

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 1. ORGANISATION AND OPERATIONS

BYD Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 11th June, 2002 as a joint stock limited company.

The principal activity of the Company is research and development, manufacture and sales of rechargeable batteries, battery chargers, LCD and other electronic products. The activities of the Company's subsidiaries are set out in Note 13.

The Company's H shares have been listed on The Stock Exchange of Hong Kong Limited since 31st July, 2002.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December, 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiary acquired during the year, if any, are included in the consolidated profit and loss account from the effective date of acquisition, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries, if any, are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Group accounting (continued)

#### (ii) Translation of foreign currencies

A substantial portion of the Group's sales are in RMB. Management believes that using RMB as the Group's functional currency will enable financial results and relationship to be measured with more relevance and reliability.

In the accounts of the individual companies, transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (c) Intangibles

#### (i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised over a period of 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets of 20 years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Intangibles (continued)

#### (ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### (iii) Distribution network

Distribution network represents payments made to secure distribution rights in the PRC and is amortised using the straight-line method over 10 years.

#### (iv) Other intangible assets

Other intangible assets are amortised using the straight-line method over their estimated useful economic lives as follows:

Industrial proprietary rights	10 years
Patents	5 years

#### (v) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) Fixed assets

Fixed assets, comprising of land use rights, buildings, leasehold improvements, machinery and equipment, motor vehicles and office equipment and fixtures are stated at cost less accumulated depreciation and accumulated impairment losses.

#### (i) Depreciation

Land use rights and leasehold improvements are depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The estimated useful lives and estimated residual values are as follows:

	<b>Estimated useful lives</b>	<b>Estimated residual values</b>
Buildings	10 to 50 years	4% to 5%
Machinery and equipment	5 to 10 years	4% to 5%
Motor vehicles	5 years	4% to 5%
Office equipment and fixtures	5 years	4% to 5%

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to its normal working condition to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

#### (ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (e) Government grants

A government grant is initially recognised as deferred income, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Grants relating to assets are recognized in the account on a systematic basis over the useful life of the assets.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

### (f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the lease periods.

### (g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted-average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (h) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

### (i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

### (j) Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for repair or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (k) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

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

#### (ii) Retirement benefit obligations

As stipulated by the rules and regulations in the PRC, the Company and its subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at rates ranging from 8% to 22.5% of the basic salary predetermined by local government. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

The Group provides no retirement nor termination benefits other than those described above.

The costs of employee retirement benefits are recognised in the profit and loss account in the year on an accrual basis.

### (l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### (m) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Processing income is recognised as processing services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

### (o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (p) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisition through purchase of a subsidiary.

In respect of geographical segment reporting, sales are based on the location of the Group's customers. No geographical segment assets and liabilities are presented as over 90% of the Group's assets are located in the PRC.

### 3. TURNOVER AND REVENUE

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Turnover		
- Lithium-ion batteries	<b>3,501,293</b>	2,113,048
- Nickel batteries	<b>1,547,001</b>	1,249,455
- Liquid crystal display ("LCD") for mobile phones	<b>666,236</b>	92,007
- Automobiles	<b>389,321</b>	509,718
- Precise plastic parts	<b>273,159</b>	72,553
- Battery charger for mobile phones	<b>27,347</b>	—
- Emergency lights	<b>8,790</b>	11,572
- Other mobile phone spare parts	<b>12,606</b>	14,917
	<b>6,425,753</b>	4,063,270
Other revenue		
- Sales of materials (Note (a))	<b>7,855</b>	4,871
- Processing income	<b>958</b>	3,116
- Subsidy income	<b>5,558</b>	14,478
- Interest income	<b>16,207</b>	16,431
- Net exchange gains	<b>3,504</b>	3,856
	<b>34,082</b>	42,752
Total revenue	<b>6,459,835</b>	4,106,022

(a) During the year, the Group sold raw materials to some of its suppliers amounting to approximately RMB17,503,000 (2003: RMB17,048,000) with a corresponding cost of raw materials of approximately RMB9,648,000 (2003: RMB12,177,000) resulting in other revenue of approximately RMB7,855,000 (2003: RMB4,871,000).

### 4. SEGMENT REPORTING

#### Primary reporting format – business segments

The Group is principally engaged in three main business segments:

- Battery and other products – manufacture and sales of rechargeable batteries (principally for mobile phones), battery chargers, emergency lights and other battery-related products.
- Handset components – manufacture and sales of LCD and precise plastic parts.
- Automobile and related products – manufacture and sales of automobiles, battery-powered automobiles/ bicycles and auto-related moulds.



# Notes to the Accounts

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(Amounts expressed in RMB unless otherwise stated)

## 4. SEGMENT REPORTING (continued)

Primary reporting format – business segments (continued)

An analysis of the Group's revenues and results for the year by business segments is as follows:

	2004			Total RMB'000
	Battery and other products RMB'000	Handset components RMB'000	Automobile and related products RMB'000	
Turnover	5,097,037	939,395	389,321	6,425,753
Segment results	1,105,950	118,530	(48,144)	1,176,336
Unallocated costs				—
Operating profit				1,176,336
Finance costs				(66,323)
Profit before taxation				1,110,013
Taxation				(64,426)
Profit after taxation				1,045,587
Minority interests				(8,586)
Profit attributable to shareholders				1,037,001
Segment assets	5,573,003	1,243,535	1,987,320	8,803,858
Unallocated assets	—	—	—	—
Total assets				8,803,858
Segment liabilities	2,050,149	1,038,469	1,611,550	4,700,168
Unallocated liabilities	—	—	—	—
Total liabilities				4,700,168
Capital expenditure	1,063,868	340,942	699,180	2,103,990
Depreciation of fixed assets	131,191	36,101	55,092	222,384
Amortisation of development costs	—	—	9,912	9,912
Amortisation of other intangible assets	1,163	—	750	1,913

#### 4. SEGMENT REPORTING (continued)

Primary reporting format – business segments (continued)

	2003			Total RMB'000
	Battery and other products RMB'000	Handset components RMB'000	Automobile and related products RMB'000	
Turnover	3,388,992	164,560	509,718	4,063,270
Segment results	957,720	2,588	13,621	973,929
Unallocated costs				—
Operating profit				973,929
Finance costs				(19,961)
Profit before taxation				953,968
Taxation				(61,567)
Profit after taxation				892,401
Minority interests				(28,540)
Profit attributable to shareholders				863,861
Segment assets	4,032,398	338,714	1,206,782	5,577,894
Unallocated assets	—	—	—	—
Total assets				5,577,894
Segment liabilities	1,030,369	315,314	798,448	2,144,131
Unallocated liabilities	—	—	—	—
Total liabilities				2,144,131
Capital expenditure	961,913	191,006	924,354	2,077,273
Depreciation of fixed assets	60,765	14,503	36,058	111,326
Amortisation of development costs	—	—	3,763	3,763
Amortisation of other intangible assets	1,119	—	3,671	4,790
Reversal of impairment of fixed assets	—	—	(4,136)	(4,136)

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 4. SEGMENT REPORTING (continued)

### Secondary reporting format – geographical segments

An analysis by geographical segment, as determined by location of customers, is presented below. No segment assets and liabilities are presented as over 90% of the Group's assets are located in the PRC.

	2004		
	Turnover RMB'000	Cost of sales RMB'000	Gross profit RMB'000
PRC	6,135,814	(4,511,464)	1,624,350
Europe	142,984	(105,953)	37,031
U.S.A.	146,955	(103,446)	43,509
Total	6,425,753	(4,720,863)	1,704,890

	2003		
	Turnover RMB'000	Cost of sales RMB'000	Gross profit RMB'000
PRC	3,924,037	(2,624,305)	1,299,732
Europe	77,037	(51,449)	25,588
U.S.A.	62,196	(39,156)	23,040
Total	4,063,270	(2,714,910)	1,348,360

## 5. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
<b>After charging -</b>		
Cost of inventories	<b>4,064,063</b>	2,338,912
Staff costs (excluding directors' emoluments) (Note 11)	<b>611,416</b>	404,110
Directors' (including supervisors') emoluments (Note 12(a))	<b>1,687</b>	1,587
Depreciation of fixed assets	<b>222,384</b>	111,326
Amortisation of intangibles		
- Goodwill (included in other operating expenses)	<b>3,093</b>	1,785
- Development costs (included in administrative expenses)	<b>9,912</b>	3,763
- Other intangible assets	<b>1,913</b>	4,790
Provision for doubtful receivables	<b>24,738</b>	56,245
Write-down of inventory to net realisable value	<b>21,343</b>	24,089
Operating lease expenses on buildings	<b>5,807</b>	2,690
Loss on disposal of fixed assets	<b>475</b>	770
Provision for warranty (Note 23)	<b>2,287</b>	7,518
Auditors' remuneration	<b>1,800</b>	1,200
Litigation settlements (Note 32)	<b>19,920</b>	—
Research and development costs	<b>69,284</b>	38,108
<b>After crediting -</b>		
Reversal of impairment of fixed assets (included in other operating expenses)	<b>—</b>	4,136
Net exchange gains	<b>3,504</b>	3,856
Interest income on bank deposits	<b>16,207</b>	16,431
Negative goodwill recognised	<b>82</b>	—

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31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 6. FINANCE COSTS

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Interest on borrowings	<b>62,140</b>	15,909
Bank charges for discounted notes	<b>6,249</b>	—
Other bank charges	<b>5,332</b>	4,287
<hr/>		
Total borrowing costs incurred	<b>73,721</b>	20,196
Less: amount of interest capitalised in properties under construction-in-progress	<b>(7,398)</b>	(235)
<hr/>		
	<b>66,323</b>	19,961

The capitalisation rate applied to funds borrowed and used for the construction of properties is 3.97% (2003: 4.78%) per annum.

## 7. TAXATION

### (a) Income tax

#### (i) Hong Kong, U.S.A. and Netherlands profits tax

No Hong Kong, U.S.A. and Netherlands profits tax was provided for as the Group had no assessable profit arising in or derived from Hong Kong, U.S.A. and Netherlands for the year (2003: Nil).

#### (ii) PRC Enterprise Income Tax ("EIT")

The Company and its subsidiaries registered in the PRC are subject to EIT on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The generally applicable EIT rate is 33%. However, according to certain rules and regulations promulgated by the local tax authorities, the Company and certain of its subsidiaries are entitled to preferential EIT rate at 7.5%. Furthermore, the Company and certain of its subsidiaries are also entitled to full exemption from EIT for the first two years and 50% reduction in EIT for the next three to eight years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

## 7. TAXATION (continued)

### (a) Income tax (continued)

#### (ii) PRC Enterprise Income Tax ("EIT") (continued)

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Current taxation		
- Hong Kong profits tax	—	—
- Overseas taxation	<b>67,282</b>	73,085
Deferred taxation	<b>(2,856)</b>	(11,518)
	<b>64,426</b>	61,567

#### (iii) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Profit before taxation	<b>1,110,013</b>	953,968
Calculated at a tax rate of 33%	<b>366,304</b>	314,809
Expense not deductible for taxation purpose	<b>12,567</b>	23,870
Effect of tax concession	<b>(314,445)</b>	(277,112)
	<b>64,426</b>	61,567

# Notes to the Accounts

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## 7. TAXATION (continued)

### (b) Deferred taxation

Deferred taxation is calculated in full on temporary differences under liability method using a principal tax rate of 7.5% (2003: 7.5%).

The movement on the deferred tax assets account is as follows:

	Group		Company	
	2004	2003	2004	2003
At 1st January,	11,518	—	8,116	—
Deferred tax credited to profit and loss account	2,856	11,518	1,045	8,116
At 31st December	14,374	11,518	9,161	8,116
Representing:				
Deferred tax assets arising from provision for doubtful receivables and write-down inventory to net realisable value	14,374	11,518	9,161	8,116

The amounts shown in the balance sheet include the following:

	Group		Company	
	2004	2003	2004	2003
Deferred tax assets to be recovered after more than 12 months	14,374	11,518	9,161	8,116

## 8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of approximately RMB617,161,000 (2003: RMB653,113,000).

## 9. DIVIDENDS

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Final, proposed, of RMB0.577 (2003: RMB0.512) per share	<b>311,292</b>	276,224

At a meeting held on 24th March, 2005, the directors proposed a final dividend of RMB0.577 (2003: RMB0.512) per share. This proposed dividend is not reflected as a dividend payable as at the end of the year, but will be reflected as an appropriation of retained earnings for the year ending 31st December, 2005.

## 10. EARNINGS PER SHARE

### (a) Earnings per share - basic

The calculation of basic earnings per share for the year ended 31st December, 2004 is based on the Group's profit attributable to shareholders for the year ended 31st December, 2004 of approximately RMB1,037,001,000 and the weighted average number of 539,500,000 shares in issue during the year.

### (b) Earnings per share - diluted

Diluted earnings per share is not presented because there has been no potentially dilutive ordinary shares in existence during the year.

## 11. STAFF COSTS (EXCLUDING DIRECTORS' EMOLUMENTS)

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Wages and salaries	<b>526,408</b>	351,184
Employees' welfare contribution	<b>60,715</b>	47,473
Pension costs – defined contribution	<b>20,301</b>	5,029
Post employment medical benefits	<b>3,992</b>	424
	<b>611,416</b>	404,110



## Notes to the Accounts

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### 12. DIRECTORS' (INCLUDING SUPERVISORS') EMOLUMENTS

(a) Directors' (including supervisors') emoluments

The aggregate amount of emoluments payable to directors (including supervisors) of the Company during the year are as follows:

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Fees	—	—
Other emoluments		
- basic salaries, allowances and other benefits in kind	<b>1,677</b>	1,577
- pension	<b>10</b>	10
	<b>1,687</b>	1,587

Directors' (including supervisors') emoluments disclosed above include approximately RMB380,000 (2003: RMB280,000) paid to independent non-executive directors.

The emoluments of the directors (including supervisors) fell within the following bands:

	<b>Number of directors</b> <b>(including supervisors)</b>	
	<b>2004</b>	<b>2003</b>
Nil to Hong Kong dollar ("HKD") 1,000,000 (equivalent to approximately RMB1,060,000)	<b>9</b>	8

During the year, no director has waived emolument or has agreed to waived the directors' emolument.

## 12. DIRECTORS' (INCLUDING SUPERVISORS') EMOLUMENTS (continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 4 directors (including supervisors) (2003: 4 directors (including supervisors)) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 1 (2003: 1) individual during the year are as follows:

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Basic salaries, allowances and benefits in kind	<b>1,500</b>	1,500
Pension	—	—
	<b>1,500</b>	1,500

The emoluments fell within the following band:

	<b>Number of individuals</b>	
	<b>2004</b>	<b>2003</b>
Nil to HKD1,000,000 (equivalent to approximately RMB1,060,000)	—	—
HKD1,000,001 to HKD1,500,000 (equivalent to approximately RMB1,590,000)	<b>1</b>	1
	<b>1</b>	1

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## 13. INVESTMENT IN SUBSIDIARIES

	Company	
	2004 RMB'000	2003 RMB'000
Unlisted investments at cost	830,791	632,552

The following is a list of the subsidiaries as at 31st December, 2004:

Name	Place of establishment/ incorporation, operation and kind of legal entity	Percentage of equity interest attributable to the Group		Paid in/ issued and fully paid share capital	Principal activities
		Direct	Indirect		
Shenzhen BYD Lithium Batteries Company Limited ("BYD Li-ion")	The PRC Limited liability company	96.52%	—	RMB 30,000,000	Research, development, sale and manufacture of Lithium-ion batteries.
Shenzhen BYD Electronics Company Limited ("BYD Electronics")	The PRC Limited liability company	40%	57.91%	RMB 2,500,000	Design and manufacture of testing equipment and machinery for the Group's own use and rechargeable battery related products.
Shanghai BYD Company Limited ("BYD SH")	The PRC Sino-foreign equity joint venture	75%	25%	United States dollar ("USD") 30,000,000	Research, development, sale and manufacture of Lithium-ion batteries.
BYD Europe B.V. ("BYD Europe")	Netherlands Limited liability company	100%	—	EURO 18,151	Trading of NiCd, NiMH and Lithium-ion batteries and related products.
BYD America Corporation ("BYD America")	U.S.A. Limited liability company	100%	—	USD30,000	Trading of NiCd, NiMH and Lithium-ion batteries and related products.
BYD (H.K.) Co., Limited ("BYD HK")	Hong Kong Limited liability company	—	100%	HKD100	Trading of NiCd, NiMH and Lithium-ion batteries and related products.
BYD Automobile Company Limited ("BYD Auto QC")	The PRC Limited liability company	92%	—	RMB 487,001,339	Research, development, sale and manufacture of automobiles.

### 13. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of establishment/ incorporation, operation and kind of legal entity	Percentage of equity interest attributable to the Group		Paid in/ issued and fully paid share capital	Principal activities
		Direct	Indirect		
Xian BYD Elec- automobile Company Limited ("BYD Auto Xian")	The PRC Limited liability company	92%	—	RMB 80,000,000	Research, development, sale and manufacture of automobiles.
Shanghai BYD Automobile Company Limited ("BYD Auto SH")	The PRC Limited liability company	90%	9.65%	RMB 5,000,000	Research, development, sale and manufacture of automobiles and battery-powered bicycle.
Beijing BYD Battery Company Limited ("BYD BJ")	The PRC Limited liability company	80%	19.3%	RMB 50,000,000	Research, development and manufacture of rechargeable batteries and Lithium-ion batteries
Beijing BYD Mould Company Limited ("BYD Mould")	The PRC Limited liability company	68.33%	31.45%	RMB 30,000,000	Design and manufacture of mould.
OuBi (Shanghai) Automobile Technology Company Limited ("BYD OuBi")	The PRC Wholly-owned foreign enterprise	—	100%	USD 200,000	International trading, research and development of automobile, battery-powered automobiles and their related spare parts.
BYD Precision Manufacture Company Limited (formerly known as Shenzhen BiOu Company Limited) ("BYD Precision")	The PRC Sino-foreign equity joint venture	75%	25%	USD 12,000,000	Sale and manufacture of Lithium-ion batteries and its related products.
BYD Auto Sales Company Limited ("BYD Auto Sales")	The PRC Limited liability company	90%	9.65%	RMB 50,000,000	Sale and service manufactured automobiles
BYD Training School	The PRC Limited liability company	100%	—	RMB 5,000,000	Secondary vocational education

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 13. INVESTMENT IN SUBSIDIARIES (continued)

- (a) On 16th January, 2004, BYD BJ entered into acquisition agreements with Mr. Yang and Mr. Hao, who are the two minority shareholders of BYD Mould, respectively. According to such acquisition agreements, BYD BJ acquired an aggregate of 5% equity interest in BYD Mould for an aggregate consideration of RMB1,500,000. After the completion of the acquisition, the equity interest of the Company in BYD Mould has increased from 94.47% to 99.78%.
- (b) On 20th February, 2004, the Company entered into acquisition agreements with Shaanxi Province Investment Group (Limited) Company ("Shaanxi Group") and Xian Northern Qin Chuan Machinery Industries Company Limited respectively, pursuant to which the Company will effectively acquire an aggregate of an additional 15% equity interest in BYD Auto QC for an aggregate consideration of RMB52,500,000. After the completion of the acquisition, the equity interest of the Company in BYD Auto QC has increased from 77% to 92%.
- (c) On 7th September, 2004, BYD SH, an indirect wholly-owned subsidiary of the Company, entered into acquisition agreements with Ms. Dai and Mr. Shen, who are the two minority shareholders of BYD Li-ion respectively. According to such acquisition agreements, BYD SH acquired an aggregate of 6.52% equity interest in BYD Li-ion for an aggregate consideration of RMB45,691,000. After the completion of the acquisitions, the equity interest of the Company in BYD Li-ion has increased from 90% to 96.52%.

## 14. FIXED ASSETS

### Group

	Land use rights RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construc- tion-in- progress RMB'000	Total RMB'000
<b>Cost</b>								
As at 31st December, 2003	199,326	744,510	7,297	1,278,440	26,451	107,512	375,259	2,738,795
Additions	23,400	54,760	—	616,035	19,047	111,075	1,123,679	1,947,996
Transfers	—	522,616	—	204,865	—	—	(727,481)	—
Disposals	—	—	—	(6,832)	(1,914)	(5,297)	—	(14,043)
<b>As at 31st December, 2004</b>	<b>222,726</b>	<b>1,321,886</b>	<b>7,297</b>	<b>2,092,508</b>	<b>43,584</b>	<b>213,290</b>	<b>771,457</b>	<b>4,672,748</b>
<b>Accumulated depreciation and impairment</b>								
As at 31st December, 2003	(7,592)	(49,390)	(3,852)	(262,757)	(6,443)	(27,046)	—	(357,080)
Charge for the year	(6,711)	(20,059)	(1,360)	(165,189)	(5,255)	(23,810)	—	(222,384)
Disposals	—	—	—	2,836	1,139	2,784	—	6,759
<b>As at 31st December, 2004</b>	<b>(14,303)</b>	<b>(69,449)</b>	<b>(5,212)</b>	<b>(425,110)</b>	<b>(10,559)</b>	<b>(48,072)</b>	<b>—</b>	<b>(572,705)</b>
<b>Net book value</b>								
<b>As at 31st December, 2004</b>	<b>208,423</b>	<b>1,252,437</b>	<b>2,085</b>	<b>1,667,398</b>	<b>33,025</b>	<b>165,218</b>	<b>771,457</b>	<b>4,100,043</b>
As at 31st December, 2003	191,734	695,120	3,445	1,015,683	20,008	80,466	375,259	2,381,715

Land use rights comprise land use fees paid for the rights to use the land where the Group's factory buildings in Shenzhen, Shanghai, Beijing and Xian, the PRC are located.

As at 31st December, 2004, the remaining periods of the land use rights where the Group's factory buildings in are as follows:

#### Located in the following PRC cities:

	Remaining periods
— Shenzhen	45.5 years
— Shanghai	47.8 years
— Beijing	48.5 years
— Xian	43.1 years

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 14. FIXED ASSETS

### Company

	Land use rights RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construc- tion-in- progress RMB'000	Total RMB'000
<b>Cost</b>								
As at 31st December, 2003	33,203	254,883	4,480	296,188	9,847	72,991	33,906	705,498
Additions	1,080	2,240	—	280,086	5,011	20,989	386,693	696,099
Transfers	—	112,548	—	30,954	—	—	(143,502)	—
Disposals	—	—	—	(16,262)	(611)	(3,918)	—	(20,791)
<b>As at 31st December, 2004</b>	<b>34,283</b>	<b>369,671</b>	<b>4,480</b>	<b>590,966</b>	<b>14,247</b>	<b>90,062</b>	<b>277,097</b>	<b>1,380,806</b>
<b>Accumulated depreciation</b>								
As at 31st December, 2003	(1,283)	(6,899)	(2,081)	(79,728)	(3,512)	(21,831)	—	(115,334)
Charge for the year	(792)	(8,315)	(930)	(48,805)	(1,664)	(12,835)	—	(73,341)
Disposals	—	—	—	8,439	580	2,458	—	11,477
<b>As at 31st December, 2004</b>	<b>(2,075)</b>	<b>(15,214)</b>	<b>(3,011)</b>	<b>(120,094)</b>	<b>(4,596)</b>	<b>(32,208)</b>	<b>—</b>	<b>(177,198)</b>
<b>Net book value</b>								
<b>As at 31st December, 2004</b>	<b>32,208</b>	<b>354,457</b>	<b>1,469</b>	<b>470,872</b>	<b>9,651</b>	<b>57,854</b>	<b>277,097</b>	<b>1,203,608</b>
As at 31st December, 2003	31,920	247,984	2,399	216,460	6,335	51,160	33,906	590,164

## 15. INTANGIBLE ASSETS

Group

	<b>Goodwill/ Negative goodwill RMB'000</b>	<b>Development costs RMB'000</b>	<b>Industrial proprietary rights and patents RMB'000</b>	<b>Distribution network RMB'000</b>	<b>Total RMB'000</b>
<b>Cost</b>					
As at 1st January, 2003	—	—	8,219	—	8,219
Acquisition of a subsidiary (Note 28(c))	47,599	—	—	48,926	96,525
Additions	—	37,628	75	85	37,788
<b>As at 31st December, 2003</b>	<b>47,599</b>	<b>37,628</b>	<b>8,294</b>	<b>49,011</b>	<b>142,532</b>
Goodwill arising from acquisition of additional equity interests in a subsidiary (Note 13(b))	8,131	—	—	—	8,131
Negative goodwill arising from acquisition of additional equity interests in subsidiaries (Note 13(a)&(c))	(5,238)	—	—	—	(5,238)
Additions	—	152,818	—	283	153,101
<b>As at 31st December, 2004</b>	<b>50,492</b>	<b>190,446</b>	<b>8,294</b>	<b>49,294</b>	<b>298,526</b>
<b>Accumulated amortisation</b>					
As at 1st January, 2003	—	—	(3,555)	—	(3,555)
Acquisition of a subsidiary	—	—	—	(44,459)	(44,459)
Charge for the year	(1,785)	(3,763)	(1,119)	(3,671)	(10,338)
<b>As at 31st December, 2003</b>	<b>(1,785)</b>	<b>(3,763)</b>	<b>(4,674)</b>	<b>(48,130)</b>	<b>(58,352)</b>
Charge for the year	(3,011)	(9,912)	(1,163)	(750)	(14,836)
<b>As at 31st December, 2004</b>	<b>(4,796)</b>	<b>(13,675)</b>	<b>(5,837)</b>	<b>(48,880)</b>	<b>(73,188)</b>
<b>Net book value</b>					
<b>As at 31st December, 2004</b>	<b>45,696</b>	<b>176,771</b>	<b>2,457</b>	<b>414</b>	<b>225,338</b>
<b>As at 31st December, 2003</b>	<b>45,814</b>	<b>33,865</b>	<b>3,620</b>	<b>881</b>	<b>84,180</b>



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31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 15. INTANGIBLE ASSETS (continued)

Company

	Industrial proprietary rights and patents	
	2004 RMB'000	2003 RMB'000
<b>Cost</b>		
As at 1st January,	7,952	7,877
Additions	—	75
As at 31st December	7,952	7,952
<b>Accumulated amortisation</b>		
As at 1st January,	(4,522)	(3,464)
Charge for the year	(1,100)	(1,058)
As at 31st December	(5,622)	(4,522)
<b>Net book value</b>		
As at 31st December	2,330	3,430
As at 1st January,	3,430	4,413

## 16. INVENTORIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Raw materials	676,173	390,990	289,334	238,142
Work-in-progress	627,018	384,067	216,959	224,210
Finished goods	191,052	95,322	70,198	32,266
	1,494,243	870,379	576,491	494,618

## 17. PREPAYMENTS AND OTHER RECEIVABLES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Prepayments for purchase of raw materials	109,884	74,263	45,722	35,325
Prepayments for purchase of fixed assets	203,750	73,194	69,960	10,770
VAT recoverable	15,234	55,625	13,729	55,625
Amounts due from employees	5,969	3,238	24	1,458
Others	17,693	10,886	7,182	8,471
	<b>352,530</b>	217,206	<b>136,617</b>	111,649

## 18. TRADE AND NOTES RECEIVABLE

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
1 to 3 months	1,634,533	1,277,833	659,104	877,799
4 to 6 months	230,934	185,614	173,569	143,677
7 to 12 months	45,171	29,915	28,085	22,972
	<b>1,910,638</b>	1,493,362	<b>860,758</b>	1,044,448

The Group would generally grant a credit term from 0 to 120 days to its customers. In addition, a predetermined credit term has been set for each customer.

As at 31st December, 2004, trade receivables of approximately RMB332,556,000 (2003: Nil) of the Group were pledged for certain of the Group's short-term loans (Note 22(a)).

As at 31st December, 2004, trade receivables of approximately RMB48,508,000 (2003: Nil) of the Company were pledged for certain of the Company's short-term loans (Note 22(a)).

## 19. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent pledged deposits placed with a bank for security against the issuance of certain letters of credit by that bank on behalf of the Group.

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 20. CASH AND BANK DEPOSITS

### (a) Group

As at 31st December, 2004, cash and bank deposits included RMB deposits of approximately RMB348,573,000 (2003: RMB153,253,000).

### (b) Company

As at 31st December, 2004, cash and bank deposits included RMB deposits of approximately RMB66,790,000 (2003: RMB72,336,000).

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

## 21. TRADE AND NOTES PAYABLE

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
1 to 3 months	1,238,671	956,160	520,550	455,638
4 to 6 months	374,079	218,437	251,603	161,459
7 to 12 months	10,703	3,519	1,880	716
1 to 2 years	6,946	11,336	3,916	3,128
2 to 3 years	5,726	3,426	618	486
	<b>1,636,125</b>	1,192,878	<b>778,567</b>	621,427

## 22. BORROWINGS

### (a) Short-term bank loans

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Secured	230,000	—	30,000	—
Unsecured	1,972,183	602,659	1,238,740	207,500
	<b>2,202,183</b>	602,659	<b>1,268,740</b>	207,500

## 22. BORROWINGS (continued)

### (a) Short-term bank loans (continued)

#### Group

As at 31st December, 2004, the Group's short-term bank loans bore interest at rates ranging from 1.78% to 4.78% (2003: 1.93% to 5.84%) per annum, of which approximately RMB1,162,183,000 (2003: RMB252,659,000) were denominated in USD.

As at 31st December, 2004, the Group's short-term bank loans of RMB230,000,000 (2003: Nil) were secured by certain of the Group's trade receivables (Note 18).

#### Company

As at 31st December, 2004, the Company's short-term bank loans bore interest at rates ranging from 1.83% to 4.78% (2003: 2.00%) per annum.

As at 31st December, 2004, the Company's short-term bank loans of RMB30,000,000 (2003: Nil) were secured by certain of the Company's trade receivables (Note 18).

### (b) Long-term bank loans

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unsecured	494,570	121,665	240,000	—
Less: amount repayable within one year (included in current liabilities)	(257,716)	(16,527)	(240,000)	—
	<b>236,854</b>	105,138	—	—

#### Group

As at 31st December, 2004, the Group's long-term bank loans bore interest at rates ranging from 3.51% to 5.18% (2003: 4.50% to 6.44%) per annum and certain of the Group's long-term bank loans amounting to RMB104,570,000 were guaranteed by the Company.

## Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

### 22. BORROWINGS (continued)

#### (b) Long-term bank loans (continued)

As at 31st December, 2004, the Group's long-term bank loans are repayable as follows:

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
Within one year	<b>257,716</b>	16,527
In the second year	<b>165,792</b>	15,782
In the third to fifth year	<b>39,479</b>	47,347
After the fifth year	<b>31,583</b>	42,009
	<b>494,570</b>	121,665

Company

As at 31st December, 2004, the Company's long-term loans bore interest at 3.51% per annum.

### 23. PROVISION FOR WARRANTY

	<b>2004</b> <b>RMB'000</b>	<b>2003</b> <b>RMB'000</b>
At 1st January,	<b>7,518</b>	—
Additional provisions	<b>2,287</b>	7,518
Less: amounts utilised	<b>(4,836)</b>	—
At 31st December	<b>4,969</b>	7,518

The Group provides two-year or 40,000 kilometres warranties on automobiles and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RMB4,969,000 has been recognised at 31st December, 2004 (2003: RMB7,518,000) for expected warranty claims based on past experience of the level of repairs and returns. It is expected that the majority of this expenditure will be incurred in the next financial year.

## 24. SHARE CAPITAL

Details of share capital were as follows:

	Number of shares		Amount	
	2004 '000	2003 '000	2004 RMB'000	2003 RMB'000
Issued and fully paid	539,500	539,500	539,500	539,500

## 25. RESERVES

Movements in reserves of the Company were as follows:

	Capital surplus RMB'000	Capital reserve RMB'000 (Note 26)	Statutory surplus reserve RMB'000 (Note 27(a))	Statutory public welfare fund RMB'000 (Note 27(b))	Retained earnings RMB'000	Total RMB'000
As at 1st January, 2003	1,523,080	(225,407)	20,569	10,285	195,352	1,523,879
Profit attributable to shareholders for the year	—	—	—	—	653,113	653,113
Appropriations (Note 27)	—	—	55,341	27,671	(83,012)	—
Dividends	—	—	—	—	(153,218)	(153,218)
As at 31st December, 2003	1,523,080	(225,407)	75,910	37,956	612,235	2,023,774
Profit attributable to shareholders for the year	—	—	—	—	617,161	617,161
Appropriations (Note 27)	—	—	49,913	24,957	(74,870)	—
Dividends (Note 9)	—	—	—	—	(276,224)	(276,224)
As at 31st December, 2004	1,523,080	(225,407)	125,823	62,913	878,302	2,364,711

## 26. CAPITAL RESERVE

Capital reserve of the Company represents the excess of the net assets of the subsidiary acquired pursuant to a reorganisation completed on 11st June, 2002 in preparation for the Company's listing, over the nominal value of the Company's consideration in exchange therefor.

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(Amounts expressed in RMB unless otherwise stated)

## 27. APPROPRIATIONS

### (a) Statutory surplus reserve

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of each entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of capital after such usages.

### (b) Statutory public welfare fund

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate 5% to 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to statutory public welfare fund, which will be utilised to build or acquire capital items, such as dormitories and other facilities for the Company and its subsidiaries' employees, and cannot be used to pay for staff welfare expenses. Titles of these capital items will remain with the respective companies now comprising the Group.

During the year, 10% and 5% of the profit attributable to shareholders were appropriated to statutory surplus reserve and statutory public welfare fund, respectively, as approved in resolutions passed by the boards of directors of the respective companies now comprising the Group.

The above statutory reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

## 28. CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operations:

	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Profit before taxation	<b>1,110,013</b>	953,968
Adjustment for:		
Depreciation of fixed assets	<b>222,384</b>	111,326
Amortisation of goodwill	<b>3,011</b>	1,785
Amortisation of development costs	<b>9,912</b>	3,763
Amortisation of other intangible assets	<b>1,913</b>	4,790
Reversal of impairment of fixed assets	<b>—</b>	(4,136)
Interest expenses	<b>62,140</b>	15,909
Interest income	<b>(16,207)</b>	(16,431)
Provision for doubtful receivables	<b>24,738</b>	56,245
Write-down of inventory to net realisable value	<b>21,343</b>	24,089
Loss on disposal of fixed assets	<b>475</b>	770
Operating profit before working capital changes	<b>1,439,722</b>	1,152,078
Increase in inventories	<b>(645,207)</b>	(391,236)
Increase (decrease) in prepayments and other receivables	<b>(135,324)</b>	19,870
Increase in trade and notes receivable	<b>(442,014)</b>	(968,251)
Decrease (increase) in due from related parties	<b>761</b>	(40)
Increase in due to related parties	<b>—</b>	20,330
Increase in trade and notes payable	<b>443,247</b>	602,292
Increase in accruals and other payable	<b>101,173</b>	126,458
Increase (decrease) in advances from customers	<b>18,849</b>	(1,895)
(Decrease) increase in provisions	<b>(2,549)</b>	7,518
Net cash inflow generated from operations	<b>778,658</b>	567,124



## Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

### 28. CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year:

	Dividend payable		Share capital including premium		Borrowings	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
As at 1st January,	—	—	2,062,580	2,062,580	724,324	—
Dividends (Note 9)	276,224	153,218	—	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	380,510
Cash (outflows) inflows	(276,224)	(153,218)	—	—	1,972,429	343,814
As at 31st December	—	—	2,062,580	2,062,580	2,696,753	724,324

(c) Purchase of a subsidiary

On 31st March, 2003, the Group acquired an aggregate of 77% equity interest in Xian Qin Chuan Automobile Limited Liability Company ("Qin Chuan"), a limited liability company established in the PRC, which is engaged in the manufacturing of automobile. The consideration of RMB269,500,000 was settled in cash. The fair value of the net identifiable assets of Qin Chuan at the date of acquisition was approximately RMB288,184,000. The resulting goodwill of approximately RMB47,599,000 is being amortised on a straight-line basis over 20 years (Note 15).

### 29. CONTINGENT LIABILITIES

- (a) As at 31st December, 2004, the Group had outstanding guarantee of bank loans for Xian Oriental Machinery Company Limited and Rong Xiangda Company Limited with amount of RMB2,000,000 and RMB1,531,000 respectively (2003: RMB2,000,000 and RMB2,105,000, respectively).
- (b) The Group is currently involved in one litigation proceeding in Japan in relation to alleged patent infringements. Due to the fact that there has not been any material development in respect of the proceeding in Japan since commencement of such proceeding, the Directors consider that it is impracticable and premature to assess the impact of such proceeding on the Group and its operation. The Directors of the Company believe that the Group has not committed the alleged infringements. The Group would vigorously defend against all claims under the proceeding.

### 30. COMMITMENTS

(a) Capital commitments

As at 31st December, 2004, the Group had the following capital commitments in relation to:

	Buildings		Machinery and equipment	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Contracted but not provided for	282,098	97,506	414,591	332,729

(b) Lease commitments

As at 31st December, 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in relation to office premises and factory as follows:

	2004 RMB'000	2003 RMB'000
Within 1 year	983	3,375
After 1 year but within 5 years	2,264	4,007
	3,247	7,382

### 31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship with related parties

Name	Relationship
Mr. Wang Chuan-fu	Director and shareholder of the Company
Shaanxi Group	Minority shareholder of a subsidiary of the Group
Northwest Electric-power Finance Company Limited ("Electric-power Finance")	Subsidiary of Shanxi Group

(b) During the year ended 31st December, 2004, the Group had no significant transactions with its related parties.

# Notes to the Accounts

31st December, 2004

(Amounts expressed in RMB unless otherwise stated)

## 31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (c) Balances with related parties

As at 31st December, 2004, the significant balances with related parties were as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Due from related parties:				
— Mr. Wang Chuan-fu, director (*)	282	1,043	275	1,015
— BYD SH	—	—	882,515	136,031
— BYD Auto Xian	—	—	337,640	—
— BYD Auto QC	—	—	204,898	99,528
— BYD Beijing	—	—	76,604	14,039
— BYD Mould	—	—	74,845	—
— BYD Li-ion	—	—	72,219	—
— BYD America	—	—	40,546	—
— BYD Europe	—	—	21,175	75,264
— BYD Oubi	—	—	4,243	—
— BYD Auto SH	—	—	2,673	664
— BYD Precision	—	—	2,254	10,911
— BYD Electronics	—	—	—	1,073
	<b>282</b>	1,043	<b>1,719,887</b>	338,525
Due to related parties:				
— Electric-power Finance	20,000	20,000	—	—
— Shanxi Group	330	330	—	—
— BYD HK	—	—	178,738	64,048
— BYD Auto Sales	—	—	37,947	—
— BYD Mould	—	—	720	122
— BYD Li-ion	—	—	—	49,230
— BYD America	—	—	—	1,287
	<b>20,330</b>	20,330	<b>217,405</b>	114,687

### 31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

#### (c) Balances with related parties (continued)

Balances with directors and related parties are unsecured and interest free, and have no fixed repayment terms, except for the balance with Electric-power Finance, which bears interest at 6.21% (2003: 6.21%) per annum and is repayable no later than 2006.

(\*) Additional information on amounts due from a director:

	Maximum balance of amount due from a director	
	2004 RMB'000	2003 RMB'000
Mr. Wang Chuan-fu	1,100	1,043

The amount due from Mr. Wang Chuan-fu mainly represented travelling advances provided by the Company.

### 32. SUBSEQUENT EVENTS

The Group entered into an agreement with Sanyo Energy (USA) Corporation, a Delaware corporation, and Sanyo Electric Co., Ltd. a Japanese company, (collectively referred to as "Sanyo") effective on 24th January, 2005 for settlement of the legal proceeding brought by Sanyo against the Group in 2002 for alleged patent infringements. Pursuant to the settlement agreement, among other things, both the Group and Sanyo have dismissed their respective claims or counter-claims against the other and the parties have agreed not to sue each other for an agreed period regarding patent infringement of lithium-ion batteries. In addition, the Group has paid to Sanyo US\$2,400,000 as part of the terms of the settlement.

### 33. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

### 34. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24th March, 2005.