduated from Beijing Industrial Institute (currently known as Beijing Institute of Technology) (北京工業學院(現北京理工大學)) in 1982 with a bachelor's degree in engineering. Mr. Wang has been an independent Director of the Company since September 2014 and now serves as a researcher in China North Vehicle Research Institute (中國北方車輛研究所), a director of China North Vehicle Research Institute (Battery Test Center of National 863 Electric Vehicle) (中國北方車輛研究所(國家863電動車動力電池測試中心)), an independent non-executive director of Cangzhou Mingzhu Plastic Material Co., Ltd (滄州明珠塑料股份有限公司) and an independent director of Beijing Easpring Material Technology Co., Ltd (北京當升材料科技股份有限公司).

Zou Fei

Mr. Zou Fei, born in 1973, American national, doctoral degree holder, chartered financial analyst, member of Chinese Finance Association of America, and expert listed in "Thousand Talents Program" of the Organisation Department of the CPC Central Committee. Mr. Zou graduated from University of Texas in the United States with a master's degree in economics and a doctorate in finance. Mr. Zou served as a fund manager of American Century Investments and was managing director of the special investment department of China Investment Corporation (中國投資有限責任公司). He has also served in other capacities including as the former chairman of the board of Chinese Finance Association of America and an independent director of China Modern Dairy Holdings Ltd (中國現代牧業控股有限公司). He has been as an independent Director of the Company since September 2014 and now serves as the president of Synergy Capital and an independent director of Delta Dunia Makmur TBK PT in Indonesia.

Directors, Supervisors and Senior Management

Zhang Ran

Ms. Zhang Ran, born in 1977, Chinese national with no right of abode overseas, doctoral degree holder and associate professor. Ms. Zhang graduated from Beijing Jiao Tong University (北京交通大學) in 2002 with a bachelor degree of accountancy and a master degree in economics. She obtained a doctoral degree in accountancy from Leeds School of Business, University of Colorado at Boulder in 2006. Ms. Zhang held positions as a part-time lecturer in Leeds School of Business, University of Colorado at Boulder, and as an accounting and auditing tax commissioner in Bill Brooks CPA, Boulder, CO, USA. She has been an independent director of the Company since September 2014 and now serves as an associate professor of accounting and doctoral tutor in Guanghua School of Management of Peking University (北京大學光華管理學院), an independent director of Beijing Novogene Technology Co., Ltd. (北京諾禾致源科技股份有限公司), an independent director of DMG Entertainment and Media Co., Ltd. (印紀娛樂傳媒股份有限公司) and an independent director of Beijing Sanfo Outdoor Products Co., Ltd (北京三夫戶外用品股份有限公司).

Supervisors

Dong Jun-qing

Mr. Dong Jun-qing, born in 1934, Chinese national with no right of abode overseas, bachelor's degree holder, and a senior engineer at professor level. Mr. Dong graduated from Non-Ferrous Metal and Gold Faculty in Moscow, USSR in 1959, with a bachelor's degree majoring in aluminium and magnesium metallurgy, and obtained the title of USSR engineer. Mr. Dong lectured at Non-Ferrous Metallurgy Faculty of the Northeast University (東北大學有色冶金系) in the PRC and researched at Beijing Non-Ferrous Research Institute (北京有色金屬研究總院) and was engaged in research and development work in our Company. He has been a Supervisor and the chairman of the Supervisory Committee since July 2002.

Li Yong-zhao

Mr. Li Yong-zhao, born in 1961, Chinese national with no right of abode overseas, bachelor's degree holder, and a researcher level senior engineer. Mr. Li graduated from Xi'an Institute of Technology (西安工業學院) in August 1982 with a bachelor's degree in Mechanical Manufacturing Technology and Equipment. Mr. Li worked as technician, office head, deputy director, director, deputy plant manager and held other posts in state-owned, 615 Factory, China Industries Group Corporation (中國兵器工業集團公司). He also acted as the general manager of the Sino-foreign joint venture named Baoji Xingbao Machinery & Electric Co., Ltd. (寶雞星寶機電公司), plant manager of state-owned Factory 843 China Industries Group Corporation (中國兵器工業集團公司) since May 2002, director and general manager of Xi'an Northern Qinchuan Machinery Corporation Co., Ltd. (西安北方秦川機械工業有限公司), director and the general manager of Xi'an Northern Qinchuan Company Ltd. (西安北方秦川集團有限公司). He has been a Supervisor of the Company since June 2008 and now serves as the deputy general manager of China North Industries Group Corporation (中國兵器西北工業集團有限公司) and the chairman of Xi'an Northern Qinchuan Company Ltd. (西安北方秦川集團有限公司).

Wang Zhen

Ms. Wang Zhen, born in 1976, Chinese national with no right of abode overseas, bachelor's degree holder. Ms. Wang graduated from Guangdong University of Foreign Studies (廣東外語外貿大學) in the PRC in 1998, majoring in Spanish language and obtained a bachelor degree. Ms. Wang joined BYD Industries in 1998 and served as a manager in overseas Ministry of Commerce. She is a Supervisor of the Company and officer of the President's office, director of the rail transit industry office, general manager of BYD Company (Pingshan District) and a supervisor of Shenzhen Qianhai Green Transportation Co., Ltd. (深圳市前海綠色交通有限公司), a supervisor of Shenzhen Electric Power Sales Co., Ltd. (深圳市深電能售電有限公司), supervisor of East Shenzhen Sky Rail Investment Construction Co., Ltd (深圳東部雲軌投資建設有限公司), supervisor of Qinghai Salt Lake BYD Resources Development Co., Ltd. (青海鹽湖比亞迪資源開發有限公司), supervisor of China Metallurgical New Energy Technology Co., Ltd (中冶瑞木新能源科技有限公司), supervisor of Chengdu Shudu BYD New Energy Vehicles Co., Ltd (成都蜀都比亞迪新能源汽車有限公司), supervisor of Yinchuan Sky Rail Operation Co., Ltd. (銀川雲軌運營有限公司), supervisor of Guang'an City Sky Rail Transportation Co., Ltd. (廣安市雲軌交通有限公司), supervisor of Shantou City Sky Rail Transportation Co., Ltd. (汕頭市雲軌交通有限公司), supervisor of Jining City Sky Rail Transportation Co., Ltd. (濟寧市雲軌交通有限公司) and Secretary-General of BYD Charity Foundation.

Directors, Supervisors and Senior Management

Yang Dong-sheng

Mr. Yang Dong-sheng, born in 1979, Chinese national with no right of abode overseas, master's degree holder, and a senior engineer. Mr. Yang graduated from Northeastern University (東北大學) in March 2005 with master's degree. Mr. Yang joined the Company in 2005 and has held positions including senior engineer in Automotive Engineering Research Institute, vice manager in the Chassis Division of the Automotive Engineering Research Institute, senior business secretary of the President, general manager of the Product and Technical Planning Division, and is presently a supervisor of the Company and the dean of the Company's Product Planning and New Automotive Technology Research Institute.

Huang Jiang-feng

Mr. Huang Jiang-feng, born in 1980, Chinese national with no right of abode overseas, bachelor's degree holder. Mr. Huang graduated from Zhongnan University of Economics and Law (中南財經政法大學) in 2003 with a bachelor's degree in administration. Mr. Huang held positions in Sinopec Chenzhou Petroleum Branch in Hunan (中國石化湖南郴州石油分公司), Dongguan Hsu Fu Chi Foods Co., Ltd. (東莞徐福記食品有限公司) and Guangzhou Office of Guosen Securities (國信證券廣州營業部). He has been working in Youngy Investment Holding Group Co., Ltd. (融捷投資控股集團有限公司) since August 2008, and has been a supervisor of the Company since September 2014 and now serves as a director and vice president of Youngy Investment Holding Group Co., Ltd. (融捷投資控股集團有限公司), general manager of Shenzhen Qianhai Youngy Financial Services Company Limited (深圳前海融捷金融服務有限公司), a supervisor of Shenzhen Qianhai Youngy High Technology Investment Company Limited (深圳前海融捷高新技術投資有限公司), a supervisor of Shenzhen Youngy Internet Financial Services Company Limited (深圳融捷互聯網金融服務有限公司), director and manager of Guangdong Youngy Financing Renting Company Limited (廣東融捷融資租賃有限公司), general manager of Shenzhen Qianhai Youngy Supply Chain Factoring Services Co., Ltd (深圳前海融捷供應鏈保理服務有限公司), a supervisor of Guangzhou Youngy Equity Investment Co., Ltd (廣州融捷股權投資有限公司), manager of Guangdong Youngy Financing Service Company Limited (廣東融捷融資服務有限公司), manager of Guangdong Youngy Supply Chain Management Co., Ltd (廣東融捷供應鏈管理有限公司).

Senior Management

Wu Jing-sheng

Mr. Wu Jing-sheng, born in 1963, Chinese national with no right of abode overseas, master's degree holder. Mr. Wu graduated from Anhui Normal University (安徽省師範大學), majoring in Chinese language. He took part in National Examination for Lawyers (全國律師統考) and obtained qualification as a lawyer from the Department of Justice of Anhui Province (安徽省司法廳) in 1992. Mr. Wu also passed the National Examination for Certified Public Accountants (註冊會計師全國統考) and obtained qualification as a PRC Certified Public Accountant in 1995. In July 2006, he graduated from Guanghua School of Management of the Peking University (北京大學光華管理學院) with an MBA. Mr. Wu worked at Guangzhou Youngy Management & Investment Group Company Limited (廣州融捷投資管理集團有限公司) and was responsible for finance and related duties. He joined BYD Industries in September 1995 as its financial manager. He is the Senior Vice President and Chief Financial Officer of the Company, and held various positions including a non-executive director of BYD Electronic (International) Company Limited (Stock Code: 0285), a director of Tibet Shigatse Zhabuye Lithium High-Tech Co., Ltd. (西藏日喀則紮布耶鋰業高科技有限公司), a Supervisor of Qianhai Insurance Exchange Centre (Shenzhen) Co., Ltd. (前海保險交易中心(深圳)股份有限公司), the chairman of Shenzhen BYD International Financial Leasing Co., Ltd (深圳比亞迪國際融資租賃有限公司), a director of Shenzhen Shendianneng Electricity Co., Ltd. (深圳市深電能售電有限公司), chairman of Shenzhen BYD Electric Car Investment Co., Ltd. (深圳比亞迪電動汽車投資有限公司), chairman of Shenzhen Didi New Energy Vehicle Rental Co., Ltd. (深圳市迪滴新能源汽車租賃有限公司), chairman of BYD Auto Finance Company Limited (比亞迪汽車金融有限公司), chairman of Energy Storage Power Station (Hubei) Co., Ltd. (儲能電站(湖北)有限公司), chairman of Nanjing Zhongbei Didi New Energy Vehicle Rental Service Co., Ltd. (南京中北迪滴新能源汽車租賃服務有限公司), a director of BYD International Financial Leasing (Tianjin) Co., Ltd (比亞迪國際融資租賃(天津)有限公司) and a director of BYD Charity Foundation.

Directors, Supervisors and Senior Management

Li Ke

Ms. Li Ke, born in 1970, Chinese national with the right of abode in the US, bachelor's degree holder. Ms. Li graduated from Fudan University in 1992 with a bachelor's degree in statistics. Ms. Li worked at Asia Resources (亞洲資源) and joined BYD Industries in September 1996. She served various positions including Marketing Manager and General Sales Manager, executive director and chief executive officer of BYD Electronic (International) Company Limited (Stock Code: 0285) and is a Vice President of the Company and a director of BYD Charity Foundation.

Lian Yu-bo

Mr. Lian Yu-bo, born in 1964, Chinese national with no right of abode overseas, master's degree holder, and a senior engineer. Mr. Lian graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in July 1986, with a bachelor's degree majoring in aircraft manufacturing engineering. In September 2000, he obtained a professional MBA degree from Nanjing University. Mr. Lian joined the Company in February 2004 and is a Vice President of the Company, chief engineer of the automobile business. He is also a director of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司) (formerly known as "Shenzhen BYD Daimler New Technology Co., Ltd." (深圳比亞迪戴姆勒新技術有限公司)) and a director of BYD Charity Foundation.

He Long

Mr. He Long, born in 1972, Chinese national with no right of abode overseas, master's degree holder. Mr. He graduated from Peking University in 1999 and obtained a bachelor's degree of science in applied chemistry, an LLB and a master's degree in inorganic chemistry. Mr. He joined BYD Industries in July 1999 and held positions as quality control manager of Division 1 and Division 2, deputy general manager of Division 2 and vice-chairman of Foshan Jinhui Hi-Tech Optoelectronic Material Co., Ltd. (佛山市金輝高科光電材料有限公司). He is a Vice President of the Company, CEO of Battery Division, general manager of Division 2, a director of Tibet Shigatse Zhabuye Lithium High-Tech Co., Ltd. (西藏日喀則紮布耶鋰業高科技有限公司), a director of Qinghai Salt Lake BYD Resources Development Co., Ltd. (青海鹽湖比亞迪資源開發有限公司), a director of China Metallurgical New Energy Technology Co., Ltd (中冶瑞木新能源科技有限公司) and a director of BYD Charity Foundation.

Liu Huan-ming

Mr. Liu Huan-ming, born in 1963, Chinese national with no right of abode overseas, master's degree holder, and a senior engineer. Mr. Liu graduated from Northeastern Institute of Technology (東北工學院) (currently known as "Northeastern University") in 1988 with a bachelor's degree and later a master's degree in Metallurgical physics. Mr. Liu worked for the Iron and Steel Institute of Panzihua Iron and Steel Company in Sichuan (四川攀枝花鋼鐵公司鋼鐵研究院) and Benxi Iron and Steel Company in Liaoning (遼寧本溪鋼鐵公司). He joined BYD Industries in March 1997, currently being a Vice-President of the Company, general manager of Human Resources Office and Department of New Energy Vehicle Direct Sale Management, chairman of Nanjing Jiangnan Electric Car Rental Company Limited (南京江南純電動出租汽車有限公司) and a director of BYD Charity Foundation.

Zhang Jin-tao

Mr. Zhang Jin-tao, born in 1958, Chinese national with no right of abode overseas, bachelor's degree holder, and a senior engineer. Mr. Zhang graduated from Wuhan Institute of Technology (武漢工學院) (currently known as "Wuhan University of Technology") in 1982, majoring in casting process and equipment, with a bachelor's degree in engineering. From April 1997 to February 1998, he went to Fukushima Hightech Center in Japan for further study. Mr. Zhang worked for several companies, including state-owned Factory 612, Factory 446 and Monkey King Group Company (猴王集團公司), and was a member of National Welding Committee for Standardization (全國焊接標準化委員會) and Welding Slice Technology Committee (電焊條分技術委員會), and the vice-chairman of Hubei Province Machinery Manufacturing Technology Association (湖北省機械製造工藝協會). Mr. Zhang joined BYD Industries in February 2000, holding posts such as manager of Engineering Department, manager of Electric Vehicle Project Department, general manager of Division 14 and Division 8 and president of the Truck and Specialized Vehicle Research Institute (卡車及專用車研究院). He currently is a Vice President of the Company, general manager of Division 17 and director of Hangzhou West Lake BYD New Energy Automobile Co., Ltd. (杭州西湖比亞迪新能源汽車有限公司), director of Beijing Hualin Special Vehicle Co., Ltd. (北京華林特裝車有限公司) and chairman of BYD Charity Foundation.

Directors, Supervisors and Senior Management

Luo Hong-bin

Mr. Luo Hong-bin, born in 1966, Chinese national with no right of abode overseas, master's degree holder. Mr. Luo graduated from Air Force Engineering University in 1990, with a master's degree in computer application. Mr. Luo joined the Company in October 2003. He served various posts including manager of the third Electronics Sub-division of Division 15 and director of the Institute of Electric vehicles. He currently is a Vice President of the Company, general manager of Division 14, president of the Electric Power Research Institute and a director of BYD Charity Foundation.

Wang Chuan-fang

Mr. Wang Chuan-fang, born in 1961, Chinese national with no right of abode overseas, who is the elder brother of Mr. Wang Chuan-fu. Mr. Wang joined BYD Industries in August 1996 and held positions including Personnel Manager and Logistics Manager. He currently is a Vice President of the Company, general manager of Logistics Division, general manager of Rail Engineering Department and a director of Yinchuan Sky Rail Operation Co., Ltd. (銀川雲軌運營有限公司).

Ren Lin

Mr. Ren Lin, born in 1967, Chinese national with no right of abode overseas, bachelor's degree holder, and a senior engineer. Mr. Ren graduated from Beijing Institute of Technology in 1989, with a bachelor's degree majoring in mechanical design, manufacturing and automation. He went to Japan, Tsinghua University (清華大學) and Beijing Institute of Technology (北京理工大學) for multiple times for further study during his terms of office. Mr. Ren once worked in Shanxi Qinchuan Motor Co., Ltd. (陝西秦川汽車有限責任公司). He joined the Company in January 2003 and held positions as executive Vice President of Automotive Engineering Institute (汽車工程院). He currently is a Vice President of the Company, general manager of Division 21.

Wang Jie

Mr. Wang Jie, born in 1964, Chinese national with no right of abode overseas, bachelor's degree holder. Mr. Wang graduated from Xi'an Institute of Gold Mining and Construction (西安冶金建築學院) (now known as Xi'an University of Architecture and Technology (西安建築科技大學)) in 1988 with a Bachelor's degree in Engineering, majoring in Industry Enterprises Automatisations. Mr. Wang once worked in Jiaxing Metallurgy Manufacture Factory of Metallurgy Department (冶金部嘉興冶金機械廠). Mr. Wang joined the Company in September 1996, he served various positions including sales manager,

sales director and deputy general manager of the Company's Sales & Marketing Division. He currently is a Vice President of the Company, CEO of Commercial Vehicles Division, and a director of Shenzhen Qianhai Green Transportation Co., Ltd. (深圳市前海綠色交通有限公司), a director of Nanjing Jiangnan Electric Car Rental Company Limited (南京江南純電動出租汽車有限公司), a director of Xi'an Infrastructure Yadi Automobile Service Co., Ltd (西安城投亞迪汽車服務有限責任公司), a director of Hangzhou West Lake BYD New Energy Automobile Co., Ltd. (杭州西湖比亞迪新能源汽車有限公司), a director of Beijing Hualin Special Vehicle Co., Ltd. (北京華林特裝車有限公司), a director of Guangzhou Guang Qi BYD New Energy Bus Co., Ltd. (廣州廣汽比亞迪新能源客車有限公司), and a director of Chengdu Shudu BYD New Energy Vehicles Co., Ltd (成都蜀都比亞迪新能源汽車有限公司).

Li Qian

Mr. Li Qian, born in 1973, Chinese national with no right of abode overseas, master's degree holder. Mr. Li graduated from Jiangxi University of Finance and Economics (江西財經大學) in 1997, with a bachelor's degree in economics. He graduated from Guanghua School of Management of the Peking University (北京大學光華管理學院) with an MBA in July 2016. Mr. Li was the auditor and business adviser of PwC China and Arthur Andersen, respectively, and the securities business representative of ZTE Corporation (中興通訊股份有限公司). Mr. Li joined the Company in August 2005 and is the secretary to the Board and Company Secretary of the Company. He is also a joint company secretary of BYD Electronic (International) Company Limited (stock code: 0285) and a supervisor of Tibet Shigatse Zhabuye Lithium High-Tech Co., Ltd (西藏日喀則紮布耶鋰業高科技有限公司).

Zhou Ya-lin

Ms. Zhou Ya-lin, born in 1977, Chinese national with no right of abode overseas, bachelor's degree holder. Ms. Zhou graduated from Jiangxi University of Finance and Economics (江西財經大學) in 1999, with a bachelor's degree in economics. Ms. Zhou joined BYD Industries in March 1999 and is the Chief Accountant of the Company. She is also the chief financial officer of BYD Electronic (International) Company Limited (Stock Code: 0285), a director of Shenzhen BYD Electric Car Investment Co., Ltd. (深圳市比亞迪電動汽車投資有限公司) and a director of Shenzhen Qianhai Green Transportation Co., Ltd. (深圳市前海綠色交通有限公司), a supervisor of Shenzhen BYD International Financial Leasing Co., Ltd (深圳比亞迪國際融資租

Directors, Supervisors and Senior Management

質有限公司), a director of BYD Auto Finance Company Limited (比亞迪汽車金融有限公司), a supervisor of Hangzhou West Lake BYD New Energy Automobile Co., Ltd. (杭州西湖比亞迪新能源汽車有限公司), a supervisor of Beijing Hualin Special Vehicle Co., Ltd. (北京華林特裝車有限公司), a director of Xi'an Infrastructure Yadi Automobile Service Co., Ltd (西安城投亞迪汽車服務有限責任公司), a director of Chengdu Shudu BYD New Energy Vehicles Co., Ltd (成都蜀都比亞迪新能源汽車有限公司), a director of Qinghai Salt Lake BYD Resources Development Co., Ltd. (青海鹽湖比亞迪資源開發有限公司), a supervisor of Yinchuan Sky Rail Operation Co., Ltd. (銀川雲軌運營有限公司), a director of Guangzhou Guang Qi BYD New Energy Bus Co., Ltd. (廣州廣汽比亞迪新能源客車有限公司), a supervisor of Shenzhen DENZA New Energy Automotive Co., Ltd. (深圳騰勢新能源汽車有限公司) and a supervisor of BYD Charity Foundation.

Directors', supervisors' and senior management's remuneration during the reporting period

Name	Position	Status of employment	Total remuneration received from the Company (Unit: RMB'000)
Wang Chuan-fu	Chairman, Executive Director and President	Incumbent	5,785
Lv Xiang-yang	Vice-chairman and non-executive director	Incumbent	170
Xia Zuo-quan	Non-executive director	Incumbent	170
Wang Zi-dong	Independent non-executive Director	Incumbent	170
Zou Fei	Independent non-executive Director	Incumbent	170
Zhang Ran	Independent non-executive Director	Incumbent	170
Dong Jun-qing	Supervisor and chairman of the supervisory committee	Incumbent	70
Li Yong-zhao	Supervisor	Incumbent	70
Huang Jiang-feng	Supervisor	Incumbent	70
Wang Zhen	Supervisor	Incumbent	2,161
Yan Chen	Supervisor	Resigned	1,330
Yang Dong-sheng	Supervisor	Incumbent	516
Wu Jing-sheng	Vice president and Chief Financial Officer	Incumbent	6,147
Li Ke	Vice president	Incumbent	5,282
Lian Yu-bo	Vice president	Incumbent	6,853
He Long	Vice president	Incumbent	5,404
Liu Huan-ming	Vice president	Incumbent	4,662
Zhang Jin-tao	Vice president	Incumbent	4,526
Luo Hong-bin	Vice president	Incumbent	4,659
Wang Chuan-fang	Vice president	Incumbent	4,772
Ren Lin	Vice president	Incumbent	4,776
Wang Jie	Vice president	Incumbent	3,664
Li Qian	Secretary to the Board and Company Secretary	Incumbent	1,999
Zhou Ya-lin	Chief Accountant	Incumbent	2,521
Total	—	—	66,117

Corporate Governance Report

The Board of Directors believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole. To this end, we strive to promote and uphold the highest standard of corporate governance.

The Company has put in place corporate governance practices to comply with all the provisions and most of the recommended best practices of the Corporate Governance Code (the "Code") except for the deviation from the code provisions A.2.1 and A.6.7.

Code provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wang Chuan-fu is the Chairman and Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Group. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Wang and believes that this appointment to the posts of Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

Code provision A.6.7 stipulates that independent non-executive Directors and non-executive Directors should attend general meetings. Due to important business engagements and logistics reasons at the relevant time, not all independent non-executive Directors and non-executive Directors attended the annual general meeting of the Company held on 6 June 2017 and the extraordinary general meeting held on 8 September 2017.

During the reporting period, except for the deviation from code provisions A.2.1 and A.6.7 as explained above, the Directors are of the opinion that the Company had complied with all applicable provisions of the Code.

Board of Directors

Accountable to the Shareholders, the Board of Directors is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. The Board is also responsible for, and has during the Year performed the corporate governance duties set out in code provision D.3.1 of the Code (including the determining of the corporate governance policy of the Company).

The Directors

As of the date of this report, the Board comprises six Directors. There is one executive Director who is the President, two non-executive Directors and three independent non-executive Directors. Detailed biographies outlining each individual Director's range of specialist experience and suitability of the successful long-term running of the Group are set out on page 20 to page 26 of this annual report.

The Group believes that its non-executive and independent non-executive Directors composition are well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the Year under review.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence as required under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). The Company considers all independent non-executive Directors to be independent.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and senior management with the extent of this insurance being reviewed each year.

The Board met twenty-two times this year to discuss the Group's overall strategy, operation, financial performance and review the status of regulatory compliance. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matter is specifically addressed to the Board for its decision. Topics discussed at these Board meetings include quarterly, interim and annual results; recommendations on the remuneration of Directors and supervisors; recommendations of auditors; approval of major capital project; dividend policies; and other significant operational and financial matters.

The Directors decide on corporate strategies, approve overall business plans and supervise the Group's financial performance, management and organization on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management included the preparation of annual and interim accounts for the Board's approval before public reporting; implementation of strategies approved by the Board; the implementation of internal control procedures; and the ensuring of compliance with relevant statutory requirements and other regulations and rules.

Corporate Governance Report

In accordance with the Company's Articles of Association and related Board resolutions, each Board member and each member of the Supervisory Committee is appointed for a term of 3 years, being the period from 8 September 2017 to 7 September 2020.

Continuous Professional Development of Directors

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

Name of Director	Training/seminars participated	Reading materials
Executive Director		
Wang Chuan-fu	✓	✓
Non-executive Director		
Lv Xiang-yang	✓	✓
Xia Zuo-quan	✓	✓
Independent		
Non-executive Director		
Wang Zi-dong	✓	✓
Zou Fei	✓	✓
Zhang Ran	✓	✓

Board Meetings

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a regular board meeting; written notices are sent to all Directors 2 days before a provisional board meeting. The meeting agenda is set in consultation with members of the Board. The Board held twenty two meetings in 2017. The attendance of individual Director at the Board meetings as well as general meetings in 2017 is set out below:

Members of the Board	Board Meeting	Annual General Meeting	Extraordinary General Meeting
Executive Director			
WANG Chuan-fu	22/22	1/1	1/1
Non-executive Director			
LV Xiang-yang	22/22	1/1	1/1
XIA Zuo-quan	22/22	1/1	1/1
Independent			
Non-executive Director			
WANG Zi-dong	22/22	0/1	1/1
ZOU Fei	22/22	1/1	1/1
ZHANG Ran	22/22	0/1	1/1

In furtherance of good corporate governance, the Board has set up a number of committees, including:

- the Audit Committee;
- the Remuneration Committee;
- the Nomination Committee; and
- the Strategy Committee.

Each Committee reports regularly to the Board of Directors, addressing major issues and findings with valuable recommendations for the decision making of the Board of Directors. The particulars of these Committees are set out hereunder.

Corporate Governance Report

Audit Committee

One of the primary duties of the Audit Committee is to review the financial reporting process and the risk management and internal control systems of the Group. As at 31 December 2017, Audit Committee consists of three independent non-executive Directors, namely Mr. Wang Zi-dong, Mr. Zou Fei and Ms. Zhang Ran, and a non-executive Director, Mr. Lv Xiang-yang, with Ms. Zhang Ran as the chairman. Meetings were convened by the Company's Audit Committee and the Company's auditors to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and the provisions of the Code.

The Audit Committee held five meetings in 2017 to review the internal and external audit findings, the accounting principles and practices adopted by the Group, Listing Rules and statutory compliance, deliberate its relationship, remuneration and appointment terms and independence with the external auditor with reference to its work performance and to make recommendations to the Board of Directors regarding the reappointment of the external auditor, as well as to discuss auditing, internal controls, risk management and financial reporting matters including financial statements for the year ended 31 December 2016, the three months ended 31 March 2017, the six months ended 30 June 2017 and the nine months ended 30 September 2017, before recommending them to the Board for approval, and performed its other duties under the Code. The individual attendance of its members of the meetings is set out as follows:

Member of the Audit Committee	Number of Committee Meetings Attended	Attendance Rate
LV Xiang-yan	5	100%
ZHANG Ran	5	100%
WANG Zi-dong	5	100%
ZOU Fei	5	100%

Remuneration Committee

The Board of Directors established a Remuneration Committee on 27 June 2005. The primary role of the Remuneration Committee is to regularly review human resource management policies, make recommendations on the remuneration packages, compensation and benefit plans of Directors and senior management, as well as setting performance goals for senior management of the Group. As at 31 December 2017, the Remuneration Committee comprises Mr. Wang Chuan-fu, Mr. Xia Zuo-quan, Mr. Wang Zi-dong, Mr. Zou Fei and Ms. Zhang Ran, with Mr. Zou Fei as the chairman.

The Remuneration Committee has reviewed its terms of reference in 2017 to comply with the Code.

The Remuneration Committee held two meeting in 2017 to review the remuneration of Directors, supervisors and senior management of the Group. The individual attendance of its members of the meetings is set out as follows:

Member of the Remuneration Committee	Number of Committee Meetings Attended	Attendance Rate
WANG Chuan-fu	2	100%
XIA Zuo-quan	2	100%
ZOU Fei	2	100%
WANG Zi-dong	2	100%
ZHANG Ran	2	100%

Corporate Governance Report

Remuneration Policy for Directors

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results and taking into account of comparable market conditions. The principal elements of the remuneration package of executive Directors include basic salary and discretionary bonus. The remuneration of non-executive Directors includes mainly the Director's fee. The Company reimburses reasonable expenses incurred by Directors in the course of their carrying out of duties as Directors.

Directors do not participate in decisions on their own remuneration.

The emoluments paid to each Director of the Company for the year ended 31 December 2017 are set out in note 9 to the financial statements.

Remuneration of Senior Management During the Year

Remuneration by bands	Number of senior management
RMB0 to RMB3 million	2
RMB3 million to RMB7 million	11

Nomination Committee

The Group has established the Nomination Committee. As at 31 December 2017, the Nomination Committee comprises Mr. Wang Chuan-fu, Mr. Lv Xiang-yang, Mr. Wang Zi-dong, Mr. Zou Fei and Ms. Zhang Ran, with Mr. Wang Zi-dong as the chairman. The Nomination Committee has been delegated with the powers and authorities to review the structure, size and composition of the Board, make recommendation to the Board on selection of individuals nominated for directorships and senior management, appointment and reappointment of Directors and succession planning for Directors and assess the independence of independent non-executive Directors and determine the policy for the nomination of Directors.

The Board's Diversity Policy

The Board has adopted the Diversity Policy, which sets out the approach to diversity of Board members. In determining the Board composition, the Board and Nomination Committee consider a range of diversity elements, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge. All appointments of the Board will be made based on merit and objective criteria while taking into full account of the interest of Board's diversity.

The selection of candidate will be based on a range of diversity elements. The final decision will be made according to the strengths of the candidate and his/her contribution that would bring to the Board.

The Nomination Committee has performed the above duties during the Year.

Strategy Committee

The Group established the Strategy Committee on 20 March 2008. As at 31 December 2017, the Strategy Committee comprised Mr. Wang Chuan-fu, Mr. Lv Xiang-yang, Mr. Xia Zuo-quan, Mr. Wang Zi-dong and Mr. Zou Fei, with Mr. Wang Chuan-fu as the chairman. The main duty of the Strategy Committee is to consider and make recommendations on the Company's long-term development strategy and major investment decisions.

Company Secretary

Mr. Li Qian, Company Secretary of the Company, is a full-time staff of the Group, and is familiar with the daily affairs of the Company. During the financial year, the Company Secretary had complied with the relevant professional training requirements under Rule 3.29 of the Listing Rules. The biographical details of the Company Secretary are set out in the section "Directors, Supervisors and Senior Management" in this annual report.

Corporate Governance Report

Independent Auditors and their Remuneration

For the year ended 31 December 2017, the total remuneration paid to the international auditors, Ernst & Young and the domestic auditors, Ernst & Young Hua Ming (LLP), was RMB7,150,000 for audit services and non-audit services provided for the Company and its subsidiaries. The audit fee was approved by the Board. During the reporting period, the total remuneration in respect of the non-audit services provided was RMB1,300,000.

Item	2017	2016
Review of interim results	RMB1,050,000	RMB1,050,000
Other non-audit services	RMB250,000	RMB100,000

The Directors have acknowledged their responsibilities for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

The statement of external auditor of the Company about his reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2017 is set out in the section headed "Independent Auditor's Report" in this annual report.

The Board has proposed to re-appoint Ernst & Young as the international auditor of the Company for 2018 and Ernst & Young Hua Ming (LLP) as the domestic auditors for 2018, which is subject to approval by shareholders at the forthcoming annual general meeting. There was no disagreement between the Board and the Audit Committee on the selection and reappointment of the external auditor during the year under review.

Risk Management and Internal Control

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

Various measures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and for the reliability of financial information used within the business or for publication. The Company's systems of risk management and internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material errors, losses or fraud. The Board considers that the Company is fully compliant with the provisions of risk management and internal control as set forth in the Corporate Governance Code.

Risk Management and Internal Control Framework

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

Board of Directors

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

Corporate Governance Report

Audit Committee

- Assisting the Board in performing its duties of risk management and internal control systems;
- Supervising the Company's risk management and internal control system on an ongoing basis, to provide opinions and suggestions with regard to the improvement of the risk management and internal control systems;
- Reviewing the effectiveness of the Company's risk management and internal control systems at least once a year;
- Ensuring that the Company has sufficient resources, staff qualifications and experiences in accounting, internal audit and financial reporting functions.

Management Team

- Designing, implementing and inspecting the risk management and internal control systems;
- Identifying, evaluating and managing risks that may exert potential impacts on major operational procedures;
- Responding to and following up with in a timely manner with regard to the investigation results of risk management and internal control issues raised by the Internal Audit Department;
- Providing opinions to the Board and the Audit Committee on the acknowledgment of the effectiveness of the risk management and internal control systems.

Internal Audit Department

- Reviewing the due effectiveness of the Company's risk management and internal control systems;
- Reporting the audit results and making suggestions to the Audit Committee, to improve major drawbacks of the systems or finding the deficiency of the control.

Identification, Evaluation and Management of Major Risks

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

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

Annual Review

In 2017, the Board reviewed the soundness and effectiveness of the Group's risk management and internal control systems, with a self-evaluation report issued on the internal control. In addition, the Company retained an auditor to audit the effectiveness of the internal control related to the Company's financial reports, and to provide independent and objective assessment and suggestions in the form of auditor's report. The Board considers that the Company's risk managements and internal control systems are effective and adequate.

Corporate Governance Report

Internal Audit

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

Disclosure of Inside Information

The Group has put in place a set of policy for the disclosure of inside information which sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and in compliance with the Securities and Futures Ordinance. The policy and its effectiveness are subject to review on a regular basis.

Directors' Securities Transactions

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

Specified employees who are likely to be in possession of inside information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2017.

Shareholders' Rights

Under the Company's Articles of Association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for considering any matters specified in such requisition.

Further, pursuant to the Company's Articles of Association, Shareholders individually or jointly holding no less than 3% of the Company's shares may submit an extempore proposal to the convener of a general meeting in writing ten days prior to date of the meeting. The convener shall dispatch a supplementary notice of general meeting and announce the contents of such extempore proposal within two days upon receipt of the proposal.

Shareholders may send their requisitions and enquiries requiring the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Other general enquiries can be directed to the Company through our Investor and Media Relations Consultant, whose contact information is disclosed in "Corporate Information" of this annual report.

Investor Relations

The Company believes that effective communication with investors is essential for enhancing investors' knowledge and understanding of the Company. To achieve this, the Company pursues a proactive policy of promoting investor relations and communications. The main purpose of the Company's investor relations policy, therefore, is to enable investors to have access, on a fair and timely basis, to information that is reasonably required for making the best investment decisions.

On 18 May 2017, the Company adopted a new set of Articles of Association which mainly updated the business scope of the Company.

Report of the Directors

The directors of the Company (“Board”) submit their report together with the audited consolidated accounts of BYD Company Limited (the “Company”) and its subsidiaries (together with the Company hereinafter collectively referred to as the “Group”) for the year ended 31 December 2017.

Principal Activities and Geographical Analysis of Operations

The principal activities of the Group are rechargeable battery and photovoltaic business, handset components and assembly business as well as automobile business (including traditional fuel-powered vehicles and new energy vehicles). The activities of the Company’s subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group’s principal activities for the year ended 31 December 2017. Further discussion and analysis of principal activities are set out in the Management Discussion and Analysis on pages 10 to 17 of the annual report.

An analysis of the Group’s performance for the year ended 31 December 2017 by business and geographical segments is set out in Note 4 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements and their notes on page 42 to page 139 of this annual report.

The Board has resolved to recommend the payment of final dividend of RMB0.141 per share (including tax) for the year ended 31 December 2017 (for the year ended 31 December 2016: the payment of RMB0.178 per share (including tax)). The proposed final dividend is subject to the consideration and approval of the shareholders at the forthcoming annual general meeting (the “AGM”) of the Company.

The Company will publish announcement, circular and notice of general meeting 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 to the holders of H shares. It is expected that the final dividend will be distributed before 31 August 2018.

The final dividend will be denominated and declared in RMB. The holders of A shares will be paid in RMB and the holders of H shares 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 Extraordinary General Meeting.

In accordance with the Enterprise Income Tax Law of the People’s Republic of China (中華人民共和國企業所得稅法) and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H shares when distributing the cash dividends. Any H shares not registered under the name of an individual shareholder, including HKSCC Nominees Limited, other nominees, agents or trustees, or other organisations or groups, will be deemed as shares held by non-resident enterprise shareholders. Therefore, enterprise income tax will be withheld from dividends payable to such shareholders. If holders of H shares intend to change its shareholder status, please enquire about the relevant procedures with your agents or trustees. The Company will strictly comply with the law or the requirements of the relevant government authority and withhold and pay enterprise income tax on behalf of the relevant shareholders based on the register of members for H shares as at the record date of the proposed final dividend.

In accordance with the “Circular on Certain Issues Concerning the Policies of Individual Income Tax” (Cai Shui Zi [1994] No.020) (《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)) promulgated by the Ministry of Finance and the State Administration of Taxation on 13 May 1994, overseas individuals are, temporarily, exempted from the PRC individual income tax for dividend or bonuses received from foreign invested enterprises. In accordance with the “Letter of the State Administration of Taxation concerning Taxation Issues of Dividends Received by Foreign Individuals Holding Shares of Companies Listed in China” (Guo Shui Han Fa [1994] No. 440) (《外籍個人持有中國境內上市公司股票所取得的股息有關稅收問題的函》(國稅函發[1994]440號)) as promulgated by the State Administration of Taxation on 26 July 1994, dividends (capital bonuses) received by foreign individuals holding B shares or overseas shares (including H shares) from Chinese enterprises issuing such B shares or overseas shares are temporarily exempted from individual income tax. Accordingly, in the payment of final dividend, the Company will not withhold and pay the individual income tax on behalf of individual Shareholders when the Company distributes the final dividend to individual Shareholders whose names appear on the register of members of H shares of the Company.

Shareholders are recommended to consult their tax advisor regarding the ownership and disposal of H shares of the Company in the PRC and in Hong Kong and other tax effects.

Business Review

The business review set out on page 11 to 15 of the annual report shall form an integral part of this Report of the Directors.

Principal risks and uncertainties facing the Group

Please refer to note 45 to the financial statements for details of the main financial risks facing the Group and the Group's management objectives and policies regarding such risks. In addition to such financial risks, the Directors are of the view that any material change in relevant government policies (such as the Chinese Government's policies on economic development and environmental protection) is also one of the principal risks and uncertainties that may affect the Group's business.

Environmental policies

The Group has been a positive respondent to environmental protection. While helping reduce energy consumption through green products, the Group also focuses on reducing the direct impacts of its operation on the environment. By introducing an energy management system, promoting the replacement of traditional energy with renewable energy and saving energy through technical and management means, BYD continues to reduce its own energy consumption and carbon dioxide emissions.

Regulatory compliance

BYD requires stringent compliance with laws, social norms, professional ethics and internal regulations in its worldwide operations. The Group has established a Law and Regulation Management Committee which monitors, supervises and inspects, regularly and from time to time, the management and implementation of laws and regulations in various departments, and evaluates their implementation and compliance in such areas. During the year of 2017, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Report of the Directors

Relationship with employees

Since employees are the foundation for development, the Group adheres to the "people-oriented" principle in its human resources management and practice equal employment opportunities and prohibit any career discrimination. The Group reviews its employees compensation policies on a regular basis and bonuses and commission may be awarded to employees based on their annual performance evaluation. Efforts have also been made to help employees in the aspects of housing, transportation and children education, etc.

Relationship with customers and suppliers

The Group strives to build and maintain long term and strong relationships with customers. BYD has established a customer satisfaction management system with a view to understand and fulfil customers' demands and enhance their satisfaction. In terms of suppliers, the Group's objective is to keep mutually beneficial and win-win partnerships with all suppliers. At the same time, the Group regularly evaluate the performance of our suppliers including suppliers' social responsibility.

Reserves

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated Statement of Changes in Equity and note 36 to the financial statements, respectively.

Donations

Charitable and other donations made by the Group during the year ended 31 December 2017 amounted to RMB11,775,000 (2016: RMB17,626,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

Report of the Directors

Share Capital

Details of the movements in share capital of the Company are set out in note 35 to the financial statements.

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

Distributable Reserves

Distributable reserves of the Company as at 31 December 2017, calculated under the relevant legislation applicable in the PRC, the Company's place of incorporation, amounted to approximately RMB1,574,639,000 (2016: RMB2,053,252,000).

Bank Loans

As at 31 December 2017, details of bank loans of the Group are set out in note 32 to the financial statements.

Material Acquisitions and Disposals of Subsidiaries and Associates

During the reporting period, there was no material acquisition and disposal of subsidiaries and associates.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Article of Association and there is no similar restriction against such rights under the laws of the PRC in respect of joint stock limited company, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 2-3 and page 140 of this annual report.

Directors

The Directors who held office during the year ended 31 December 2017 and up to the date of this report are:

- Executive director:
Mr. Wang Chuan-fu
- Non-executive directors:
Mr. Lv Xiang-yang
Mr. Xia Zuo-quan
- Independent non-executive directors:
Mr. Wang Zi-dong
Mr. Zou Fei
Ms. Zhang Ran

Report of the Directors

Directors' and Supervisors' Service Contracts

All existing Directors had signed or renewed their service contracts or letters of appointment with the Company for a term of three years commencing on 8 September 2017.

All existing supervisors had signed or renewed their service or employment contracts with the Company for a term of three years commencing on 8 September 2017.

None of the above mentioned contracts and letters of appointment are not determinable within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

No transactions, arrangement or contracts of significance in relation to the Group's business to which the Group was a party and in which a Director or supervisor and an entity related to a Director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Directors Remuneration

The emolument payable to each Executive Director is based on (i) his duties and responsibilities; (ii) prevailing market conditions; and (iii) performance and profitability of the Company.

The emolument payable to each Non-Executive Director (including Independent Non-Executive Director) is based on the responsibilities and undertaking to the Board taking into account his experience and market practice for such post.

Details of the remuneration of the Directors are set out in note 9 to the financial statements.

Biographical Details of Directors, Supervisors and Senior Management

Brief biographical details of Directors, supervisors and senior management of the Company are set out on pages 20 to 26 of this annual report.

Directors', Supervisors' and Chief Executives' Interests

As at 31 December 2017, the interests and short positions of each of the directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571) ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which he is taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange to be notified to the Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the supervisors) were as follows:

A shares of RMB1.00 each

Name	Number of A shares	Approximate percentage of shareholding in total issued A shares (%)	Approximate percentage of shareholding in total issued share capital (%)
Wang Chuan-fu (Director)	512,623,820 (L) (Note 1)	28.27%	18.79%
Lv Xiang-yang (Director)	401,910,480 (L) (Note 2)	22.17%	14.73%
Xia Zuo-quan (Director)	109,000,000 (L)	6.40%	4.00%

(L) – Long Position

Note:

- The 512,623,820 A shares did not include the 3,727,700 A shares held by Mr. Wang in No.1 Assets Management Plan through E Fund BYD;
- Of the 401,910,480 A shares, 239,228,620 A shares were held by Mr. Lv in his personal capacity and 162,681,860 A shares were held by Youngy Investment Holding Group Co., Ltd. (融捷投資控股集團有限公司) ("Youngy Investment", formerly known as Guangzhou Youngy Management & Investment Group Company Limited). Youngy Investment was in turn held by Mr. Lv and his spouse as to 89.5% and 10.5% of equity interests, respectively. Mr. Lv was therefore deemed to be interested in the 162,681,860 A shares under the SFO.

Report of the Directors

H shares of RMB1.00 each

Name	Number of H shares	Approximate percentage of shareholding in total issued H shares (%)	Approximate percentage of shareholding in total issued share capital (%)
Wang Chuan-fu (Director)	1,000,000 (L)	0.11%	0.04%
Xia Zuo-quan (Director)	500,000 (L) (Note 1)	0.05%	0.02%

(L) – Long Position

Note:

- Of the 500,000 H shares, 195,000 H shares were held by Mr. Xia as a beneficial owner and 305,000 H shares were held by Sign Investments Limited, which was wholly-owned by Mr. Xia.

Saved as disclosed above, as at 31 December 2017, none of the Directors, supervisors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Shareholders with Notifiable Interests

As at 31 December 2017, to the best knowledge of the Directors of the Company, the following persons (other than the Directors, supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were required to be entered in the register kept by the Company pursuant to Section 336 of the SFO:

1. A shares of RMB1.00 each

Name	Number of A shares	Approximate percentage of shareholding in total issued A shares (%)	Approximate percentage of shareholding in total issued share capital (%)
Youngy Investment (Note 1)	162,681,860 (L)	8.97%	5.96%

(L) – Long Position

Note:

- Youngy Investment is owned by Mr. Lv Xiang-yang, a non-executive director of the Company, as to 89.5%. Mr. Lv is therefore deemed to be interested in the 162,681,860 A shares held by Youngy Investment under the SFO.

2. H shares

Name	Number of H shares	Approximate percentage of shareholding in total issued H shares (%)	Approximate percentage of shareholding in total issued share capital (%)
Berkshire Hathaway Inc (note 1)	225,000,000 (L)	24.59%	8.25%
Berkshire Hathaway Energy (note 1)	225,000,000 (L)	24.59%	8.25%
Li Lu (note 2)	75,387,200 (L)	8.24%	2.76%
LL Group, LLC (note 2)	75,387,200 (L)	8.24%	2.76%

(L) – Long Position

Notes:

- Berkshire Hathaway Inc. was deemed to be interested in 225,000,000 H shares (L) through its controlled corporation, Berkshire Hathaway Energy (formerly known as MidAmerican Energy Holdings Company) for the 225,000,000 H shares directly held by it.
- LL Group, LLC was deemed to be interested in 75,387,200 H shares (L) through its controlled corporation, Himalaya Capital Investors, L.P. (formerly known as LL Investment Partners, L.P.). Li Lu, being the controlling shareholder of Capital Investors, L.P. (formerly known as LL Group, LLC), was also deemed to be interested in 75,387,200 H shares.

Report of the Directors

The total issued share capital of the Company as at 31 December 2017 was RMB2,728,142,855, divided into 1,813,142,855 A shares of RMB1.00 each and 915,000,000 H shares of RMB1.00 each, all fully paid up.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

Competing Business

During the financial year, no director acquired benefits by engaging in business that competes with that of the Company or its subsidiaries.

In September 2009, Mr. Wang Chuan-fu, controlling shareholder of the Group, signed the Non-competition Undertakings to confirm with the Company that he would abide by the undertaking of not engaging in business that competes with that of the Company. Directors, including independent non-executive directors, have examined its compliance and confirmed that the controlling shareholder has abided by all the undertakings.

Retirement Scheme

Currently, all PRC subsidiaries of the Group participate in defined contribution retirement schemes (the "Schemes") launched by local provincial and municipal governments in China, pursuant to which the Group makes contributions to the Schemes in accordance with the applicable percentage of the salary of eligible staff. Local government authorities assume the obligation in respect of all the pensions payable to retired staff.

Save for the above contributions, the Group does not have any other major payment obligation in respect of pension benefits.

Major Customers and Suppliers

The percentage of purchases and sales for the year ended 31 December 2017 attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	7.41%
– the five largest suppliers combined	21.82%

Sales

– the largest customer	13.47%
– the five largest customers combined	35.30%

None of the directors, their close associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in any of the major suppliers or customers noted above.

Report of the Directors

Related Party Transactions and Connected Transactions

A summary of the related party transactions undertaken by the Group during the year are set out in note 42 to the financial statements. Such related party transactions did not constitute connected transactions of the Group under Chapter 14A of the Listing Rules.

There was no connected transaction entered into by the Group during the year ended 31 December 2017 which is required to be disclosed under the Listing Rules, and had subject to the requirements under Chapter 14A of the Listing Rules.

Sufficiency of Public Float

Based on information which is publicly available to the Company and within the knowledge of its directors as at the date of this report, the directors confirm that the Company had sufficient public float as required by the Listing Rules.

Confirmation of Independence

Each Independent Non-Executive Director has provided a written statement confirming his independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company assessed that each Independent Non-Executive Director continues to be independent.

Auditors

Ernst & Young, the Company's international auditor, and Ernst & Young Hua Ming (LLP), the Company's domestic auditor, will retire. A resolution will be proposed at the forthcoming AGM to appoint Ernst & Young as the international auditor of the Company for 2018 and Ernst & Young Hua Ming (LLP) as the domestic auditor for 2018.

On behalf of the Board

Wang Chuan-fu

Chairman

Shenzhen, the PRC, 27 March 2018

Report of the Supervisory Committee

In 2017, in accordance with the principle of being accountable to all shareholders, the Supervisory Committee of the Company fully complied with the duties to supervise and ensure that the resolutions as passed in the Shareholders' General Meetings were consistently implemented, the legal interest of shareholders was protected and the duties conferred under the Articles of Association and in the Shareholders' General Meetings were completed in accordance with the Company Law, the Articles of Association and the relevant provisions, in order to facilitate a disciplined operation and sustainable development of the Company.

1. Meetings of the Supervisory Committee during the Reporting Period and Resolutions Passed in Such Meetings

On 28 March 2017, the Supervisory Committee convened its meeting at the office of the Company, where the annual report of the Company for 2016 was considered and approved accordingly.

On 28 April 2017, the Supervisory Committee convened its meeting at the office of the Company, where the first quarterly report of the Company for 2017 was considered and approved accordingly.

On 21 July 2017, the Supervisory Committee convened its meeting at the office of the Company, where the resolution on the election of the new session of the Supervisory Committee and the supervisors' remuneration of the Supervisory Committee was considered and approved accordingly.

On 14 August 2017, the Supervisory Committee convened its meeting at the office of the Company, where the resolution on reuse of idle proceeds to temporarily supplement working capital by two wholly-owned subsidiaries were considered and approved accordingly.

On 28 August 2017, the Supervisory Committee convened its meeting at the office of the Company, where the interim report of the Company for 2017 was considered and approved accordingly.

On 8 September 2017, the Supervisory Committee convened its meeting at the office of the Company, where the resolution on the election of the chairman of the Supervisory Committee was considered and approved accordingly.

On 27 October 2017, the Supervisory Committee convened its meeting at the office of the Company, where the third quarterly report of the Company for 2017 was considered and approved accordingly.

2. Progress of the Work of the Supervisory Committee during the Reporting Period

During the reporting period, the Supervisory Committee of the Company performed its supervisory functions in a fiduciary manner. The Supervisory Committee duly supervised and examined the Company's financial situation, the Board of Directors' execution of the resolutions passed in the Shareholders' General Meeting, operational decisions of the management, the operations of the Company in compliance with the laws, the acts of the Directors, supervisors and senior management, and the connected transactions entered into with its controlling shareholder. The Supervisory Committee considered that:

- (1) The operating activities of the Company and its subsidiaries in 2017 did not violate the Company Law, the Articles of Association, financial accounting procedures and the laws and regulations of the PRC.
- (2) During the discharge of their duties in 2017, the directors, supervisors and senior management of the Company fulfilled their fiduciary duties by acting lawfully, regularized management, explored for innovation, with discipline to protect the interests of all the shareholders of the Company. None of the parties named above was found in breach of the Company Law, the Articles of Association or the laws and regulations of the PRC.
- (3) The auditors presented an unqualified auditors' report. The report indicates the financial statements give a true and fair view of the financial results and operations of the Company.

The Supervisory Committee is confident in the prospects of the Company and will proceed to carry out effective supervision on the operation of the Company to safeguard the interests of the Shareholders and the Company as a whole.

Dong Jun-qing

Chairman of the Supervisory Committee

27 March 2018

Independent Auditor's Report



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To the shareholders of BYD Company Limited

(Registered in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of BYD Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 139, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
<i>Amortisation and impairment assessment of capitalised development costs related to new-energy vehicles</i>	
<p>The Group recorded significant development costs as intangibles as at 31 December 2017. The development costs for new-energy vehicles are amortized using the unit of production method which includes the estimation of total production quantities. The estimation involves management judgment, such as historical sales performances, projected market growth rates and projected market shares.</p> <p>The Group also need to perform annual impairment test on capitalised development costs that are not yet amortized. The annual impairment assessment process is complex and highly judgmental, and is based on assumptions including projected sales volume, gross margin, working capital, terminal growth rate, discount rate and etc.</p> <p>The above processes require significant estimation and assumptions, including the prediction for future market trend and macro-economy situation. Therefore we identify it as a key audit matter.</p> <p>Details of the Group's capitalised development costs are disclosed in note 2.4, 3 and 18 to the financial statements.</p>	<p>We performed the following audit procedures, among others, in related to capitalised development costs:</p> <ul style="list-style-type: none"> • Obtained an understanding of the amortisation model and assumptions used by management; • Tested the reasonableness of estimated useful life and annual units of production applied in calculating the amortisation method and performed sensitivity analyses; • Compared the differences between the estimated and actual amount of units of production and inquired management about the reason of variance; • Obtained an understanding of the management's process of impairment assessment in respect of on capitalised development costs that are not yet amortized and its design and operating effectiveness; • Assessed the appropriateness of the management's assumptions used in the valuation model; • Involved internal valuation experts to assist in evaluating the reasonableness of assumptions and parameters, including the discount rates, terminal growth rates and etc., used in the valuation model; • Evaluated the assumptions and parameters used by retrospectively reviewing the accuracy of management's forecasts made historically, reviewing the forecasted future economic trend and corroborating the assumptions with current market trend; and • Reviewed the sufficiency and completeness of disclosure included in the footnotes to the financial statements.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
<p>Trade receivables were RMB46,303,713,000 as at 31 December 2017 in the consolidated financial statements, which are significant to the total assets of the Group. Trade receivables relating to sales of new energy automobiles are long aged or with a relatively long credit period. The settlement of trade receivables due from government arising from subsidies on sales of new energy automobiles highly depends on government payment schedule and related policies.</p> <p>The assessment of the recoverability of trade receivables involves significant estimations including the aging, existence of disputes, historical payment record and any other available information that may impact the creditworthiness of the debtors.</p> <p>Details of trade receivables are disclosed in notes 2.4, 3 and 24 to the consolidated financial statements.</p>	<p>We performed the following procedures, among others, in related to trade receivables:</p> <ul style="list-style-type: none"> • Obtained an understanding of the management's process of recoverability assessment in respect of trade receivables and its design and operating effectiveness; • Obtained confirmations and reviewed whether the balances were agreed by both parties; • Tested the information used to determine the impairment of trade receivables by reviewing the calculation of aging, industry index, customers' financial condition, historic payment patterns, subsequent settlement and retrospectively reviewing of historical bad debts provision; and • For the trade receivables due from government arising from subsidies on sales of new energy automobiles, we re-performed the computation of trade receivables arising from subsidies in accordance with government policies, obtained the list of long-aged trade receivables arising from subsidies and evaluated the recoverability, obtained the management's estimation over the government's settlement schedule of such subsidy.

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Independent Auditor's Report

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report

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

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

Ernst & Young
Certified Public Accountants

Hong Kong

27 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
REVENUE	5	102,650,614	100,207,703
Cost of sales		(84,715,540)	(81,189,440)
Gross profit		17,935,074	19,018,263
Other income and gains	5	1,153,210	926,216
Government grants and subsidies	7	1,275,807	710,939
Selling and distribution expenses		(4,925,288)	(4,196,339)
Research and development costs	6	(3,739,491)	(3,171,694)
Administrative expenses		(3,047,734)	(3,690,339)
Other expenses		(463,645)	(629,203)
Finance costs	8	(2,342,770)	(1,799,609)
Share of profits and losses of:			
Joint ventures		(270,959)	(619,528)
Associates		46,437	19,704
PROFIT BEFORE TAX	6	5,620,641	6,568,410
Income tax expense	11	(703,705)	(1,088,398)
PROFIT FOR THE YEAR		4,916,936	5,480,012
Attributable to:			
Owners of the parent	13	4,066,478	5,052,154
Non-controlling interests		850,458	427,858
		4,916,936	5,480,012
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted			
– For profit for the year		RMB1.40	RMB1.88

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

<i>Note</i>	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	4,916,936	5,480,012
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	376,168	170,171
Income tax effect	(94,042)	(42,542)
	282,126	127,629
Exchange differences on translation of foreign operations	30,940	45,684
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	313,066	173,313
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	313,066	173,313
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	5,230,002	5,653,325
Attributable to:		
Owners of the parent	4,376,910	5,183,038
Non-controlling interests	853,092	470,287
	5,230,002	5,653,325

Consolidated Statement of Financial Position

31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	47,830,718	42,048,635
Investment properties	15	66,707	–
Prepaid land lease payments	16	5,844,857	5,182,739
Goodwill	17	65,914	65,914
Other intangible assets	18	8,217,623	6,759,111
Non-current prepayments	25	3,372,240	4,567,407
Long-term receivables	26	1,049,938	253,668
Investments in joint ventures	19	2,442,867	1,751,159
Investments in associates	20	622,044	493,599
Available-for-sale investments	21	4,185,460	3,225,238
Deferred tax assets	34	1,580,032	1,448,262
Property under development	22	–	921,243
Total non-current assets		75,278,400	66,716,975
CURRENT ASSETS			
Inventories	23	19,872,804	17,378,439
Trade and bills receivables	24	53,276,716	45,732,885
Prepayments, deposits and other receivables	25	6,211,017	4,635,440
Due from the joint ventures and associates	42(c)	6,609,997	2,879,284
Due from the related parties	42(c)	256,941	249
Completed property held for sale	22	6,689,770	33,840
Derivative financial instruments	30	1,095	–
Pledged deposits	27	323,249	335,072
Restricted bank deposits	27	643,487	–
Short-term deposits	27	–	247,360
Cash and cash equivalents	27	8,935,954	7,111,234
Total current assets		102,821,030	78,353,803
CURRENT LIABILITIES			
Trade and bills payables	28	39,527,332	34,663,130
Other payables	29	11,942,702	5,929,004
Derivative financial instruments	30	119,261	–
Advances from customers		4,700,280	1,850,792
Deferred income	31	512,900	419,268
Interest-bearing bank and other borrowings	32	45,648,670	32,928,441
Due to joint ventures and associates	42(c)	615,659	463,856
Due to related parties	42(c)	130,608	116,624
Tax payable		328,013	653,823
Provision	33	1,471,511	1,292,666
Total current liabilities		104,996,936	78,317,604
NET CURRENT (LIABILITIES)/ASSETS		(2,175,906)	36,199

continued/...

Consolidated Statement of Financial Position

31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		73,102,494	66,753,174
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	10,862,346	9,338,520
Deferred tax liabilities	34	610,005	549,903
Deferred income	31	1,672,402	1,454,710
Other liabilities		254	678
Total non-current liabilities		13,145,007	11,343,811
Net assets		59,957,487	55,409,363
EQUITY			
Equity attributable to owners of the parent			
Share capital	35	2,728,143	2,728,143
Reserves	36	48,380,251	44,731,986
Perpetual loans	37	3,895,800	3,795,800
		55,004,194	51,255,929
Non-controlling interests		4,953,293	4,153,434
Total equity		59,957,487	55,409,363

Director
Wang Chuan-fu

Director
Lv Xiang-yang

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent								Non-controlling interests	Total equity
	Share capital	Share premium account	Capital reserve	Statutory surplus reserve fund	Exchange fluctuation reserve	Retained profits	Perpetual loans	Total		
	RMB'000 (note 35)	RMB'000	RMB'000	RMB'000 (note 35)	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2016	2,476,000	5,863,563*	5,431,701*	2,384,751*	(164,455)*	13,102,844*	3,200,000	32,294,404	3,734,837	36,029,241
Profit for the year	–	–	–	–	–	5,052,154	–	5,052,154	427,858	5,480,012
Other comprehensive income for the year:										
Change in fair value of available-for-sale investments, net of tax	–	–	127,629	–	–	–	–	127,629	–	127,629
Exchange differences on translation of foreign operations	–	–	–	–	3,255	–	–	3,255	42,429	45,684
Total comprehensive income for the year	–	–	127,629	–	3,255	5,052,154	–	5,183,038	470,287	5,653,325
Issue of shares (note 35)	252,143	14,220,857	–	–	–	–	–	14,473,000	–	14,473,000
Share issue expenses	–	(103,930)	–	–	–	–	–	(103,930)	–	(103,930)
Issue of a perpetual loan (note 37)	–	–	–	–	–	–	595,800	595,800	–	595,800
Perpetual loan interest paid (note 12)	–	–	–	–	–	(185,155)	–	(185,155)	–	(185,155)
Interim 2016 dividend	–	–	–	–	–	(1,001,228)	–	(1,001,228)	(51,690)	(1,052,918)
Government subsidies designated to increase the capital reserve	–	–	43,033	–	–	(43,033)	–	–	–	–
Appropriation to statutory surplus reserve fund	–	–	–	688,622	–	(688,622)	–	–	–	–
At 31 December 2016	2,728,143	19,980,490*	5,602,363*	3,073,373*	(161,200)*	16,236,960*	3,795,800	51,255,929	4,153,434	55,409,363

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Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Attributable to owners of the parent								Non-controlling interests	Total equity
	Share capital	Share premium account	Capital reserve	Statutory surplus reserve fund	Exchange fluctuation reserve	Retained profits	Perpetual loans	Total		
	RMB'000 (note 35)	RMB'000	RMB'000	RMB'000 (note 35)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	2,728,143	19,980,490*	5,602,363*	3,073,373*	(161,200)*	16,236,960*	3,795,800	51,255,929	4,153,434	55,409,363
Profit for the year	-	-	-	-	-	4,066,478	-	4,066,478	850,458	4,916,936
Other comprehensive income for the year:										
Change in fair value of available-for-sale investments, net of tax	-	-	282,126	-	-	-	-	282,126	-	282,126
Exchange differences on translation of foreign operations	-	-	-	-	28,306	-	-	28,306	2,634	30,940
Total comprehensive income for the year	-	-	282,126	-	28,306	4,066,478	-	4,376,910	852,092	5,230,002
Issue of shares (note 35)	-	-	-	-	-	-	-	-	-	-
Issue of a perpetual loan (note 37)	-	-	-	-	-	-	3,300,000	3,300,000	-	3,300,000
Repay of a perpetual loan (note 37)	-	-	-	-	-	-	(3,200,000)	(3,200,000)	-	(3,200,000)
Perpetual loan interest paid (note 12)	-	-	-	-	-	(243,036)	-	(243,036)	-	(243,036)
Final 2016 dividend declared	-	-	-	-	-	(485,609)	-	(485,609)	(53,233)	(538,842)
Government subsidies designated to increase the capital reserve	-	-	2,480	-	-	(2,480)	-	-	-	-
Appropriation to statutory surplus reserve fund	-	-	-	337,589	-	(337,589)	-	-	-	-
At 31 December 2017	2,728,143	19,980,490*	5,886,969*	3,410,962*	(132,894)*	19,234,724*	3,895,800	55,004,194	4,953,293	59,957,487

* These reserve accounts comprise the consolidated reserves of RMB48,380,251,000 (2016: RMB44,731,986,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,620,641	6,568,410
Adjustments for:			
Finance costs	8	2,342,770	1,799,609
Share of profits and losses of joint ventures and associates		224,522	599,824
Bank interest income	5	(95,783)	(152,701)
Dividend income from available-for-sale investments	5	(17,532)	(5,254)
Government grants and subsidies		(244,728)	(204,899)
Loss on disposal of items of non-current assets	6	55,150	136,717
Loss on disposal of subsidiaries	6	3,068	158,341
Fair value losses (gains), net:			
Available-for-sale investments (transfer from equity on disposal)		–	18,207
Derivative financial instruments		118,166	(26,068)
Loss on disposal of finance products		(3,966)	(1,376)
(Gain)/loss on disposal of investments in a jointly-controlled entity		(39)	560
Depreciation	14	5,759,409	5,308,825
Impairment of inventories	6	232,250	357,036
Impairment of trade receivables		88,203	124,083
Impairment losses of trade receivables reversed	24	(76,563)	(86,108)
Impairment losses of prepayments, deposits and other receivables reversed	6	(6,304)	(157)
Impairment of other intangible assets	18	–	169,854
Impairment of investments in associates		–	1,023
Impairment of available-for-sale investments	21	5,000	–
Recognition of prepaid land lease payments	16	129,400	110,769
Amortisation of other intangible assets	18	1,203,686	1,607,975
		15,337,350	16,484,670
Increase in inventories		(2,726,616)	(1,984,925)
Increase in trade and bills receivables		(7,555,578)	(19,086,431)
Increase in prepayments, deposits and other receivables		(706,960)	(75,817)
Increase in amounts due from joint ventures and associates		(3,987,405)	(740,342)
Increase in a long-term receivable		(796,270)	(187,895)
Decrease/(increase) in properties under development		907,810	(8,608)
Increase/(decrease) in advances from customers		2,849,488	(587,217)
(Increase)/decrease in a completed property held for sale		(6,676,198)	22,198
Increase in trade and bills payables		4,192,952	3,734,088
Increase in other payables		6,022,087	936,625
Increase in accruals and deferred income		284,976	301,147
Increase in non-current prepayment		(61,785)	–
Increase in amounts due to joint ventures and associates		203,229	70,428
Increase/(decrease) in amounts due to related parties		13,984	(238,301)
Increase in provision for warranties		178,845	514,089
Cash generated from/(used in) operations		7,479,909	(846,291)
Interest received		95,783	152,701
Taxes paid		(1,207,805)	(1,151,981)
Net cash flows from/(used in) operating activities		6,367,887	(1,845,571)

Continued/...

Consolidated Statement of Cash Flows

Year ended 31 December 2017

<i>Notes</i>	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(7,436,202)	(4,839,296)
Increase in non-current prepayments	(3,917,342)	(6,193,790)
Increase in prepaid land lease payments	(814,483)	(643,086)
Investment in short-term deposits	–	(252,681)
Withdrawal of short-term deposits	247,360	273,921
Receipt of government grants	166,211	75,993
Disposal of a subsidiary	–	9,971
Disposal of a jointly-controlled entity	–	420
Disposal of associates	800	5,700
Additions to other intangible assets	(2,625,034)	(1,377,278)
Receipt of disposal of derivative financial instruments	–	26,068
Dividend received from available-for-sale investments, jointly-controlled entities and associate	36,900	5,254
Proceeds from disposal of items of property, plant and equipment and other intangibles assets	213,815	196,641
Withdraw of available-for-sale investments	13,907	16,290
Decrease in financial products	3,966	201,376
Capital contributions to associates	(201,260)	(14,012)
Capital contributions to joint ventures	(808,760)	(912,893)
Purchases of available-for-sale investments	(596,602)	–
Net cash flows used in investing activities	(15,716,724)	(13,421,402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of perpetual loans	3,300,000	595,800
Repayment of perpetual loans	(3,200,000)	–
Proceeds from issue of corporate bonds	4,500,000	–
Corporate bond issue expenses	(8,632)	–
Proceeds from issue of shares	–	14,473,000
Shares issue expenses	–	(103,930)
New borrowings	46,032,851	31,223,339
Repayment of borrowings	(36,249,367)	(26,691,182)
Interest paid	(2,419,438)	(1,970,560)
Perpetual loan interests distributed	(243,036)	(185,155)
Dividends paid to non-controlling shareholders	(53,233)	(51,690)
Dividends paid to owners of the parent	(485,609)	(1,001,228)
Increase in pledged deposits	(5,712)	(18,177)
Net cash flows from financing activities	11,167,824	16,270,217
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,818,987	1,003,244
Cash and cash equivalents at beginning of year	7,111,234	6,010,931
Effect of foreign exchange rate changes, net	5,733	97,059
CASH AND CASH EQUIVALENTS AT END OF YEAR	8,935,954	7,111,234

Notes to Financial Statements

31 December 2017

1. Corporate and Group information

BYD Company Limited (the “Company”) is a joint stock limited liability company registered in the People’s Republic of China (the “PRC”). The Company’s H shares have been listed on The Stock Exchange of Hong Kong Limited since 31 July 2002. The registered office of the Company is located at Yan An Road, Kuichong, Dapeng District, Shenzhen, Guangdong Province, the PRC.

The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are the research, development, manufacture and sale of rechargeable batteries and photovoltaic business, automobiles and related products, handset components and other electronic products, rail transit equipment.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BYD Lithium Batteries Co., Ltd. (“BYD Li-ion”) **	PRC/ Mainland China	RMB6,160,000,000	100%	–	Research, development, sale and manufacture of Li-ion batteries
Shanghai BYD Co., Ltd. (“BYD SH”) ***	PRC/ Mainland China	US\$63,500,000	75%	25%	Research, development, sale and manufacture of Li-ion batteries, Solar batteries and Solar arrays
BYD Auto Co., Ltd. (“BYD Auto”) ***	PRC/ Mainland China	RMB1,351,010,101	99%	–	Research, development, sale and manufacture of automobiles
BYD Precision Manufacture Co., Ltd. (“BYD Precision”) **** ^	PRC/ Mainland China	US\$145,000,000	–	65.76%	Manufacture, assembly and sale of mobile handset components and modules
BYD (Huizhou) Co., Ltd. (“BYD HZ”) ***	PRC/ Mainland China	US\$150,000,000	55%	45%	Research, development, manufacture and sale of components of mobile handsets and other consumer electronics; development, sale and leasing of residential properties and property management (provided only to employees of the Company)
Huizhou BYD Battery Co., Ltd. (“BYD HZ Battery”) ***	PRC/ Mainland China	US\$150,000,000	10%	90%	Research, development, sale and manufacture of Li-ion batteries and accessories
BYD Auto Industry Co., Ltd. (“BYD Auto Industry”) ***	PRC/ Mainland China	US\$1,207,654,387	89.57%	10.00%	Research, development, sale and manufacture of automobiles and light rail transit equipment
BYD Electronic (International) Co., Ltd. (“BYD Int’l”) *	Hong Kong	HK\$440,000,000	–	65.76%	Investment holding

Notes to Financial Statements

31 December 2017

1. Corporate and Group information (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Huizhou BYD Electronic Co., Ltd. ("Huizhou Electronic")****^	PRC/ Mainland China	US\$110,000,000	–	65.76%	High-level assembly
Xi'an BYD Electronic Co., Ltd. ("Xi'an Electronic")****^	PRC/ Mainland China	RMB100,000,000	–	65.76%	Manufacture and sale of mobile handset components
BYD (Wuhan) Electronic Co., Ltd. ("Wuhan Electronic")****^	PRC/ Mainland China	RMB10,000,000	–	65.76%	Manufacture and sale of mobile handset components
BYD Auto Sales Co., Ltd. ("BYD Auto Sales")**	PRC/ Mainland China	RMB 1,050,000,000	4.29%	94.76%	Sale and distribution of automobiles; provision of related after-sales services
Changsha BYD Auto Co., Ltd. ("Changsha Auto")**	PRC/Mainland China	RMB 1,000,000,000	–	99.88%	Research and development of automobiles and components
BYD (Shangluo) Industrial Company Limited ("Shangluo BYD")***	PRC/Mainland China	RMB 2,600,000,000	38.5%	60.92%	Research, development, manufacture and sale of solar batteries and solar arrays

* BYD Int'l is a subsidiary incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited.

** These subsidiaries are registered as limited liability companies under PRC law.

*** These subsidiaries are registered as Sino-foreign joint ventures under PRC law.

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

^ These subsidiaries were wholly owned by BYD Int'l, one of the Company's subsidiaries.

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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investment and derivative financial instruments, which has 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.

Despite the Group's net current liabilities of approximately RMB2,175,906,000 as at 31 December 2017, the consolidated financial statements have been prepared on a going concern basis as it is the directors' opinion that the Group has sufficient cash flows and credit facilities in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due.

Notes to Financial Statements

31 December 2017

2.1 Basis of preparation (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. 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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 39(b) to the financial statements.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Notes to Financial Statements

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2.2 Changes in accounting policies and disclosures (continued)

- (c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as there is no Group's subsidiary classified as a disposal group held for sale as at 31 December 2017 and so no additional information is required to be disclosed.

2.3 Issued but not yet effective Hong Kong financial reporting standards

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
Amendments to HKAS 40	<i>Transfers of Investment Property¹</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments²</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to HKFRS 1 and HKAS 28¹</i>
Annual Improvements 2015-2017 Cycle	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23²</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

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:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets except:

- the Group's equity investments currently classified as available-for-sale investments will be reclassified to financial assets at fair value through profit or loss or other comprehensive income;
- the financial assets which are not held to collect contractual cash flows will be reclassified as financial assets at fair value through other comprehensive income.

Certain of equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

Notes to Financial Statements

31 December 2017

2.3 Issued but not yet effective Hong Kong financial reporting standards (continued)

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables and other debt instruments within the next twelve months. Based on the assessments undertaken to date, the Group does not expect a material change of the loss allowance for the Group's receivables and other debt investments.

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 15, issued in July 2014, 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 standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies, and presentation and disclosures as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

The Group's principal activities consist of:

- the manufacture and sale of automobiles and auto-related moulds and components and automobiles leasing and after sales service;
- the manufacture and sale of mobile handset components and the provision of assembly services;
- the manufacture and sale of lithium-ion batteries and nickel batteries, photovoltaic products and iron batteries products.

Notes to Financial Statements

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2.3 Issued but not yet effective Hong Kong financial reporting standards (continued)

The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 11 and HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation.

In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 16, issued in May 2016, 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 expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 40 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB781,185,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

31 December 2017

2.3 Issued but not yet effective Hong Kong financial reporting standards (continued)

HK(IFRIC)-Int 22, issued in June 2017, 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. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Investments in associates and joint ventures (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

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

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, a completed property held-for-sale, financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person,
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation (continued)

Except for moulds, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives and residual value are as follows:

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

The unit of production method is used to write off the cost of moulds.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress representing property and plant under construction is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including transaction costs, less any depreciation and any losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.9% to 9.5%
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Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses. The development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, except for those of new energy vehicles which are amortised using the unit of production method, commencing from the date when the products are put into commercial production.

Industrial proprietary rights

Industrial proprietary rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five to ten years.

Know-how

Know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

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

Sale and leaseback

When a sale and leaseback transaction results in a finance lease, the transaction in substance is a loan whereby the lessor provides finance to the lessee, with the asset as security. The previous carrying value of the asset is left unchanged, with the sales proceeds being shown as a liability. The creditor balance is recorded as other borrowings on the consolidated statement of financial position.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets

Initial recognition and measurement

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced or through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

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

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

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

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

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Financial liabilities and equity instruments

Initial recognition and measurement

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received net of direct issue costs.

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

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

The Group's financial liabilities include trade and other payables, and interest-bearing bank and other borrowings, and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Those derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Cost of moulds is determined at the actual cost incurred in the production process. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Short-term deposits

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Government grants

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

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

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

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” below;
- (c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services” below;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (f) dividend income, when the shareholders’ right to receive payment has been established; and
- (g) subcontracting income and assembly service income, when the relevant services have been rendered.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Employee benefits

Employees' leave entitlements

Employees' entitlements to annual leave and long service leave are recognised when they accrue to employees.

Employees' entitlements to sick leave and maternity leave are not recognised until the time of leave.

Medical benefits

The Group's contributions to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC are expensed as incurred.

Pension scheme – Mainland China

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

Pension scheme – outside Mainland China

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

Housing fund – Mainland China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 4.21% and 4.62% has been applied to the expenditure on the individual assets.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Notes to Financial Statements

31 December 2017

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Lease classification

The Group has entered into contractual operating contracts on certain land and buildings. As a lessee, the Group has determined, based on evaluation of terms and conditions of the agreements, as all the rewards and risks of ownership of these assets have not been transferred to the Group, they are accounted for as operating leases.

In 2013, the Group has entered into a sale and leaseback agreement as a lessee with a third party lease company regarding certain machinery and equipment (the "Assets"). The fair value of the Assets was determined using the replacement cost approach. The Group compares the fair value of the Assets with the present value of minimum lease payments and considers whether it is reasonably certain that the option to purchase the Assets will be exercised at the inception of the lease, as well as other terms and conditions of the sale and leaseback agreement, to determine the classification of the lease.

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3. Significant accounting judgements and estimates (continued)

Judgements (continued)

Deferred tax on withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries levied in the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividends. Further details are included in note 34 to the financial statements.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB65,914,000 (2016: RMB65,914,000). Further details are given in note 17 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Depreciation and amortisation

The Group calculates the depreciation of items of property, plant and equipment and amortisation of intangible assets on the straight-line basis over their estimated useful lives or on the unit of production basis and after taking into account their estimated residual value, estimated useful lives or estimated total production quantities, commencing from the date the items of property, plant and equipment and intangible assets are placed into use. The estimated useful lives or the total production quantities reflect the directors' estimate of the period that the Group intends to derive future economic benefits from the use of the Group's items of property, plant and equipment or intangible assets.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was RMB200,749,000 (2016: RMB49,347,000). The amount of unrecognised tax losses at 31 December 2017 was RMB1,585,833,000 (2016: RMB1,264,499,000). Further details are contained in note 34 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2017, the best estimate of the carrying amount of capitalised development costs was RMB7,963,163,000 (2016: RMB6,561,350,000). Further details are contained in note 18 to the financial statements.

Notes to Financial Statements

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3. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Warranty provisions

Provisions for product warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Management reviews and adjusts the provision to recognise the best estimate at the end of the each reporting period. Further details are contained in note 33 to the financial statements.

Allowance for doubtful receivables

Management makes provision for doubtful accounts by determining whether there is any objective evidence affecting collectability, like the insolvency of the debtor or the possibility of serious financial difficulties. Management re-estimates the allowance for doubtful receivables at the end of each reporting period.

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

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

4. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the rechargeable batteries and photovoltaic business segment comprises the manufacture and sale of lithium-ion batteries and nickel batteries, photovoltaic products and iron batteries products (including energy storage stations and iron battery pack), principally for mobile phones, electric tools and other portable electronic instruments, photovoltaic products, energy storage products and electric vehicles;
- (b) the mobile handset components and assembly service segment comprises the manufacture and sale of mobile handset components such as housings, keypads and the provision of assembly services;
- (c) the automobiles and related products segment comprises the manufacture and sale of automobiles, auto-related moulds and components, automobiles leasing, after sales service, also including "Skyrail" related business;

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance costs, interest income, government grants and subsidies, as well as head office and corporate expenses and gains are excluded from such measurement.

Segment assets exclude deferred tax assets, goodwill, available-for-sale investments, derivative financial instruments, investment properties and other unallocated head office and corporate assets, as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payable, interest-bearing bank and other borrowings, derivative financial instruments, interest payable, dividend payable, other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Transfer pricing in operating segment is determined with reference to the agreed price among operation segments.

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4. Operating segment information (continued)

Year ended 31 December 2017	Rechargeable batteries and photovoltaic business RMB'000	Mobile handset components and assembly service RMB'000	Automobiles and related products RMB'000	Corporate and others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	8,442,131	39,707,908	54,500,575	–	102,650,614
Intersegment sales	9,358,166	1,118,762	1,191,317	–	11,668,245
Others including other gross income from sales of properties and raw materials and disposal of scrap materials	270,890	595,945	1,018,385	49,391	1,934,611
Taxes and surcharges	53,600	169,367	1,105,381	1,129	1,329,477
	18,124,787	41,591,982	57,815,658	50,520	117,582,947
Reconciliation:					
Elimination of intersegment sales					(11,668,245)
Elimination of other gross income					(1,934,611)
Elimination of taxes and surcharges					(1,329,477)
Revenue – sales to external customers					102,650,614
Segment results	1,152,553	3,141,410	3,479,743	6,136	7,779,842
Reconciliation:					
Elimination of intersegment results					(366,788)
Interest income					95,783
Dividend income and unallocated gains					1,427,874
Corporate and other unallocated expenses					(973,300)
Finance costs					(2,342,770)
Profit before tax					5,620,641

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31 December 2017

4. Operating segment information (continued)

Year ended 31 December 2017	Rechargeable batteries and photovoltaic business RMB'000	Mobile handset components and assembly service RMB'000	Automobiles and related products RMB'000	Corporate and others RMB'000	Total RMB'000
Segment assets	24,913,277	28,681,229	109,140,422	–	162,734,928
Reconciliation:					
Elimination of intersegment receivables					(1,703,533)
Elimination unrealised profit of intersegment sales					(526,943)
Corporate and other unallocated assets					17,594,978
Total assets					178,099,430
Segment liabilities	9,292,776	14,310,370	31,325,151	–	54,928,297
Reconciliation:					
Elimination of intersegment payables					(1,703,533)
Corporate and other unallocated liabilities					64,917,179
Total liabilities					118,141,943
Other segment information:					
Share of (profits)/losses of:					
Joint ventures	(2,711)	–	273,670	–	270,959
Associates	(18,889)	–	(27,548)	–	(46,437)
Impairment losses recognised in the statement of profit or loss	115,636	74,409	52,541	–	242,586
Depreciation and amortisation	1,380,967	1,962,996	3,748,532	–	7,092,495
Investments in joint ventures	284,694	–	2,158,173	–	2,442,867
Investments in associates	394,660	–	227,384	–	622,044
Capital expenditure	1,874,120	2,909,978	9,407,850	–	14,191,948

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4. Operating segment information (continued)

Year ended 31 December 2016	Rechargeable batteries and photovoltaic business RMB'000	Mobile handset components and assembly service RMB'000	Automobiles and related products RMB'000	Corporate and others RMB'000	Total RMB'000
Segment revenue					
Sales to external customers	7,103,045	38,082,566	55,022,092	–	100,207,703
Intersegment sales	10,764,415	983,803	806,285	–	12,554,503
Others including other gross income from sales of properties and raw materials and disposal of scrap materials	179,472	842,514	707,719	20,873	1,750,578
Taxes and surcharges	61,374	169,010	1,280,537	796	1,511,717
	18,108,306	40,077,893	57,816,633	21,669	116,024,501
Reconciliation:					
Elimination of intersegment sales					(12,554,503)
Elimination of other gross income					(1,750,578)
Elimination of taxes and surcharges					(1,511,717)
Revenue – sales to external customers					100,207,703
Segment results	1,287,817	1,745,929	6,074,412	1,315	9,109,473
Reconciliation:					
Elimination of intersegment results					(363,009)
Interest income					152,701
Dividend income and unallocated gains					100,094
Corporate and other unallocated expenses					(631,240)
Finance costs					(1,799,609)
Profit before tax					6,568,410
Segment assets	20,048,615	25,981,418	92,021,966	–	138,051,999
Reconciliation:					
Elimination of intersegment receivables					(1,326,293)
Elimination unrealised profit of intersegment sales					(1,445,102)
Corporate and other unallocated assets					9,790,174
Total assets					145,070,778
Segment liabilities	6,841,527	12,525,256	27,828,626	–	47,195,409
Reconciliation:					
Elimination of intersegment payables					(1,326,293)
Corporate and other unallocated liabilities					43,792,299
Total liabilities					89,661,415

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4. Operating segment information (continued)

Year ended 31 December 2016	Rechargeable batteries and photovoltaic business RMB'000	Mobile handset components and assembly service RMB'000	Automobiles and related products RMB'000	Corporate and others RMB'000	Total RMB'000
Other segment information:					
Share of (profits)/losses of:					
Joint ventures	(20)	–	619,548	–	619,528
Associates	(7,608)	–	(12,096)	–	(19,704)
Impairment losses recognised in the statement of profit or loss					
Depreciation and amortisation	174,109	155,879	235,743	–	565,731
Investments in joint ventures	950,967	2,062,095	4,014,507	–	7,027,569
Investments in associates	11,020	–	1,740,139	–	1,751,159
Capital expenditure	282,087	–	211,512	–	493,599
	2,749,552	1,776,520	7,858,327		12,384,399

Geographical information

(a) Revenue from external customers

	2017 RMB'000	2016 RMB'000
PRC (including Hong Kong, Macau and Taiwan)	89,238,458	92,502,263
Asia Pacific (excluding PRC)	8,488,581	2,870,297
United States of America	1,679,304	2,717,577
Others	3,244,271	2,117,566
	102,650,614	100,207,703

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

(b) Non-current assets

	2017 RMB'000	2016 RMB'000
PRC (including Hong Kong, Macau and Taiwan)	67,496,720	60,947,437
United States of America	410,073	380,344
Others	490,263	396,112
	68,397,056	61,723,893

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

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4. Operating segment information (continued)

Information about a major customer

Revenue of approximately RMB13,825,218,000 (2016: RMB15,329,793,000) was derived from sales made by the mobile handset components and assembly service segment and by the rechargeable batteries and photovoltaic products segment to a single customer and a group of entities which are under common control with that customer.

5. Revenue, other income and gains

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of assembly services rendered.

An analysis of revenue, other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of goods	81,310,748	78,107,416
Assembly service income	21,244,101	22,074,520
Others	95,765	25,767
	102,650,614	100,207,703
Other income and gains		
Bank interest income	95,783	152,701
Foreign exchange gain, net	–	222,280
Gross rental income	53,418	37,615
Gross service income	182,388	72,899
Gain on disposal of scrap and materials	522,255	280,981
Penalty from suppliers	112,115	76,352
Gain on sales of properties	6,136	1,315
Dividend income from available-for-sale investment	17,532	5,254
Fair value gains, net:		
Derivative financial instruments	–	26,068
Others	163,583	50,751
	1,153,210	926,216

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6. Profit before tax

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		63,473,140	58,933,535
Cost of services provided		21,010,150	21,898,869
Depreciation	14	5,759,409	5,308,825
Impairment of other intangible assets*	18	—	169,854
Amortisation of other intangible assets other than development costs***	18	78,672	60,765
Research and development costs:			
Deferred expenditure amortised	18	1,125,014	1,547,210
Current year expenditure		3,739,491	3,171,694
		4,864,505	4,718,904
Minimum lease payments under operating leases		604,099	472,679
Auditors' remuneration		7,150	7,000
Employee benefit expense (excluding directors', supervisors' and senior executive officers' remuneration (note 42 (d)):			
Wages and salaries		14,644,554	13,694,734
Welfare		116,217	122,156
Pension scheme contributions		1,130,736	948,991
		15,891,507	14,765,881
Recognition of prepaid lease payments	16	129,400	110,769
Loss on disposal of items of non-current assets		55,150	136,717
Foreign exchange differences, net****		207,978	(222,280)
Impairment of trade receivables*		88,203	124,083
Impairment of other receivables*		—	—
Impairment losses of trade receivables reversed*	24	(76,563)	(86,108)
Impairment losses of prepayments, deposits and other receivables reversed*		(6,304)	(157)
Impairment of investments in joint ventures and associates*		—	1,023
Impairment of inventories**		232,250	357,036
Loss on disposal of subsidiaries*		3,068	158,341
Impairment losses of available-for-sale investments*	21	5,000	—
Fair value losses, net:			
Derivative instruments*	30	118,166	18,207
Additional product warranty provision	33	918,088	1,113,091

* The impairment of trade receivables, impairment of other receivables, impairment losses of trade receivables reversed, impairment losses of prepayments, deposits and other receivables reversed, loss on disposal of a subsidiary, impairment of other intangible assets and impairment of investments in joint ventures and associates and impairment losses of available-for-sale investments and derivative instruments for the year are included in "Other expenses" in the consolidated statement of profit or loss.

** The impairment of inventories for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

*** The amortisation of other intangible assets other than development costs for the year is included in "Administrative expenses" in the consolidated statement of profit or loss.

**** The foreign exchange differences is included in "other expenses" or "other income and gains" in the consolidated statement of profit or loss for the current year and the prior year respectively.

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7. Government grants and subsidies

	2017 RMB'000	2016 RMB'000
Related to assets		
Subsidies on research and development activities for automobiles and related products (note (a))	–	13,045
Subsidies on industry development fund for Changsha Automobile Zone (note (b))	73,055	79,780
Subsidies on research and development for batteries of electronic vehicle (note (c))	41,113	22,887
Others	130,560	89,187
Related to income		
Subsidies on research and development activities for automobiles and related products (notes (d)&(e))	290,356	264,326
Subsidies on employee stability (note (f))	51,146	32,065
Subsidies on tax refund	–	33,437
Others	689,577	176,212
	1,275,807	710,939

Notes:

- (a) In 2008, BYD Auto Industry Co., Ltd. ("BYD Auto Industry"), a subsidiary of the Company, received government grants with an aggregate amount of RMB864,647,000 which were provided by the local government to support automotive research and development activities. The government grants did not specify any repayment terms or other conditions that are required to be met. The amount had been recognised as deferred income when received from the government, and would be recognised as government grant income year by year according to the depreciation of relevant assets. These related assets had been fully recognised in 2016, thus the amount recognised in the statement of profit or loss for the year ended 31 December 2017 was nil (2016: RMB13,045,000).
- (b) In 2010 and 2012, Changsha BYD Auto Co., Ltd. ("Changsha Auto"), a subsidiary of the Company, received government grants with an aggregate amount of RMB874,184,000 which were provided by the Changsha Yuhua District Development Zone Committee (長沙雨花經濟開發區管理委員會) to support the industry development for the Changsha Automobile Zone. The amount recognised in the statement of profit or loss for the year ended 31 December 2017 was RMB73,055,000 (2016: RMB79,780,000).
- (c) In 2014 and 2015, BYD Lithium Batteries Co., Ltd., a subsidiary of the Company, received government grants with an aggregate amount of RMB205,000,000 from the National Development and Reform Commission (發改委) and the Ministry of Industry and Information Technology of PRC (工信部) for research and development for batteries of electronic vehicles (鐵動力鋰離子項目). The amount recognised in the statement of profit or loss for the year ended 31 December 2017 was RMB41,113,000 (2016: RMB22,887,000).
- (d) Changsha Auto, a subsidiary of the Company, received government grants from the Changsha Yuhua District Development Zone Committee (長沙雨花經濟開發區管理委員會) to support automotive research and development activities. For the year ended 31 December 2017, RMB100,051,000 was recognised as government grant income (2016: RMB213,950,000).
- (e) In 2016, BYD (Shanwei) Industrial Co., Ltd., a subsidiary of the Company, received government grants with an amount of RMB150,000,000 from local government to support research and development activities in that area. Since related research expenditure has incurred, RMB135,305,000 has been recognised as government grant income for the year ended 31 December 2017 (2016: Nil).
- (f) In 2017, the BYD group received government grants with an aggregate amount of RMB51,146,000 as subsidies on employee stability. Since related expenditure has incurred, RMB51,146,000 has been fully recognised as government grant income for the year ended 31 December 2017 (2016: RMB32,065,000).

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8. Finance costs

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank and other loans	2,265,514	1,820,453
Bank charges for discounted notes	159,357	103,421
	2,424,871	1,923,874
Less: Interest capitalised	82,101	124,265
	2,342,770	1,799,609

The average capitalisation rate for the year used to determine the amount of borrowing costs eligible for capitalisation was 4.38%. (2016: 4.88%).

9. Directors' and supervisors' remuneration

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

	2017 RMB'000	2016 RMB'000
Fees	850	750
Other emoluments:		
Salaries, allowances and benefits in kind	9,927	7,898
Pension scheme contributions	75	76
	10,002	7,974
	10,852	8,724

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9. Directors' and supervisors' remuneration (continued)

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000
Mr. Zhang Ran	170	150
Mr. Wang Zi-dong	170	150
Mr. Zou Fei	170	150
	510	450

There was no other emolument payable to the independent non-executive directors during the year (2016: Nil).

(b) Executive director, non-executive directors and supervisors

2017	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive director:				
Mr. Wang Chuan-fu	–	5,761	24	5,785
Non-executive directors:				
Mr. Lv Xiang-yang	170	–	–	170
Mr. Xia Zuo-quan	170	–	–	170
Supervisors:				
Ms. Yan Chen*	–	1,312	18	1,330
Ms. Wang Zhen	–	2,135	26	2,161
Mr. Dong Jun-qing	–	70	–	70
Mr. Yang Dong-sheng**	–	509	7	516
Mr. Li Yong-zhao	–	70	–	70
Mr. Huang Jiang-feng	–	70	–	70
	340	9,927	75	10,342

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2016: Nil).

* Ms. Yan Chen resigned as the supervisor on 7 September 2017. Her remuneration of 2017 covered the period from January to August.

** Mr. Yang Dong-sheng was appointed as the supervisor on 8 September 2017. His remuneration of 2017 covered the period from September to December.

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9. Directors' and supervisors' remuneration (continued)

(b) Executive director, non-executive directors and supervisors (continued)

2016	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive director:				
Mr. Wang Chuan-fu	–	4,082	24	4,106
Non-executive directors:				
Mr. Lv Xiang-yang	150	–	–	150
Mr. Xia Zuo-quan	150	–	–	150
Supervisors:				
Ms. Yan Chen	–	1,833	26	1,859
Ms. Wang Zhen	–	1,833	26	1,859
Mr. Dong Jun-qing	–	50	–	50
Mr. Li Yong-zhao	–	50	–	50
Mr. Huang Jiang-feng	–	50	–	50
	300	7,898	76	8,274

10. Five highest paid employees

The five highest paid employees during the year included two (2016: Nil) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2016: five) non-director and highest paid employees are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	20,712	28,670
Pension scheme contributions	72	146
	20,784	28,816

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

	Number of employees	
	2017	2016
RMB4,500,001 to RMB5,000,000	–	2
RMB5,000,001 to RMB5,500,000	–	1
RMB5,500,001 to RMB6,000,000	–	–
RMB6,000,001 to RMB6,500,000	1	1
RMB6,500,001 to RMB8,000,000	2	–
RMB8,000,001 to RMB8,500,000	–	1
	3	5

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11. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

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.

Certain subsidiaries operating in Mainland China were approved to be high and new technology enterprises ("HNTE") and were entitled to enjoy a reduced enterprise income tax rate of 15% of the estimated assessable profits for the year. The HNTE certificates need to be renewed every three years so as to enable those subsidiaries to enjoy the reduced tax rate of 15%.

Certain subsidiaries operating in Mainland China are 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 document to the in-charge tax bureau for record every year so as to be entitled to the reduced rate of 15%.

	2017 RMB'000	2016 RMB'000
Current – Hong Kong		
Charge for the year	–	6,364
Current – Mainland China		
Charge for the year	862,098	1,504,305
Current – Elsewhere		
Charge for the year	7,317	6,363
Deferred	(165,710)	(428,634)
Total tax charge for the year	703,705	1,088,398

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:

	2017		2016	
	RMB'000	%	RMB'000	%
Profit before tax	5,620,641		6,568,410	
Tax at the statutory tax rate	1,405,161	25.0	1,642,101	25.0
Lower tax rate for specific provinces or enacted by local authority	(657,465)	(11.7)	(726,057)	(11.0)
Losses attributable to joint ventures and associates	24,670	0.4	93,320	1.4
Expenses not deductible for tax	76,236	1.3	74,897	1.1
Tax losses and deductible temporary differences not recognised	199,653	3.6	316,193	4.8
Tax losses utilised from previous periods	(98,076)	(1.7)	(59,236)	(0.9)
Super-deduction of research and development costs	(246,474)	(4.4)	(252,820)	(3.8)
Tax charge at the Group's effective rate	703,705	12.5	1,088,398	16.6

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12. Perpetual loan interest paid

The interest paid on perpetual loans in 2017 was RMB243,036,000 (2016: RMB185,155,000). The Group's perpetual loans are disclosed in note 37 to the financial statements

13. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent adjusted for interest paid or payable for the perpetual loans, and the weighted average number of ordinary shares of 2,728,142,855 (2016: 2,581,060,000) in issue during this year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2017 and 2016 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:

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent	4,066,478	5,052,154
Interest paid for the perpetual loans for the year	(211,911)	(180,997)
Accumulated unpaid interest attributable to the perpetual loans for the year	(32,138)	(31,125)
Profit used in the basic earnings per share calculation	3,822,429	4,840,032

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year, used in the basic earnings per share calculation	2,728,142,855	2,581,060,000

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14. Property, plant and equipment

Group	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	15,110,077	17,824	38,393,523	823,025	6,487,784	4,565,424	65,397,657
Accumulated depreciation and impairment	(2,225,002)	(11,008)	(17,204,825)	(248,298)	(3,659,889)	–	(23,349,022)
Net carrying amount	12,885,075	6,816	21,188,698	574,727	2,827,895	4,565,424	42,048,635
At 1 January 2017, net of accumulated depreciation and impairment							
At 1 January 2017, net of accumulated depreciation and impairment	12,885,075	6,816	21,188,698	574,727	2,827,895	4,565,424	42,048,635
Additions	199,268	81,504	5,292,765	218,751	1,225,178	4,866,040	11,883,506
Disposals	(4,441)	–	(130,986)	(100,259)	(17,645)	(6,564)	(259,895)
Depreciation provided during the year	(459,365)	(8,457)	(4,433,363)	(148,821)	(709,403)	–	(5,759,409)
Transfer to investment properties	(66,707)	–	–	–	–	–	(66,707)
Transfers	2,398,284	(6,806)	2,996,038	46,104	(521,566)	(4,912,044)	–
Exchange realignment	(5,322)	–	(574)	(9,034)	(482)	–	(15,412)
At 31 December 2017, net of accumulated depreciation and impairment	14,946,792	73,047	24,912,578	581,468	2,803,977	4,512,856	47,830,718
At 31 December 2017:							
Cost	17,625,166	81,504	46,853,779	935,573	6,071,642	4,512,856	76,080,520
Accumulated depreciation and impairment	(2,678,374)	(8,457)	(21,941,201)	(354,105)	(3,267,665)	–	(28,249,802)
Net carrying amount	14,946,792	73,047	24,912,578	581,468	2,803,977	4,512,856	47,830,718

As at 31 December 2017, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB3,878,277,000 (2016: RMB5,008,819,000). In the opinion of the directors, there is no major barrier for the Group to obtain the property ownership certificates.

Notes to Financial Statements

31 December 2017

14. Property, plant and equipment (continued)

As at 31 December 2017, certain items of the Group's land and buildings with a net carrying amount of approximately RMB73,807,000 (2016: RMB79,509,000) were pledged to secure general banking facilities granted to the Group; and certain items of the Group's construction in progress with a net carrying amount of approximately RMB9,210,000 (2016: RMB9,778,000) were pledged to secure general banking facilities granted to the Group (note 32(a)).

As in 2014, the Group entered into sale and leaseback arrangement contracts with third-party leasing companies totalling RMB4,790,000,000, with contract terms ranging from three to five years. The substance of the arrangement is that the lessors provide finance to the Group with the asset as security. The Group continues to account for the assets in its consolidated statement of financial position. The sales proceeds are recorded as other borrowings in the consolidated statement of financial position. As at 31 December 2017, the aggregate book value of the assets is RMB2,107,294,000 and the balance of other borrowings amounted to RMB886,162,000, of which RMB830,344,000 is recorded as a current liability and RMB55,818,000 is recorded as a non-current liability on the Group's consolidated statement of financial position (note 32(i)).

	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	12,949,368	27,622	33,550,787	470,540	5,516,779	5,757,798	58,272,894
Accumulated depreciation and impairment	(1,867,237)	(18,655)	(14,794,269)	(156,521)	(3,309,879)	–	(20,146,561)
Net carrying amount	11,082,131	8,967	18,756,518	314,019	2,206,900	5,757,798	38,126,333
At 1 January 2016, net of accumulated depreciation and impairment							
At 1 January 2016, net of accumulated depreciation and impairment	11,082,131	8,967	18,756,518	314,019	2,206,900	5,757,798	38,126,333
Additions	120,228	2,768	4,456,772	329,562	857,324	3,798,157	9,564,811
Disposals	(18,198)	(449)	(277,687)	(8,214)	(37,903)	(22,364)	(364,815)
Depreciation provided during the year	(372,244)	(4,470)	(4,020,418)	(118,882)	(792,811)	–	(5,308,825)
Transfers	2,054,503	–	2,274,356	46,757	592,551	(4,968,167)	–
Exchange realignment	18,655	–	(843)	11,485	1,834	–	31,131
At 31 December 2016, net of accumulated depreciation and impairment	12,885,075	6,816	21,188,698	574,727	2,827,895	4,565,424	42,048,635
At 31 December 2016:							
Cost	15,110,077	17,824	38,393,523	823,025	6,487,784	4,565,424	65,397,657
Accumulated depreciation and impairment	(2,225,002)	(11,008)	(17,204,825)	(248,298)	(3,659,889)	–	(23,349,022)
Net carrying amount	12,885,075	6,816	21,188,698	574,727	2,827,895	4,565,424	42,048,635

Notes to Financial Statements

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15. Investment properties

	31 December 2017 RMB'000	31 December 2016 RMB'000
Carrying amount at 1 January	–	–
Transfer from property, plant and equipment	66,707	–
Carrying amount at 31 December	66,707	–

16. Prepaid land lease payments

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	5,296,460	4,763,086
Additions	814,483	643,086
Recognised during the year (note 6)	(129,400)	(110,769)
Exchange realignment	(47)	1,057
Carrying amount at 31 December	5,981,496	5,296,460
Current portion included in prepayments, deposits and other receivables	(136,639)	(113,721)
Non-current portion	5,844,857	5,182,739

As at 31 December 2017, the Group was still in the process of obtaining the land use right certificates for certain parcels of leasehold land with a carrying amount of RMB58,634,000 (2016: RMB503,049,000). In the opinion of the directors, there is no major barrier for the Group to obtain the land use right certificates.

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17. Goodwill

	RMB'000
At 1 January 2016:	
Cost	75,585
Accumulated impairment	(9,671)
Net carrying amount	65,914
Cost at 1 January 2016, net of accumulated impairment	65,914
Impairment during the year	–
Cost and net carrying amount at 31 December 2016	65,914
At 31 December 2016:	
Cost	75,585
Accumulated impairment	(9,671)
Net carrying amount	65,914
Cost at 1 January 2017, net of accumulated impairment	65,914
Impairment during the year	–
Cost and net carrying amount at 31 December 2017	65,914
At 31 December 2017:	
Cost	75,585
Accumulated impairment	(9,671)
Net carrying amount	65,914

Notes to Financial Statements

31 December 2017

17. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the automobiles and related products cash-generating unit, which is a reportable segment, for impairment testing:

The recoverable amount of the automobiles and related products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13% (2016: 13%). The growth rate used to extrapolate the cash flows of the automobiles and related products cash-generating unit beyond the five-year period is 3% (2016: 3%), which is less than the long term average growth rate of the automobile industry.

The carrying amount of goodwill allocated to the cash-generating unit is as follows:

	Automobiles and related products	
	2017 RMB'000	2016 RMB'000
Carrying amount of goodwill	65,914	65,914

Assumptions were used in the value in use calculation of the automobiles and related products cash-generating unit for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price index during the budget year.

The values assigned to key assumptions are consistent with external information sources.

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18. Other intangible assets

	Development costs RMB'000	Industrial proprietary rights RMB'000	Know-how RMB'000	Software RMB'000	Total RMB'000
31 December 2017					
Cost at 1 January 2017, net of accumulated amortisation and impairment	6,561,350	1,643	1,985	194,133	6,759,111
Additions – internal development	2,526,828	–	–	–	2,526,828
Additions – acquired	–	–	–	135,599	135,599
Disposal	–	–	(192)	–	(192)
Amortisation provided during the year	(1,125,015)	(780)	(604)	(77,288)	(1,203,687)
Exchange realignment	–	–	–	(36)	(36)
At 31 December 2017	7,963,163	863	1,189	252,408	8,217,623
At 31 December 2017:					
Cost	13,283,674	43,115	3,715	602,330	13,932,834
Accumulated amortisation and impairment	(5,320,511)	(42,252)	(2,526)	(349,922)	(5,715,211)
Net carrying amount at 31 December 2017	7,963,163	863	1,189	252,408	8,217,623
31 December 2016					
Cost at 1 January 2016, net of accumulated amortisation and impairment	6,928,494	3,069	2,710	168,543	7,102,816
Additions – internal development	1,349,920	–	–	–	1,349,920
Additions – acquired	–	107	11	84,077	84,195
Amortisation provided during the year	(1,547,210)	(1,533)	(736)	(58,496)	(1,607,975)
Impairment*	(169,854)	–	–	–	(169,854)
Exchange realignment	–	–	–	9	9
At 31 December 2016	6,561,350	1,643	1,985	194,133	6,759,111
At 31 December 2016:					
Cost	10,756,845	172,106	5,497	470,075	11,404,523
Accumulated amortisation and impairment	(4,195,495)	(170,463)	(3,512)	(275,942)	(4,645,412)
Net carrying amount at 31 December 2016	6,561,350	1,643	1,985	194,133	6,759,111

* No impairment provision (2016: RMB169,854,000) was made to development costs related to the reportable segment of automobiles and related products in the year ended 31 December 2017.

Deferred development costs are stated at cost less any impairment losses. The development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, except for those of new energy vehicles which are amortised using the unit of production method, commencing from the date when the products are put into commercial production.

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19. Investments in joint ventures

	2017 RMB'000	2016 RMB'000
Shares of net assets	2,442,867	1,751,159
	2,442,867	1,751,159

The Group's trade receivable balances due from and due to the joint ventures are disclosed in note 42(c) to the financial statements.

Particulars of the Group's joint ventures are as follows:

Name	Particulars of registered capital held	Place of registration and business	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Shenzhen Pengcheng Electric Car Rental Company Limited ("Pengcheng Chuzu")	RMB20,000,000	PRC/Mainland China	45%	40%	45%	Taxi business, advertising and rental of electric vehicles
Shenzhen Denza New Energy Automotive Co., Ltd. ("DENZA")	RMB3,360,000,000	PRC/Mainland China	50%	50%	50%	Research, development and sale of automobiles
Tianjin BYD Automobile Company Limited ("Tianjin BYD")	RMB350,000,000	PRC/Mainland China	50%	43%	50%	Assembly and sale of automobiles and coaches
Nanjing Jiangnan Electric Car Rental Company Limited ("Jiangnan Chuzu")	RMB20,000,000	PRC/Mainland China	60%*	60%	60%	Taxi business and rental of electric vehicles
Shenzhen BYD Electric Car Investment Co., Ltd. ("BYD Electric Car")	RMB10,000,000	PRC/Mainland China	50%	60%	50%	New energy investment and the establishment of industrial electric vehicle industry
Guangzhou Guang Qi BYD New Energy Bus Co., Ltd. ("Guang Qi BYD")	RMB300,000,000	PRC/Mainland China	51%*	50%	51%	Manufacture and design of auto parts and accessories and manufacture of automobiles
Shenzhen Didi New Energy Auto Lease Co., Ltd. ("Shenzhen Didi")	RMB140,000,000	PRC/Mainland China	60%*	67%	60%	Electric car and fuel car rental and sale, taxi business
Beijing Hualin Loading Co., Ltd. ("Beijing Hualin")	RMB100,000,000	PRC/Mainland China	49%	40%	49%	Production and sale for special-used vehicles, import and export storage, technologies and agency
Hangzhou BYD Xihu New Energy Auto Co., Ltd. ("Xihu New Energy")	RMB100,000,000	PRC/Mainland China	49%	40%	49%	New energy vehicle technology, internet technology development, technical services and advice, and the establishment of charging poles

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19. Investments in joint ventures (continued)

Name	Particulars of registered capital held	Place of registration and business	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
BYD Auto Finance Company Limited ("BYD Auto Finance")	RMB1,500,000,000	PRC/Mainland China	80%*	80%	80%	Auto financing lease, auto loan, issuance of financial bonds, car finance consulting agency
Hubei Energy Storage Co. Ltd. ("Hubei Energy Storage")	RMB100,000,000	PRC/Mainland China	55%*	60%	55%	Investment and operation of energy storage
Xi'an Infrastructure Yadi Automobile service Co., Ltd. ("Xi'an Infrastructure")	RMB10,000,000	PRC/Mainland China	40%	40%	40%	Automobile and parts sales and Automobile maintenance
Shenzhen BYD International Financial Lease Co., Ltd. ("International Financial Lease")	RMB400,000,000	PRC/Mainland China	30%	33%	30%	Financial lease and financial lease advisory service
Qinghai Salt Lake BYD Resources Development Co., Ltd	RMB500,000,000	PRC/Mainland China	49%	40%	49%	Development of lithium resources in Salt Lake and the production and sales of lithium carbonate
Hengqin Vanke Yundi Commercial Services Co. Ltd	RMB5,000,000	PRC/Mainland China	50%	33%	50%	Commercial services; technology development, technology transfer, technology consulting and technology services
Chengdu Shudu BYD New Energy Vehicles Co., Ltd	RMB30,000,000	PRC/Mainland China	60%*	57%	60%	The R&D of new energy electric vehicles, leasing of new energy electric vehicles
Shenzhen Vanke Yundi Industrial Co. LTD.	RMB100,000,000	PRC/Mainland China	72%*	67%	72%	Commercial services; technology development, technology transfer, technology consulting and technology services

* According to the articles of association of these investees, a board resolution requires unanimous consent of two-thirds majority or all members of the board of directors. Thus, the Group does not have control even though the Group's ownership interests in these investees are greater than 50%.

DENZA, which is considered a material joint venture of the Group, is a strategic partner of the Group primarily engaged in the research and development of automobile products and is accounted for using the equity method.

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19. Investments in joint ventures (continued)

The following table illustrates the summarised financial information in respect of DENZA adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements.

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	887,335	328,096
Other current assets	982,508	1,062,012
Current assets	1,869,843	1,390,108
Non-current assets, excluding goodwill	1,674,662	1,724,043
Financial liabilities, excluding trade and other payables and provisions	430,000	337,716
Other current liabilities	1,327,755	1,252,234
Current liabilities	1,757,755	1,589,950
Non-current financial liabilities, excluding trade and other payables	1,230,000	1,485,000
Net assets	556,750	39,201
Net assets, excluding goodwill	556,750	39,201
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	50%	50%
Group's share of net assets of the joint venture, excluding goodwill	278,375	19,600
Unrealised gain arising from transactions with the Group	(10,681)	(19,600)
Carrying amount of the investment	267,694	–
Revenue	975,082	432,059
Other expense	41,107	758,108
Interest income	8,691	14,476
Depreciation and amortisation	101,663	151,365
Interest expenses	89,472	103,518
Total comprehensive loss for the year	(477,451)	(1,299,514)

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19. Investments in joint ventures (continued)

The following table illustrates the summarised aggregate financial information of the Group's joint ventures that are not individually material:

	2017 RMB'000	2016 RMB'000
Share of joint ventures' profit/(loss) for the year	22,799	(10,602)
Share of the joint ventures' total comprehensive income/(loss)	22,799	(10,602)
Elimination of unrealised (loss)/ profit	(7,580)	1,285
Aggregate carrying amount of the Group's investments in the joint ventures	2,175,173	1,751,159

20. Investments in associates

	2017 RMB'000	2016 RMB'000
Shares of net assets	491,829	363,384
Goodwill on acquisition	131,238	131,238
	623,067	494,622
Provision for impairment	(1,023)	(1,023)
	622,044	493,599

Particulars of the Group's associates are as follows:

Name	Particulars of registered capital held	Place of registration and business	Ownership interest	Percentage of		Principal activities
				Voting power	Profit sharing	
Tibet Zabuye Lithium Industry Co.,Ltd ("Zabuye Lithium")	RMB930,000,000	PRC/Mainland China	18%	18%	18%	Products of lithium and Boron mineral salt
Shan Mei Ling Qiu Bi Xing Industry Development Co., Ltd. ("Shan Mei Ling Qiu Bi Xing")	RMB10,000,000	PRC/Mainland China	20%	20%	20%	Solar power Ecosystem remediation of agricultural products
Shenzhen Electric Power Sales Co., Ltd. ("Shenzhen Electric Power Sales")	RMB200,000,000	PRC/Mainland China	40%	20%	40%	Electric power engineering design, installation, operation of electric vehicle charging infrastructure, and sale of electricity

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20. Investments in associates (continued)

Name	Particulars of registered capital held	Place of registration and business	Ownership interest	Percentage of Voting power	Profit sharing	Principal activities
Hangzhou Xihu New Energy Auto Operation Co., Ltd. ("Hangzhou Xihu Operation")	RMB50,000,000	PRC/Mainland China	29%	29%	29%	Taxi service; electric vehicle rental; electric vehicle charging infrastructure
Shenzhen Qianhai Green Transportation Co., Ltd. ("Qianhai Green Transportation")	RMB20,000,000	PRC/Mainland China	19%	29%	19%	Car rental; public transportation vehicle maintenance and repairs
Shenzhen Chongdian Easy Co., Ltd ("Chongdian Easy")	RMB50,000,000	PRC/Mainland China	20%	25%	20%	Power equipment maintenance; electric vehicle charging infrastructure design; new energy, charging equipment technology development, consultation, transfer, and services
MCC Ramu New Technology Limited	RMB936,840,000	PRC/Mainland China	10%	11%	10%	Development, consultancy, transferal, and services of energy-saving and environmentally friendly technologies and product technologies; power battery manufacturing; import and export of goods and technology.
China Railway Engineering Consulting Group Co., Ltd	RMB730,818,000	PRC/Mainland China	4%	11%	4%	Engineering survey, design, consultancy, supervision and inspection, EPC contracting; specialized contracting.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000
Share of the associates' profit for the year	48,809	19,366
Share of the associates' total comprehensive income	48,809	19,366
Elimination of unrealised profit	(2,221)	(737)
Aggregate carrying amount of the Group's investments in the associates	622,044	493,599

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21. Available-for-sale investments

	2017 RMB'000	2016 RMB'000
Listed equity investments, at fair value	3,582,554	3,206,386
Unlisted equity investments, at cost	607,906	18,852
Provision for impairment	(5,000)	–
	4,185,460	3,225,238

As at 31 December 2017, certain unlisted equity investments with a carrying amount of RMB602,906,000 (2016: RMB18,852,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

During the year, the gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB282,126,000 (2016: RMB127,629,000), of which Nil (2016: Nil) was reclassified from other comprehensive income to the statement of profit or loss for the year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

22. Property under development and completed property held for sale

	2017 RMB'000	2016 RMB'000
Land in Mainland China held under medium term leases, at cost:		
At the beginning of year	684,950	684,950
Transfer to completed property held for sale	(684,950)	–
At 31 December	–	684,950
Development expenditure, at cost:		
At the beginning of year	236,293	229,611
Additions	–	6,682
Transfer to completed property held for sale	(236,293)	–
At 31 December	–	236,293
	–	921,243
Property under development expected to be recovered:		
After more than one year	–	921,243

Notes to Financial Statements

31 December 2017

22. Property under development and completed property held for sale (continued)

	2017 RMB'000	2016 RMB'000
Completed property held for sale, at cost:		
At the beginning of year	33,840	56,038
Additions	6,684,675	6,783
Other transfers	(20,268)	(9,423)
Recognised in the statement of profit or loss (note 5)	(8,477)	(19,558)
At 31 December	6,689,770	33,840

23. Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	4,372,410	3,429,247
Work in progress	8,995,702	6,350,115
Finished goods	5,790,946	7,063,692
Moulds held for production	713,746	535,385
	19,872,804	17,378,439

24. Trade and bills receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	46,797,971	39,876,063
Bills receivable	6,973,003	6,362,378
Impairment	(494,258)	(505,556)
	53,276,716	45,732,885

For sales of traditional fuel-engined automobiles, payment in advance, mainly in the form of bank bills, is normally required. For sales of new energy automobiles, the Group generally provides the customers with a credit period of one to twelve months or allow the customers to make instalment payment in twelve to twenty-four months. For retention receivables, the due date usually ranges from one to eight years after acceptance of the vehicles by the customers.

For sales under other segments, the Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one 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 certain concentrations of credit risk as 5% (2016: 8%) and 19% (2016: 24%) 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.

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24. Trade and bills receivables (continued)

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

	2017 RMB'000	2016 RMB'000
Within three months	22,874,693	21,630,073
Four to six months	8,081,877	9,066,113
Seven months to one year	9,129,260	8,588,520
Over one year	13,190,886	6,448,179
	53,276,716	45,732,885

The government subsidies of new energy automobiles sales are included in the above trade receivables.

The movements in provision for impairment of trade and bills receivables are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	505,556	486,100
Impairment losses recognised	85,384	124,083
Impairment losses reversed (note 6)	(76,563)	(86,108)
Amount written off as uncollectible	(20,325)	(18,636)
Exchange realignments	206	117
At 31 December	494,258	505,556

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB494,258,000 (2016: RMB505,556,000) with a carrying amount before provision of RMB703,639,000 (2016: RMB783,061,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in both interest and/or principal payments and only a portion of the receivables is expected to be recovered.

Notes to Financial Statements

31 December 2017

24. Trade and bills receivables (continued)

The aging analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	51,096,267	43,635,353
Less than one year past due	1,705,935	1,702,560
One to two years past due	265,133	117,467
	53,067,335	45,455,380

Receivables that were neither past due nor impaired relate to a large number of diversified 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 have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable.

25. Prepayments, deposits and other receivables

	2017 RMB'000	2016 RMB'000
Non-current portion Prepayment for items of property, plant and equipment	3,372,240	4,567,407
Current portion Deposits and other receivables Impairment*	5,235,348 (143,174)	4,381,706 (149,478)
	5,092,174	4,232,228
Prepayments Loans to staff	985,449 133,394	319,666 83,546
	6,211,017	4,635,440

* At 31 December 2017, an impairment loss of RMB143,174,000 (2016: RMB149,478,000) has been provided against deposits of RMB143,174,000 paid to two suppliers (2016: RMB149,478,000).

Except for the two suppliers aforementioned, none of the financial assets included in the above balances is past due. The financial assets included in the above balances relate to receivables for which there was no recent history of default, except for the two suppliers aforementioned.

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26. Long-term receivable

	2017 RMB'000	2016 RMB'000
Goods sold by installments	1,049,938	253,668

At 31 December 2017, the unrealized finance income of above long-term receivable was RMB135,724,000.

During the year, the discount rate used for recognizing goods sold by installments ranged from 4.75% to 4.9%.

The analysis of the connection term of long-term receivables based on the agreement is as follows:

	2017 RMB'000	2016 RMB'000
Within one year	1,289,970	482,038
One and two years	489,678	215,616
Two and three years	285,933	32,481
Over than three years	274,327	5,571
	2,339,908	735,706
Less: long-term receivables due in one year	1,289,970	482,038
	1,049,938	253,668

27. Cash and cash equivalents, restricted bank deposits and short-term deposits

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
Cash and bank balances		8,750,954	7,446,306
Time deposits		1,151,736	247,360
		9,902,690	7,693,666
Less: Restricted bank deposits			
Short-term deposits	(i)	–	(247,360)
Pledged deposits	(ii)	(323,249)	(335,072)
Restricted bank deposits	(iii)	(643,847)	–
Cash and cash equivalents	(iv)	8,935,954	7,111,234

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27. Cash and cash equivalents, restricted bank deposits and short-term deposits (continued)

Notes:

- (i) There are no short term deposit as at 31 December 2017 (2016: RMB247,360,000).
- (ii) At 31 December 2017, the pledged bank deposit of RMB323,249,000 (2016: RMB335,072,000) was pledged for bank acceptance bills and letters of credit.
- (iii) The balance of restricted bank deposit as at 31 December 2017 mainly represented a guarantee deposit required by the bank under a tri-lateral agreement a subsidiary of the Company, the bank and a third supplier.
- (iv) At the end of the reporting period, cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to RMB5,725,975,000 (2016: RMB4,748,662,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Most of the bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

28. Trade and bills payables

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

	2017 RMB'000	2016 RMB'000
Within three months	29,126,364	25,797,936
Three to six months	9,081,522	8,138,114
Six months to one year	486,529	528,055
One to two years	739,176	97,624
Two to three years	39,089	15,776
Over three years	54,652	85,625
	39,527,332	34,663,130

The trade payables are non-interest-bearing and are normally settled within terms of 30 to 120 days.

29. Other payables

	2017 RMB'000	2016 RMB'000
Other payables	8,762,765	2,950,439
Accrued payroll	3,179,937	2,978,565
	11,942,702	5,929,004

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

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30. Derivative financial instruments

	2017		2016	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	1,095	12,929	—	—
Cross currency swap	—	4,672	—	—
Interest rate swap	—	1,318	—	—
Others (note)	—	100,342	—	—
	1,095	119,261	—	—

Non-hedging derivatives:

The Group has entered into various forward currency contracts, cross currency swap and interest rate swaps to manage its exchange rate exposures and interest rate exposures, respectively, which did not meet the criteria for hedge accounting. Losses on changes in the fair value of non-hedging derivatives amounting to approximately RMB17,824,000 were charged to the consolidated statement of profit or loss during the year (2016: loss of approximately RMB18,207,000). The maturity of derivative financial instruments is within one year.

Note:

The Company and Holitech Technology Co., Ltd. ("Holitech") (the "transferee") entered into the strategic cooperation, asset transfer in consideration of Non-public Offering shares and cash consideration asset transfer framework agreement (戰略合作暨非公開發行股份及支付現金購買資產框架協議) on 3 April 2015, pursuant to which, the Company sold to the transferee a 100% equity interests in Electronic Components, a subsidiary of the Company. On 30 September 2015, the transfer of the 100% equity interest in Electronic Components has been duly registered with the industrial and commercial authorities.

Pursuant to the profit compensation agreement and its supplemental agreement entered into between the Company and Holitech in respect of Electronic Components, the terms of profit compensation mainly comprise of two parts:

- (i) The Company guaranteed that the three-year accumulated profits for 2015, 2016 and 2017 of Electronic Components shall not be less than RMB714,066,600. Any shortfall of the three-year accumulated profit shall be compensated by the shares of Holitech held by the Company with any shortfall being compensated by cash; and
- (ii) After the expiry of the profit compensation period of 2015, 2016 and 2017 as agreed in the agreement, Holitech shall conduct impairment tests on the target assets. Where the impairment amount of the target assets as at the end of the profit compensation period exceeds the total amount of compensation, the Company shall provide further compensation.

As at 31 December 2017, management made estimation on the probable compensation and recognised a derivative financial liability of RMB100,342,000.

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31. Deferred income

	2017 RMB'000	2016 RMB'000
Government grants and subsidies	2,080,437	1,873,978
Others	104,865	–
	2,185,302	1,873,978
Current Portion		
Government grants and subsidies	(408,035)	(419,268)
Others	(104,865)	–
	(512,900)	(419,268)
	1,672,402	1,454,710

The movements in deferred income related with government grants and subsidies during the year are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	1,873,978	1,701,737
Received during the year	1,376,120	767,302
Released to the statement of profit or loss	(1,169,661)	(595,061)
At 31 December	2,080,437	1,873,978
Less: Portion classified as current liabilities	(408,035)	(419,268)
Non-current portion	1,672,402	1,454,710

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

Notes to Financial Statements

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32. Interest-bearing bank and other borrowings

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	–	–	–	3.92-4.35	2017	19,789,611
Bank loans – unsecured	0.99-5.66	2018	34,215,815	4.09-4.35	2017	4,642,389
	LIBOR+90-225bps	2018	1,559,101	LIBOR+100-170bps	2017	577,611
Current portion of long term bank loans – secured	3.00-3.85	2018	40,469	3.60-4.89	2017	2,066,888
Current portion of long term bank loans – unsecured	2.65-5.08	2018	4,507,210	2.65-4.75	2017	1,883,314
Current portion of other borrowings – secured	4.04-4.28	(i)	830,344	5.44-5.84	(i)	971,848
			41,152,939			29,931,661
Corporate bonds – unsecured	4.1-6.35	(e) & (f)	4,495,731	5.25	(d)	2,996,780
			45,648,670			32,928,441
Non-current						
Bank loans – secured	4.9	2030	26,731	4.28-4.90	2030	2,748,822
	3	2022	16,688	LIBOR+550bps	2018	26,667
Bank loans – unsecured	2.65-5.46	2020	6,270,000	3.35-4.75	2019	986,284
				LIBOR+280-350bps	2018	200,000
Other borrowings – secured	4.28	(i)	55,818	5.44-5.84	(i)	886,163
			6,369,237			4,847,936
Corporate bonds – unsecured	4.87-4.94	(g) & (h)	4,493,109	4.1-6.35	(e) & (f)	4,490,584
			10,862,346			9,338,520
			56,511,016			42,266,961

Notes to Financial Statements

31 December 2017

32. Interest-bearing bank and other borrowings (continued)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	41,152,939	29,931,661
In the second year	4,866,758	2,941,380
In the third to fifth years, inclusive	1,489,128	943,380
Beyond five years	13,351	963,176
	47,522,176	34,779,597
Corporate bonds		
Within one year (notes (e) & (f))	4,495,731	2,996,780
In the second year (notes (h))	2,998,290	4,490,584
In the third to fifth years (notes (g))	1,494,819	—
	8,988,840	7,487,364
	56,511,016	42,266,961

Notes:

- (a) Certain of the Group's bank loans are secured by:
- (i) mortgages over certain of the Group's land and buildings, which had an aggregate carrying value at the end of the reporting period of approximately RMB73,807,000 (2016: RMB79,509,000) (note 14);
 - (ii) mortgages over certain of the Group's construction in progress, which had an aggregate carrying value at the end of the reporting period of approximately RMB9,210,000 (2016: RMB9,778,000) (note 14);
- In addition, the Company has guaranteed certain of the Group's bank loans of up to RMB36,021,358,000 (2016: RMB24,365,908,000) as at the end of the reporting period.
- (b) The carrying amounts of the Group's and the Company's bank borrowings approximate to their fair values.
- (c) Except for bank loans of RMB1,725,338,000 (2016: RMB873,277,000) and RMB163,658,000 (2016: RMB153,264,000) which are denominated in United States dollars and Euro respectively, all borrowings are in RMB.
- (d) On 19 June 2012, the Company issued RMB denominated 3,000,000,000 corporate bonds. The bonds have a maturity of five years due in 2017, and bear a fixed interest rate of 5.25% per annum from and including 19 June 2012 payable annually. Investors have the right to sell back all or part of their bonds at par value to the Company on the third interest payment date (19 June 2015), or release the investor sell-back option. Since investors did not exercise the option to sell back the bonds after the third interest payment date, the maturity date of the bonds is fixed to 19 June 2017, and therefore, the bonds were paid in 2017. The bonds were listed on the Shenzhen Stock Exchange on 16 July 2012.
- (e) On 23 September 2013, the Company issued RMB denominated 3,000,000,000 corporate bonds. The bonds have a maturity of five years due in 2018, and bear a fixed interest rate of 6.35% per annum from and including 23 September 2013 payable annually. Investors have the right to sell back all or part of their bonds at par value to the Company on the third interest payment date (23 September 2016), or release the investor sell-back option. Since certain investors sell back 700,000 corporate bonds to the Company on 23 September 2016, the maturity of the bonds is fixed to 23 September 2018. The bonds were reclassified as bonds payable due in one year on 31 December 2017. The bonds were listed on the Shenzhen Stock Exchange on 15 November 2013.

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31 December 2017

32. Interest-bearing bank and other borrowings (continued)

Notes: (continued)

- (f) On 12 August 2015, the Company issued RMB denominated 1,500,000,000 corporate bonds. The bonds have a maturity of three years due in 2018, and bear a fixed interest rate of 4.1% per annum from and including 12 August 2015 payable annually. In addition, the bonds were unsecured with a simple interest rate. The bonds were listed on the Shenzhen Stock Exchange on 10 August 2015. Since the maturity of the bonds is fixed to 12 August 2018, the bonds were reclassified as bonds payable due in one year on 31 December 2017.
- (g) On 15 June 2017, the Company issued RMB denominated 1,500,000,000 corporate bonds. The bonds have a maturity of five years due in 2022, and bear a fixed interest rate of 4.87% per annum from and including 15 June 2017 payable annually. Investors have the right to sell back all or part of their bonds at par value to the Company on the third interest payment date (15 June 2020), or release the investor sell-back option. The bonds were listed on the Shenzhen Stock Exchange on 14 July 2017.
- (h) The Company completed the 2017 first tranche of debt financing plan of Beijing Financial Assets Exchange on 17 March 2017. The bonds product was simplistically described as "17 Yue BYD ZR001", with an actual listing amount of RMB3,000,000,000 and a listing price of 4.94%, for a term of two years. The interest payment shall be made once every three months (it will be postponed to the next working day should it be a statutory festival or holiday in the PRC), without compound interest, and the principal will be repaid on one-off basis upon maturity, the last interest payment shall be made together with the principal repayment. The interest accrued period commenced on 17 March 2017, and the date for the first interest payment was 17 June 2017.
- (i) As in 2014, the Group entered into sale and leaseback arrangement contracts with third-party leasing companies totalling RMB4,790,000,000, with contract terms ranging from three to five years. The substance of the arrangement is that the lessors provide finance to the Group with the asset as security. The Group continues to account for the assets in its consolidated statement of financial position. The sales proceeds are recorded as other borrowings in the consolidated statement of financial position. As at 31 December 2017, the aggregate book value of the assets is RMB2,107,294,000 and the balance of other borrowings amounted to RMB886,162,000, of which RMB830,344,000 is recorded as a current liability and RMB55,818,000 is recorded as a non-current liability on the Group's consolidated statement of financial position.

33. Provision

Group	Product warranties	
	2017 RMB'000	2016 RMB'000
At 1 January	1,292,666	778,577
Additional provision	918,089	1,113,091
Amounts utilised during the year	(739,244)	(599,002)
At 31 December	1,471,511	1,292,666

The Group provides warranties on automobiles, rail transit equipment, and the undertaking to repair or replace items that fail to perform satisfactorily. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

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34. Deferred tax

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

Deferred tax liabilities

	Fair value adjustments arising from available-for-sale investments RMB'000	Fair value adjustment arising from derivative financial instruments RMB'000	Withholding taxes on the earnings anticipated to be remitted by subsidiaries RMB'000	Deferred tax payment arising from disposal of a subsidiary RMB'000	Total RMB'000
At 1 January 2017	370,346	–	–	179,557	549,903
Deferred tax debited to the statement of profit or loss during the year	–	–	25,912	(59,852)	(33,940)
Deferred tax debited to equity during the year	94,042	–	–	–	94,042
Gross deferred tax liabilities					
At 31 December 2017	464,388	–	25,912	119,705	610,005
At 1 January 2016	327,804	936	–	239,409	568,149
Deferred tax debited to the statement of profit or loss during the year	–	(936)	–	(59,852)	(60,788)
Deferred tax debited to equity during the year	42,542	–	–	–	42,542
Gross deferred tax liabilities					
At 31 December 2016	370,346	–	–	179,557	549,903

Notes to Financial Statements

31 December 2017

34. Deferred tax (continued)

Deferred tax assets

	Depreciation in excess of depreciation allowance RMB'000	Impairment of inventories RMB'000	Government grants RMB'000	Unrealised profits from intercompany transactions RMB'000	Accruals and provision for warranties RMB'000	Tax losses RMB'000	Unpaid payable not reversed RMB'000	Fair value adjustment arising from derivative financial instruments RMB'000	Total RMB'000
At 1 January 2017	532,275	51,181	209,505	263,214	342,740	49,347	-	-	1,448,262
Deferred tax credited/(debited) to the statement of profit or loss during the year	89,415	6,090	(19,432)	(125,178)	2,351	151,402	-	27,122	131,770
At 31 December 2017	621,690	57,271	190,073	138,036	345,091	200,749	-	27,122	1,580,032
At 1 January 2016	357,900	43,084	227,362	121,705	217,406	96,426	16,533	-	1,080,416
Deferred tax credited/(debited) to the statement of profit or loss during the year	174,375	8,097	(17,857)	141,509	125,334	(47,079)	(16,533)	-	367,846
At 31 December 2016	532,275	51,181	209,505	263,214	342,740	49,347	-	-	1,448,262

The Group has recognised the deferred tax assets related to tax losses arising in Mainland China of RMB1,178,351,000 (2016: RMB309,046,000) that will expire in one to five years for offsetting against future taxable profits.

The Group has accumulated tax losses arising in Mainland China of RMB1,466,013,000 (2016: RMB1,139,989,000) that will expire in one to five years for offsetting against future taxable profits. The Group has a tax loss of RMB119,820,000 (2016: RMB124,510,000) arising from other jurisdictions that will expire in one to eight years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

	2017 RMB'000	2016 RMB'000
Tax losses	1,585,833	1,264,499
Deductible temporary differences	2,345,492	2,516,994
	3,931,325	3,781,493

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

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34. Deferred tax (continued)

Deferred tax assets (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2017, the Group recognised the relevant deferred tax liabilities of RMB25,912,000 (2016:Nil) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB11,394,110,000 (2016: RMB9,289,855,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

35. Share capital

Shares	2017 RMB'000	2016 RMB'000
Authorised, issued and fully paid: 2,728,142,855 (2016: 2,728,142,855) ordinary shares of RMB1 each	2,728,143	2,728,143

36. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 51 to 52 of the financial statements.

Pursuant to the relevant laws and regulations for business enterprises, a portion of the profits of the Group's entities which are registered in the PRC has been transferred to the statutory surplus reserve fund which is restricted as to use. When the balance of the reserve fund reaches 50% of the Group's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior year's losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at least 25% of capital after this usage.

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37. Perpetual loans

- (a) The Company issued three tranches of perpetual loans on 9 August 2015, 23 September 2015 and 25 December 2015, respectively, with a total principal amount of RMB3.2 billion. The loans will have a perpetual term until redemption by the Company in accordance with the terms of issuance, and will mature at the redemption by the Company. At the third maturity date and each maturity date thereafter, the Company has the right to redeem the notes with a principal amount plus all deferred interests. The interest rate for the first three years is 6.25%-6.50% per annum. The company has repaid the principal amount (RMB3,200,000,000) and interests (RMB379,720,000) of these perpetual loans.
- (b) In 2016, the Company issued medium term notes at par of RMB200 million and RMB400 million on 24 February 2016 and 26 February 2016, respectively, with a total amount of RMB600 million (RMB595.8 million after deducting listing expenses). The current medium-term notes have a term of 5+N years. On or after the fifth interest payment date, the issuer has the right to redeem the current medium-term notes at par plus accrued interest (including any deferred interest payments). If the issuer decides to exercise the redemption rights at the time provided in the abovementioned terms of redemption rights, the issuer shall publish the Announcement of Early Redemption through media designated by the competent department according to related provisions one month before the redemption and the redemption process shall be completed by the Shanghai Clearing House as the agent. For the current medium-term notes, the coupon interest rate of the first 5 years for which interest is accruable is 5.1% per annum. If the issuer does not exercise the redemption rights, the coupon interest rate will be adjusted to the then base rate plus initial spread and 300 basis points from the 6th year, and remains unchanged from the 6th year to the 10th year for which interest is accruable. The coupon interest rate is reset every 5 years.

Unless the mandatory interest payment event happens, before each of the interest payment date of medium-term notes, the issuer can choose to have the current interest and all the deferred interest to be paid at the next interest payment date, which is not subject to any restrictions on the number of deferred interest payments. The foregoing deferred interest payment does not constitute the issuer's default to pay the interest in full according to the contract. In the event that the issuer decides to defer the interest payments, the issuer and the related agency shall disclose such arrangement in an announcement of deferred interest payments five days before the interest payment date.

The issuer shall not defer the interest payment of the interest accrual period and all the interest and the underlying yields that were deferred according to the Investment Agreement and the contractual agreement if any of the following occurs within 12 months before the interest payment date:

- The borrower declares dividend to the holders of ordinary shares; or
- The borrower reduces registered capital.

Notes to Financial Statements

31 December 2017

37. Perpetual loans (continued)

- (c) The Company issued two tranches of perpetual loans on 22 August 2017 and 18 October 2017, respectively, with a total principal amount of RMB3.3 billion. The loans will have a perpetual term until redemption by the Company in accordance with the terms of issuance, and will mature at the redemption by the Company. At the third maturity date and each maturity date thereafter, the Company has the right to redeem the notes with a principal amount plus all deferred interests. The initial loan interest rate: the first year of these trust loans annual interest rates were 6.3% and 6.16% respectively, the trust loan annual interest rates of the second and third year were based on the differences between the previous interest rate adjustment date and the date of one-year Shibor plus the annual interest rate on trust loans of the first year, respectively. If the Company will not redeem the loans, the interest rate will be reset every year after the first three years. The interest rate for the first extended year will be reset to that the last effective interest rate plus 300 basis points per annum. Thereafter, the interest rate for each year will be reset to that period benchmark interest rate plus 300 basis points per annum until the interest rate is 18%.

As long as the compulsory interest payment events have not occurred, the Company has the right to choose to defer the interest payment at each interest payment date to the next without time limit of deferral, which does not cause the Company for breach of contract. The compound interests will be charged to the deferred interests by the interest rate of the deferred period.

The Company could not defer current interests and all deferred interests before 12 months of the interest payment date when the following compulsory interest payment events occur:

- To declare and pay dividend to ordinary shareholders;
- To pay any financial instruments that has priority lower than the perpetual loans; and
- To decrease share capital.

These perpetual loans do not have specific maturity. The Company has the right to defer interest or to redeem the notes. The Company does not have the contractual obligation to deliver cash or other financial assets to other parties. Therefore, the perpetual loans are recognised as an equity. The interest paid on the perpetual loans in 2017 was RMB243,036,000 (2016: RMB185,155,000).

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38. Contingent liabilities

(a) Litigation

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.

Pending Arbitration of Delta Dragon Import SA

Delta Dragon Import SA ("DDI"), the arbitration applicant, made an arbitration application to International Court of Arbitration of the International Chamber of Commerce on 12 October 2016, and alleged that the respondent, BYD Auto Industry Co., Ltd. ("BYD Auto Industry"), a subsidiary of the Company, has breached the automobile distribution agreement ("Distribution Agreement") entered with it on 7 October 2014. DDI claimed that BYD Auto Industry was liable for the alleged loss of CHF1,271,000 (equivalent to approximately RMB8,488,000) incurred from the performance of Distribution Agreement and alleged loss of expected net earnings of CHF177,917,000 (equivalent to approximately RMB1,188,112,000) calculated from profit forecast made based on an updated and adjusted (Strategic) Business Plan. The total amount claimed by DDI (including alleged expense incurred by DDI) is approximately CHF179,188,000 (equivalent to RMB1,196,600,000).

Meanwhile, DDI requested the arbitration court to declare that DDI was entitled to terminate the agreement by reason of substantial breach by BYD Auto Industry and claimed that BYD Auto Industry should be liable for the related fees incurred for application of property preservation and arbitration.

BYD Auto Industry submitted answer to International Court of Arbitration of the International Chamber of Commerce on 28 December 2016, which denied DDI's allegation against BYD Auto Industry with respect to failing to perform various obligations in accordance with contracts as the allegation was unsubstantiated; meanwhile, it made the following responses to DDI's claims: 1) DDI's claim that BYD Auto Industry shall bear the loss from the termination of contracts due to substantial breach, shall be rejected as it was not supported by evidence; 2) DDI's claim with respect to loss of expected net earning calculated by profit forecast based on an updated and adjusted (Strategic) Business Plan, shall be rejected as it was not supported by the contract, laws and facts.

International Court of Arbitration of the International Chamber of Commerce had held the first hearing in February 2018. As at the reporting date, no award has been rendered. After consulting the legal counsel representing BYD Auto Industry 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 arbitration cannot be made reliably up to date.

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38. Contingent liabilities (continued)

- (b) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	83,205,050	74,586,430

As at 31 December 2017, the banking facilities granted to subsidiaries and joint ventures subject to guarantees given to banks by the Company were utilised to the extent of approximately RMB36,021,358,000 (2016: RMB24,365,908,000) and RMB3,593,000,000 (2016: RMB3,302,500,000) respectively.

(c) **Repurchase obligation**

The Group entered into tri-lateral finance cooperation contracts ("the Cooperation Contract") with certain customers and third-party or related financial institutions ("Financial Institutions"). Pursuant to the arrangement under the Cooperation Contract, the Company bears repurchase obligations to Financial Institutions that in the event of customer default or other specific conditions, the Company is entitled to repossess and sell the new energy vehicles and "Skyrail" related assets. At the same time, the Company is required to make payment to Financial Institutions for the outstanding payments due from customer, and retain any net proceeds in excess of the repurchase payments made to Financial Institutions. Management believes that the repossessed vehicles and "Skyrail" related assets will be able to be sold for proceeds that are not significantly different from the repurchase payments. As at 31 December 2017, the Group's maximum exposure to these obligations was RMB11,991,848,000 (2016: RMB4,180,316,000). For the year ended 31 December 2017, there was no default of payments from customers which required the Group to make payments to Financial Institutions.

39. Notes to the consolidated statement of cash flows

(a) **Major non-cash transactions**

In 2017 and 2016, the Group didn't entered into major non-cash transactions.

(b) **Changes in liabilities arising from financing activities**

	Interest-bearing bank and other borrowings RMB\$'000
At 1 January 2017	42,266,961
Changes from financing cash flows	11,855,414
Finance costs	2,342,770
Interest capitalised	82,101
Foreign exchange movement	(36,230)
At 31 December 2017	56,511,016

Notes to Financial Statements

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40. Operating lease arrangements

As lessor

The Group leases certain of its properties and vehicles under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	92,027	89,648
In the second to fifth years, inclusive	147,739	150,143
After five years	4,557	25,659
	244,323	265,450

As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms mainly ranging from three to five years.

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

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	261,470	435,506
In the second to fifth years, inclusive	427,065	386,981
After five years	92,650	71,912
	781,185	894,399

As at 31 December 2017, the Group had a leaseback agreement with a leasing company and BYD International Lease Finance Corp (the lessor). According to the leaseback agreement, the Group sold certain machinery and equipment (the "Asset") with a net book value of RMB1,281,969,000 for the transaction price equivalent to the net book value and subsequently leased back for a lease term of three years (March 2015 to March 2018) during which the Group is requested to pay a rental fee of approximately RMB286,531,000 per annum. The Group has been granted the option to buy back the Asset at 30% of the original transaction price, return the equipment to the leasing company or renew the rent based on renegotiation between the Group and the leasing company by the end of the lease term. The Group has defined the process of purchasing and selling the Assets as purchasing and selling items of property, plant and equipment under this bargaining condition.

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41. Commitments

In addition to the operating lease commitments detailed in note 40 above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Land and buildings	1,088,040	506,282
Plant and machinery	2,986,739	3,972,449
Capital contribution in respect of investments	785,160	–
	4,859,939	4,478,731
Authorised but not contracted for	313,429	679,644
	5,173,368	5,158,375

Note:

Long-term purchase commitments for polysilicon materials

In October 2010, Shangluo BYD Co., Ltd. ("Shangluo BYD" or the "Purchaser") entered into the Material Supply Contract (the "Supply Contract") with Jiangxi LDK PV Silicon Technology Co., Ltd. ("LDKPV" or the "Vendor") and Jiangxi LDK Solar Hi-Tech Co., Ltd. ("LDK Solar" or the "Guarantor"), both of which are silicon material suppliers. LDK Solar as the Guarantor provides the Purchaser with guarantee of several liability for all debts incurred from the Supply Contract by the Vendor. The Supply Contract provides that during the contract term from January 2011 to December 2012, the Purchaser shall purchase 3,000 tonnes of polysilicon materials from the Vendor at a price of RMB650,000/tonne (the "Initial Purchase Price") for a total contract value of RMB1.95 billion. The Supply Contract provides that Shangluo BYD shall pay deposits of RMB97,500,000 to the Vendor. The Supply Contract also provides that if the prevailing market price fluctuates more than 5% over the Initial Purchase Price, the parties shall negotiate about adjusting the purchase price by reference to the market price.

In December 2012, Shangluo BYD entered into a supplemental agreement I to the Supply Contract with LDKPV and LDK Solar. The supplemental agreement I provides that the performance period under the Supply Contract will be extended for a period of one year to 31 December 2013. In February 2015, Shangluo BYD, BYD Lithium Batteries Co., Ltd. ("BYD Lithium Batteries") and BYD Supply Chain Management Co., Ltd. ("BYD Supply Chain Management") entered into a supplemental agreement II to the Supply Contract with LDKPV and LDK Solar ("the Vendors"). The supplemental agreement II provides that the contracting parties agree to extend the performance period under the original Supply Contract for a period of five years to 31 December 2018; the parties of the Supply Contract were expanded as follows: the Purchasers include Shangluo BYD, BYD Lithium Batteries and BYD Supply Chain Management, the Vendors include LDKPV and LDK Solar; the original deposits payable by Shangluo BYD under the Supply Contract (namely RMB97,500,000) will be changed to prepayments payable by all Purchasers to all Vendors, and when the Purchasers buy from the Vendors, the payables to the Vendors could be deducted from the prepayment already paid by Shangluo BYD. According to both supplemental agreement I and the supplemental agreement II, the Purchaser shall not pursue a claim against the Vendors for unfulfilled and unfinished delivery obligations and the Vendors shall not pursue a claim against the Purchaser for unfinished purchases or payment obligations during the term of the agreement.

In November 2015, LDK PV and LDK Solar commenced restructuring procedures and the Company has filed claims under the restructuring procedures of the two companies in accordance with law.

On 30 September 2016, the Intermediate People's Court of Xinyu City, Jiangxi Province, approved the composition plan for LDKPV. According to the composition plan, the settlement percentage of Shangluo BYD's debt as one of LDKPV's ordinary creditors amounted to 11.49% by way of conversion of debts into equity. As at 31 December, 2017, LDKPV has completed the registration of changes in ownership information and the amount of contribution from Shangluo BYD reached 725,163 US dollars, accounting for 0.1480%. On 10 January 2018, the Intermediate People's Court of Xinyu City, Jiangxi Province, approved the composition plan for LDK Solar, the settlement percentage of Shangluo BYD's debt as one of LDK Solar's ordinary creditors amounted to 2.2975% by way of preferred share or the installment payment in cash, which amounted to RMB1,115,622.13. As at the reporting date, the prepayment of the Purchaser under the Supply Contract had converted to the debt of the Vendors, which would be compensated according to the composition plans.

Notes to Financial Statements

31 December 2017

41. Commitments (continued)

In addition, the Group's share of the joint ventures' own capital commitments, which are not included in the above, is as follows:

	2017 RMB'000	2016 RMB'000
Capital contribution payable to joint ventures	79,340	44,000
	79,340	44,000

42. Related party transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
Joint ventures and associates:			
Sales of products	(i)	4,413,928	3,185,362
Sales of raw materials	(ii)	–	14,761
Service income	(iii)	68,824	47,789
Rental expense	(iv)	286,531	299,824
Purchases of products and service	(v)	201,718	240,171
Sales of products to Shenzhen Ramos Digital Technology Co., Ltd ("Ramos Digital")	(vi)	–	7,331
Sales of products and service to Electronic Component	(vii)	–	249,664
Sales of products and service to Nanjing Zhongbei Didi New Energy Vehicle Rental Service Co., Ltd	(viii)	173	4,991
Sales of products and service to Shenzhen Saidi New Energy Logistics Co., Ltd ("Saidi New Energy")	(ix)	5	2,125
Sales of products and service to Yinchuan Sky Operation Co., Ltd. ("Yinchuan Operation")	(x)	452,850	–
Purchases of products and service from Xi'an Northern Qinchuan Company Ltd. ("Northern Qinchuan")	(xi)	104	282
Purchases of products and service from Cangzhou Mingzhu Company Ltd ("Cangzhou Mingzhu")	(xii)	–	65,354
Purchases of products and service from Electronic Components	(vii)	–	645,555
Purchases of products and service from Beijing Easpring Material Technology Co., Ltd ("Easpring Technology")	(xiii)	42	2,241
Purchases of products and service from Saidi New Energy	(ix)	25,583	14,468
Purchases of products and service from Cangzhou Mingzhou Plastic Material Co., Ltd ("Mingzhu Plastics")	(xiv)	157,773	145,559
Purchase of products and service from Shenzhen Unifortune Supply Chain Service Co., Ltd ("Unifortune")	(xv)	1,862	–

Notes to Financial Statements

31 December 2017

42. Related party transactions (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Notes:

- (i) The sales of products to the joint ventures and associates were made according to the published prices offered to other customers of the Group;
- (ii) The sales of raw materials to the joint ventures and associates were made according to the published prices offered to other customers of the Group;
- (iii) The service income was received at prices mutually agreed between the Group and the joint ventures and associates;
- (iv) The rental expense was charged at prices mutually agreed between the Group and the associate;
- (v) The purchases of products and service from the joint ventures and associates was made according to the published prices offered by the joint ventures to their other customers;
- (vi) No sales of products to Ramos Digital during this period. As of May 13, 2017, Ramos Digital is no longer a related party due to the resignation of the chairman of its board, who is the non-executive director of the Company;
- (vii) Electronic Components was not a related party of the Group due to the resignation of the chairman and director of its board since September 30, 2016, who is the non-executive director of the Company;
- (viii) The sales of products and service to Zhongbei Didi, a company of which an executive of the Company is the chairman of the board, were made according to the published prices offered to other customers of the Group;
- (ix) The sales of products and service to Saidi New Energy, a company of which an executive of the Company was the director of the board in the past twelve months, were made according to the published prices offered to other customers of the Group; the purchases of products and services from Saidi New Energy were made according to the published prices offered by Saidi New Energy to its other customers;
- (x) The sales of products and service to Yinchuan Operation, a company of which two executives of the Company are the directors of the board, were made according to the published prices offered to other customers of the Group;
- (xi) The purchases of products and service from Northern Qinchuan, a company of which a supervisor of the Company is the chairman of the board, were made according to the published prices offered by Northern Qinchuan to its other customers;
- (xii) The purchases of products and service from Cangzhou Mingzhu, which is the subsidiary of the related party "Mingzhu Plastics", were made according to the published prices offered by Cangzhou Mingzhu to its other customers;
- (xiii) The purchases of products and service from Easpring Technology, a company of which an independent non-executive director of the Company is the independent director of the board, were made according to the published prices offered by Easpring Technology to its other customers;
- (xiv) The purchases of products and service from Mingzhu Plastics, a company of which an independent non-executive director of the Company is the independent director of the board, were made according to the published prices offered by Mingzhu Plastics to its other customers;
- (xv) The purchase of products and service from Unifortune, a company of which a non-executive director of the Company is the director of the board, were made according to the published prices offered by Unifortune to its other customers.

Notes to Financial Statements

31 December 2017

42. Related party transactions (continued)

(b) Guarantees provided to related parties:

Loan guarantees

- (i) As at 31 December 2017, the Company provided a guarantee to the bank for the borrowing of DENZA New Energy amounting to RMB705,000,000 (31 December 2016: RMB742,500,000).
- (ii) As at 31 December 2017, the Company provided a guarantee to the bank for the borrowing of BYD Auto Finance amounting to RMB2,888,000,000 (31 December 2016: RMB2,560,000,000).

Repurchase Obligation

The Group entered into tri-lateral finance cooperation contracts (the "Cooperation Contract") with related parties and third-party or related financial institutions ("Financial Institutions"). Pursuant to the arrangement under the Cooperation Contract, the Company bears repurchase obligations to Financial Institutions that in the event of related parties default or other specific conditions, the Company is entitled to repossess and sell the new energy vehicles and "Skyrail" related assets. At the same time, the Company is required to make payment to Financial Institutions for the outstanding payments due from related parties, and retain any net proceeds in excess of the repurchase payments made to Financial Institutions. Management believes that the repossessed vehicles and "Skyrail" related assets will be able to be sold for proceeds that are not significantly different from the repurchase payments. As of 31 December 2017, there was no default of payments from related parties which required the Group to make any payment.

- (i) As at 31 December 2017, the Group's maximum exposure of obligation to Shenzhen Didi and its subsidiary was RMB386,864,000 (31 December 2016: RMB433,716,000).
- (ii) As at 31 December 2017, the Group's maximum exposure of obligation to Jiangnan Chuzu was RMB32,140,000 (31 December 2016: RMB45,057,000).
- (iii) As at 31 December 2017, the Group's maximum exposure of the obligation to Hangzhou BYD Automobile Renting Co., Ltd was RMB61,430,000 (31 December 2016: Nil).
- (iv) As at 31 December 2017, the Group's maximum exposure of obligation to Yinchuan Operation was RMB192,000,000 (31 December 2016: Nil).

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42. Related party transactions (continued)

(c) Outstanding balances with related parties:

	2017 RMB'000	2016 RMB'000
The amounts due from joint ventures and associates:		
DENZA	600,310	543,995
Tianjin BYD	465,634	646,385
Pengcheng Chuzu	28,621	7,396
Jiangnan Chuzu	1,273	2,239
Hangzhou Xihu Operation	–	5,500
Shan Mei Ling Qiu Bi Xing	10,000	10,000
International Financial Lease and its subsidiary	472,679	123,827
Qianhai Green Transportation	18	3
BYD Auto Finance	1,174	114
Hangzhou BYD Xihu Auto	87,591	141,749
Guang Qi BYD	2,665,511	516,117
Shenzhen Didi and its subsidiary	35,423	46,956
Beijing Hualin	1,001	2,299
Shenzhen Electric Power Sales and its subsidiary	1,551	4,716
Adrastea Cars Ltd.	–	2,988
Xi'an Infrastructure	2,199,000	825,000
Hubei Energy Storage	40,211	–
	6,609,997	2,879,284
	2017 RMB'000	2016 RMB'000
The amounts due from other related parties:		
Yinghe Technology	249	249
Yinchuan Operation	256,692	–
	256,941	249

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42. Related party transactions (continued)

(c) Outstanding balances with related parties: (continued)

	2017 RMB'000	2016 RMB'000
The amounts due to joint ventures and associates:		
DENZA	464,366	443,686
International Financial Lease	4,985	4,962
Jiangnan Chuzu	-	187
Tianjin BYD	60,857	-
Hangzhou BYD Xihu Auto	738	540
Qianhai Green Transportation	-	12
Guang Qi BYD	10,883	4,981
Shenzhen Electric Power Sales and its subsidiary	29,474	9,474
Chongdian Easy	1	14
BYD Auto Finance	755	-
Shenzhen Didi and its subsidiary	43,600	-
	615,659	463,856

	2017 RMB'000	2016 RMB'000
The amounts due to other related parties:		
Cangzhou Mingzhu	-	117
Saidi New Energy	23,912	12,011
Northern Qinchuan	-	19
Ramos Digital	-	2,760
Zhongbei Didi	-	35
Mingzhu Plastics	106,696	101,212
Easpring Technology	-	470
	130,608	116,624

The balances are unsecured, interest-free and have no fixed terms of repayment.

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

	2017 RMB'000	2016 RMB'000
Short term employee benefits	65,716	45,063
Pension scheme contributions	401	328
	66,117	45,391

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

The related party transactions in respect of the items set out in note 42(a) do not constitute connected transactions as defined in Chapter 14A of the Listing Rules.

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43. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2017 Financial assets	Financial assets at fair value			Total RMB'000
	Loans and receivables RMB'000	through profit or loss RMB'000	Available- for-sale investments RMB'000	
Long-term receivable	1,049,938	–	–	1,049,938
Available-for-sale investments	–	–	4,185,460	4,185,460
Derivative financial instruments	–	1,095	–	1,095
Trade and bills receivables	53,276,716	–	–	53,276,716
Due from joint ventures and associates	6,609,997	–	–	6,609,997
Due from related parties	256,941	–	–	256,941
Financial assets included in prepayments, deposits and other receivables	301,567	–	–	301,567
Pledged deposits	323,249	–	–	323,249
Restricted bank deposits	643,487	–	–	643,487
Cash and cash equivalents	8,935,954	–	–	8,935,954
	71,397,849	1,095	4,185,460	75,584,404

Financial liabilities	Financial liability at fair value		Total RMB'000
	through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	
Trade and bills payables	–	39,527,332	39,527,332
Due to joint ventures and associates	–	615,659	615,659
Due to related parties	–	130,608	130,608
Derivative financial instruments	119,261	–	119,261
Financial liabilities included in other payables	–	8,136,986	8,136,986
Interest-bearing bank and other borrowings	–	56,511,016	56,511,016
	119,261	104,921,601	105,040,862

Notes to Financial Statements

31 December 2017

43. Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2016 Financial assets	Loans and receivables RMB'000	Available- for-sale investments RMB'000	Total RMB'000
Long-term receivable	253,668	–	253,668
Available-for-sale investments		3,206,386	3,206,386
Derivative financial instruments	–	–	–
Trade and bills receivables	45,732,885	–	45,732,885
Due from joint ventures and associates	2,879,284	–	2,879,284
Due from related parties	249	–	249
Financial assets included in prepayments, deposits and other receivables	290,569	–	290,569
Pledged deposits	335,072	–	335,072
Short-term deposits	247,360	–	247,360
Cash and cash equivalents	7,111,234	–	7,111,234
	56,850,321	3,206,386	60,056,707

Financial liabilities	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	34,663,130	34,663,130
Due to joint ventures and associates	463,856	463,856
Due to related parties	116,624	116,624
Financial liabilities included in other payables	2,525,664	2,525,664
Interest-bearing bank and other borrowings	42,266,961	42,266,961
	80,036,235	80,036,235

Notes to Financial Statements

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44. Fair value and fair value hierarchy of financial instruments

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

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial assets				
Long-term receivable	1,049,938	253,668	1,049,938	253,668
Derivative financial instruments	1,095	–	1,095	–
Available-for-sale investments – listed equity investments	3,582,554	3,206,386	3,582,554	3,206,386
	4,633,587	3,460,054	4,633,587	3,460,054

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial liabilities				
Derivative financial instruments	119,261	–	119,261	–
Interest-bearing bank and other borrowings	56,511,016	42,266,961	56,511,016	42,266,961
	56,630,277	42,266,961	56,630,277	42,266,961

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

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

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

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

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

The Group enters into derivative financial instruments with various counterparties, principally Holitech mentioned in note 30. Derivative financial instruments related to Holitech are measured with market observable inputs including market share price. The carrying amount of this derivative financial instruments is the same as its fair value. Other derivative financial instruments, including forward currency contracts, cross currency swap, and Interest rate swap, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of those derivative financial instruments are the same as their fair values.

Notes to Financial Statements

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44. Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments – listed equity investments	3,582,554	–	–	3,582,554
Derivative financial instruments	–	1,095	–	1,095
	3,582,554	1,095	–	3,583,649

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments – listed equity investments	3,206,386	–	–	3,206,386

Liabilities measured at fair value:

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	–	119,261	–	119,261

As at 31 December 2016 : Nil

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: Nil).

Notes to Financial Statements

31 December 2017

44. Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Assets for which fair values are disclosed:

As at 31 December 2017

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Long-term receivable	–	–	1,049,938	1,049,938

As at 31 December 2016

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Long-term receivable	–	–	253,668	253,668

Liabilities for which fair values are disclosed:

As at 31 December 2017

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	56,511,016	–	56,511,016

As at 31 December 2016

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	42,266,961	–	42,266,961

Notes to Financial Statements

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45. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, restricted bank deposits, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2017, approximately 68% (2016: 66%) of the Group's interest-bearing bank and other borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in equity* RMB'000
2017			
RMB	25	(20,671)	—
RMB	(25)	20,671	—
2016			
RMB	25	(16,946)	—
RMB	(25)	16,946	—

* Excluding retained profits and exchange fluctuation reserve

Notes to Financial Statements

31 December 2017

45. Financial risk management objectives and policies (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in USD and RMB and a certain portion of the bank loans is denominated in USD. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/(decrease) in US\$ rate %	Increase/(decrease) in profit before tax RMB'000	Increase/(decrease) in owners' equity* RMB'000
2017			
If RMB weakens against US\$	5	152,202	—
If RMB strengthens against US\$	(5)	(152,202)	—
2016			
If RMB weakens against US\$	5	146,523	—
If RMB strengthens against US\$	(5)	(146,523)	—

* Excluding retained profits and exchange fluctuation reserve

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analyses by customer. At the end of the reporting period, the Group had certain concentrations of credit risk as 5% (2016: 8%) and 19% (2016: 24%) the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 24 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings and corporate bonds. In addition, banking facilities have been put in place for contingency purposes. Except for the non-current portion of interest-bearing bank borrowings and certain corporate bonds, all borrowings would mature in less than one year at the end of the reporting period.

Notes to Financial Statements

31 December 2017

45. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Financial liabilities

	2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	8,704,431	38,416,377	11,355,826	1,299	58,477,933
Trade and bills payables	832,916	29,126,365	10,314,318	–	–	40,273,599
Due to joint ventures	–	615,659	–	–	–	615,659
Due to related parties	–	130,608	–	–	–	130,608
Other payables	818,498	6,751,307	567,181	–	–	8,136,986
	1,651,414	45,328,370	49,297,876	11,355,826	1,299	107,634,785
Financial guarantee issued						
Maximum amount guaranteed	15,584,848	–	–	–	–	15,584,848
	2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	–	5,627,748	28,529,553	9,711,772	88,525	43,957,598
Trade and bills payables	199,024	25,217,456	9,246,651	–	–	34,663,131
Due to joint ventures	–	463,856	–	–	–	463,856
Due to related parties	–	116,624	–	–	–	116,624
Other payables	464,016	1,080,447	981,202	–	–	2,525,665
	663,040	32,506,131	38,757,406	9,711,772	88,525	81,726,874
Financial guarantee issued						
Maximum amount guaranteed	4,180,316	–	–	–	–	4,180,316

Notes to Financial Statements

31 December 2017

45. Financial risk management objectives and policies (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain a healthy capital ratio in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

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 and other borrowings less cash and cash equivalents. Equity represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank and other borrowings	56,511,016	42,266,961
Less: Cash and cash equivalents	(8,935,954)	(7,111,234)
Net debt	47,575,062	35,155,727
Equity attributable to owners of the parent	51,108,394*	47,460,129*
Gearing ratio	93%	74%

* Equity attributable to owners of the parent deducted the amount of perpetual loans of RMB3,895,800,000 (2016: RMB3,795,800,000)

46. Dividends

	2017 RMB'000	2016 RMB'000
Interim Nil (2016: RMB0.367) per ordinary share	—	1,001,228
Proposed final RMB0.141 (2016: RMB0.178) per ordinary share	384,668	485,609
	384,668	1,486,837

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

Notes to Financial Statements

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47. Transfers of financial assets

Financial assets that are not derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the “Endorsed Bills”) with a carrying amount of RMB5,346,000 (2016: RMB6,569,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB5,346,000 (2016: RMB6,569,000) as at 31 December 2017.

Financial assets that are derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by certain banks in Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to these suppliers with a carrying amount in aggregate of RMB 5,026,084,000. The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

48. Events after the reporting period

On 29 September 2017, the company received the Notice of Registration Accepted from the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會). Pursuant to the Notice of Registration Accepted (Zhong Shi Xie Zhu [2017] NO. SCP301), the joint lead underwriters for the ultra-short-term financing securities with a registered amount of RMB10 billion were China Development Bank, Industrial And Commercial Bank Of China Limited, Agricultural Bank of China Limited, Bank of China Limited, China Everbright Bank Company Limited, China Minsheng Banking Corporation Limited, Industrial Bank Co., Ltd. and China Zheshang Bank Co., Ltd.. The registered amount referred in the above Notice of Registration Accepted is valid in 2 years from the date on which the Notice was issued, and the Company may issue the securities by installment during the term of validity. On 9 March 2018, the issuance announcement for the first issue of ultra-short-term financing securities of 2018 was published by the Company, the total issued amount of which was RMB2 billion at the issue price of RMB100, with a maturity of 270 days and an interest rate of 5.29%. All funds raised from the ultra-short-term financing securities will be used to supplement the working capital of the Company.

The Proposal on Increasing the Share Capital of Joint Venture Shenzhen BYD Electric Car Investment Co., Ltd. (深圳比亞迪電動汽車投資有限公司) (《關於擬對參股公司深圳比亞迪電動汽車投資有限公司增資的議案》) was considered and approved at the sixth interim meeting of the Board of Directors on 5 January 2018, pursuant to which the increase of RMB175 million in the share capital of Shenzhen BYD Electric Car Investment Co., Ltd. (hereinafter referred to as “Electric Car Investment”) by BYD Auto Industry Co., Ltd., a holding subsidiary of the Company, was agreed. Electric Car Investment was founded on 30 June 2014, with a registered capital of RMB10 million. Upon the completion of the increase of share capital of Electric Car Investment, shareholdings in Electric Car Investment by the Company will increase from 50% to 60%. According to the articles of association, the Group does not have control even though the Group’s ownership interests in these investees are greater than 50%.

A final dividend in respect of the year ended 31 December 2017 of RMB0.141 per share (tax inclusive) was proposed pursuant to a resolution passed by the Board of Directors on 27 March 2018. This intended to distribute cash dividends of RMB 384,668,000 in aggregate based on the total share capital of 2,728,142,855 shares of the Company as at 27 March 2018. The proposal of the final dividend is subject to consideration and approval at the Company’s forthcoming general meeting. This proposed dividend is not reflected as dividend payable in the consolidated financial statements.

Notes to Financial Statements

31 December 2017

49. Statement of financial position of the company

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

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,576,338	1,735,189
Investment properties	61,996	–
Investments in subsidiaries	17,695,945	17,585,944
Investments in joint ventures	1,598,000	1,353,000
Investments in associates	468,601	371,825
Prepaid land lease payments	22,843	23,525
Other intangible assets	175,166	126,376
Non-current prepayments	40,433	38,831
Deferred tax assets	145,403	54,590
Long term receivable	–	14,840
Available-for-sale investments	3,644,058	3,211,386
Total non-current assets	25,428,783	24,515,506
CURRENT ASSETS		
Inventories	81,846	79,198
Trade and bills receivables	383,631	267,663
Tax recoverable	–	3,039
Prepayments, deposits and other receivables	137,793	291,144
Due from subsidiaries	31,021,225	24,767,583
Due from the jointly-controlled entities	57,858	55,559
Restricted bank deposits	–	200
Cash and cash equivalents	668,625	63,808
Total current assets	32,350,978	25,528,194
CURRENT LIABILITIES		
Trade and bills payables	650,459	243,813
Other payables	296,525	348,948
Derivative financial instruments	100,342	
Advances from customers	18,542	5,378
Interest-bearing bank and other borrowings	13,339,941	10,189,084
Due to the jointly-controlled entities	4,962	4,962
Due to subsidiaries	6,523,773	2,905,002
Tax payable	1,425	–
Total current liabilities	20,935,969	13,697,187
NET CURRENT ASSETS	11,415,009	11,831,007
TOTAL ASSETS LESS CURRENT LIABILITIES	36,843,792	36,346,513

Notes to Financial Statements

31 December 2017

49. Statement of financial position of the company (continued)

	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	6,313,109	5,676,868
Deferred tax liabilities	584,093	549,903
Deferred income	13,550	–
Other non-current liabilities	–	440
Total non-current liabilities	6,910,752	6,227,211
Net assets	29,933,040	30,119,302
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	2,728,143	2,728,143
Reserves	23,309,097	23,595,359
Perpetual loans	3,895,800	3,795,800
Total equity	29,933,040	30,119,302

Notes to Financial Statements

31 December 2017

49. Statement of financial position of the company (continued)

Note:

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

	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits RMB'000	Perpetual loans RMB'000	Total RMB'000
At 1 January 2016	5,863,563	758,004	601,028	3,088,994	3,200,000	13,511,589
Total comprehensive income/(loss) for the year	14,116,927	127,629	–	(960,786)	595,800	13,879,570
Appropriate to statutory surplus reserve fund	–	–	23,306	(23,306)	–	–
At 31 December 2016	19,980,490	885,633	624,334	2,104,902	3,795,800	27,391,159
Profit for the year	–	–	–	160,257	–	160,257
Other comprehensive income for the year:						
Change in fair value of available-for-sale investments, net of tax	–	282,126	–	–	–	282,126
Issue of perpetual loans (note 37)	–	–	–	–	3,300,000	3,300,000
Repay of perpetual loans (note 37)	–	–	–	–	(3,200,000)	(3,200,000)
Issue of shares	–	–	–	–	–	–
Share issue expenses	–	–	–	–	–	–
Perpetual loan interest paid (note 12)	–	–	–	(243,036)	–	(243,036)
Interim 2017 dividend	–	–	–	(485,609)	–	(485,609)
Total comprehensive income for the year	–	282,126	–	(568,388)	100,000	(186,262)
Appropriate to statutory surplus reserve fund	–	–	27,894	(27,894)	–	–
At 31 December 2017	19,980,490	1,167,759	652,228	1,508,620	3,895,800	27,204,897

50. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2018.

Five Year Financial Summary

As 31 December 2016

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
REVENUE	102,650,614	100,207,703	77,611,985	55,366,384	49,767,887
Cost of sales	(84,715,540)	(81,189,440)	(65,752,741)	(47,742,926)	(43,251,573)
Gross profit	17,935,074	19,018,263	11,859,244	7,623,458	6,516,314
Other income and gains	1,153,210	926,216	1,991,326	922,648	456,199
Government grants and subsidies	1,275,807	710,939	581,177	798,446	677,121
Selling and distribution costs	(4,925,288)	(4,196,339)	(2,867,992)	(2,228,758)	(2,011,845)
Research and development costs	(3,739,491)	(3,171,694)	(1,998,499)	(1,864,695)	(1,278,910)
Administrative expenses	(3,047,734)	(3,690,339)	(3,428,963)	(2,600,600)	(2,073,516)
Other expenses	(463,645)	(629,203)	(581,505)	(257,330)	(387,556)
Finance costs	(2,342,770)	(1,799,609)	(1,517,003)	(1,396,828)	(1,017,318)
Share of profits and losses of:					
Joint ventures	(270,959)	(619,528)	(245,802)	(121,276)	(36,309)
Associates	46,437	19,704	3,003	(1,113)	(12,099)
PROFIT BEFORE TAX	5,620,641	6,568,410	3,794,986	873,952	832,081
Income tax expense	(703,705)	(1,088,398)	(656,790)	(134,082)	(56,215)
PROFIT FOR THE YEAR	4,916,936	5,480,012	3,138,196	739,870	775,866
Attributable to:					
Equity holders of the parent	4,066,478	5,052,154	2,823,441	433,525	553,059
Minority interests	850,458	427,858	314,755	306,345	222,807
	4,916,936	5,480,012	3,138,196	739,870	775,866
TOTAL ASSETS	178,099,430	145,070,778	115,485,755	94,008,855	78,014,834
TOTAL LIABILITIES	(118,141,943)	(89,661,415)	(79,456,514)	(65,114,418)	(53,158,393)
NON-CONTROLLING INTERESTS	(4,953,293)	(4,153,434)	(3,734,837)	(3,528,840)	(3,146,677)
NET ASSETS (EXCLUDING NON-CONTROLLING INTERESTS)	55,004,194	51,255,929	32,294,404	25,365,597	21,709,764



比亞迪股份有限公司
BYD COMPANY LIMITED