Notes to the Consolidated Financial Statements

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1. CORPORATE INFORMATION

BYD Company Limited is a joint stock limited liability company (the "Company") incorporated 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 31st July 2002. The registered office of the Company is located at Yan An Road, Kuichong, Longgang District, Shenzhen, Guangdong Province, the PRC.

The principal activities of the Group are the research, development, manufacture and sale of rechargeable batteries, automobiles and related products, handset components, LCD and other electronic products. The activities of the Company's subsidiaries are set out in note 20.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The Group finances its capital intensive operations by obtaining credit terms from suppliers and interest-bearing bank borrowings. It had net current liabilities as at 31st December 2006 of RMB1,387,984,000. The directors are of the opinion that, taking into account the funding from banks, the Group has sufficient working capital for its present requirements. Hence, the financial statements have been prepared on a going concern basis.

On 15th March 2007, the Group entered into a loan extension agreement with the EXPORT-IMPORT BANK OF CHINA, RMB450 million of current portion of long term bank loans have been rolled-over for one year.

On 15th March 2007, the Group entered into a loan extension agreement with the China Merchants Bank, RMB100 million of current portion of long term bank loans have been rolled-over for 17 months.

On 15th March 2007, the Group entered into a loan extension agreement with the China Construction Bank, RMB150 million of current portion of long term bank loans have been rolled-over for 15 months.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31st December 2006 or 31st December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1st January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 Leases. However, the adoption of this interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1st January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1st March 2006, 1 May 2006, 1st June 2006, 1st November 2006 and 1st March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers in proportion to their respective capital contributions.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interest in its jointly-controlled entity is accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Where goodwill forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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 income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such 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, however 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 impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party 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 income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Buildings	10 -50 years
Leasehold improvements	Over the shorter of the lease terms and 5 years
Machinery and equipment	5 -10 years
Motor vehicles	5 years
Office equipment and fixtures	5 years

The units 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 the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment 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 income statement 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 represents property and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings held to earn rental income, 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. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of investment properties to its estimated residual value over its estimated useful life of 40 years.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Industrial proprietary rights and patents

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

Research and development costs

All research costs are charged to the income statement 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 and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 income statement so as to provide a constant periodic rate of charge over the lease terms.

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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 (excluding future credit losses that have not been incurred) 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 either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities including trade and other payables, interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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 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. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

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 income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such 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 on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on 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 on 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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which 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 balance sheets, 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.

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 balance sheet date 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 income statement.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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:

- where the deferred tax liability 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 taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, 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:

- where 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 and interests in joint ventures, 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 each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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" above;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) subcontracting income, when services have been provided.

Employee benefits

Retirement benefits

The Group and its jointly-controlled entity participate in a government-regulated defined contribution pension scheme, under which the Group and its jointly-controlled entity make contributions into a government-regulated pension scheme at a fixed percentage of wages and salaries of the existing full time employees in Mainland China and have no further legal or constructive obligations to make additional contributions. The contributions are charged to the income statement as incurred.

Medical benefit costs

The Group and its jointly-controlled entity participate in a government-organised defined contribution medical benefit plan, under which the Group and its jointly-controlled entity make contributions into a government-organised medical benefit plan at a fixed percentage of wages and salaries of the existing full time employees in Mainland China and have no further legal or constructive obligations to make additional contributions. The contributions are charged to the income statement as incurred.

Housing fund

The Group contributes on a monthly basis to a defined contribution housing fund plan organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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 are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. 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 determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, 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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed 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 31st December 2006 was RMB58,603,000 (2005: RMB58,603,000). More details are given in note 18.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amount of investment properties at 31st December 2006 was RMB2,101,000 (2005: Nil).

Deferred tax assets

Deferred tax assets are recognised for all 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 at 31st December 2006 was RMB10,414,000 (2005: RMB30,976,000). Further details are included in note 30 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 31st December 2006, the best estimate of the carrying amount of capitalised development costs was RMB352,118,000 (2005: RMB244,963,000 (restated)). Further details are contained in note 19 to the financial statements.

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4. PRIOR YEAR ADJUSTMENT

The Company undertook intensive effort in 2006 to enhance its operation system and refine upon the techniques applied in the production process of its automobile business, which involved extensive review of various research and development stages in 2006 and earlier periods. As a result of such review, certain of the research and development expenditure capitalised in prior years are expensed as then incurred in accordance to Hong Kong Accounting Standards 38 Intangible Assets. Corresponding adjustments have been applied retrospectively and certain comparative amounts have been restated. Development costs capitalised were decreased by RMB25,738,000 as at 31st December 2005 and the basic earning per share was decreased by RMB0.05 for the year 2005. The effects on the financial result for the year 2005 and earlier periods are summarised below:

	Group
	RMB '000
Effect on the financial result for the year ended 31st December 2005	
Increase in administrative expenses	25,738
Decrease in profit of year ended 31st December 2005	(25,738)
Effect on the financial result for years ended 31st December 2004	
Increase in administrative expenses	42,811
Decrease in profit of year ended 31st December 2004	(42,811)
Effect on the financial result for years ended 31st December 2003	
Increase in administrative expenses	23,372
Decrease in profit of year ended 31st December 2003	(23,372)
Decrease in retained profits at 31st December 2005	(91,921)

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the battery and other products segment comprises the manufacture and sale of rechargeable batteries principally for mobile phones, emergency lights and other battery related products.

(b) the handset components segment comprises the manufacture and sale of LCD and other handset components.

(c) the automobile and related products segment comprises the manufacture and sale of automobiles and auto-related moulds and components.

(d) the "others" segment comprises, principally, the new factory which has been just set up and other non-manufacturing parts of the Group.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No assets and liabilities information by geographical segment is presented as over 90% of the Group's assets are located in Mainland China.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December 2006 and 2005.

Year ended 31st December 2006	Battery and other products RMB'000	Handset components RMB'000	Automobile and related products RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	4,567,393	5,134,509	3,232,178	4,837	12,938,917
Segment results	411,114	901,522	116,181	(730)	1,428,087
Finance costs					(246,942)
Profit before tax					1,181,145
Tax					(53,075)
Profit for the year					1,128,070
Assets and liabilities:					
Segment assets	4,803,129	4,645,229	4,170,314	264,419	13,883,091
Unallocated assets					2,503,690
Total assets					16,386,781
Segment liabilities	1,579,734	1,525,594	1,324,402	31,181	4,460,911
Unallocated liabilities					6,558,229
Total liabilities					11,019,140
Other segment information:					
Depreciation and amortisation	208,926	165,240	150,069	1,465	525,700
Recognition of prepaid land lease payment	4,979	631	1,860	—	7,470
Capital expenditure	582,995	1,180,905	994,470	248,442	3,006,812
Write-down of inventories to net realisable value	35,560	53,163	—	—	88,723
Impairment of trade receivables	24,944	31,373	—	—	56,317
Product warranty provision	—	—	38,451	—	38,451

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Year ended 31st December 2005	Battery and other products RMB'000	Handset components RMB'000	Automobile and related products RMB'000 (restated)	Total RMB'000 (restated)
Segment revenue:				
Sales to external customers	3,963,438	1,906,298	628,594	6,498,330
Segment results (restated)	571,053	281,348	(117,045)	735,356
Finance costs				(142,508)
Profit before tax				592,848
Tax				(90,041)
Profit for the year				502,807
Assets and liabilities:				
Segment assets	5,639,915	2,107,152	2,406,930	10,153,997
Unallocated assets				1,059,357
Total assets				11,213,354
Segment liabilities	506,351	(102,467)	2,174,641	2,578,525
Unallocated liabilities				4,395,079
Total liabilities				6,973,604
Other segment information:				
Depreciation and amortisation	176,796	80,515	98,989	356,300
Recognition of prepaid land lease payments	1,496	189	559	2,244
Capital expenditure	940,569	422,364	569,307	1,932,240
Write-down of inventories to net realisable value	58,026	7,436	2,675	68,137
Impairment of trade receivables	2,715	36,313	(236)	38,792
Product warranty provision	—	—	3,429	3,429

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5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue information for the Group's geographical segments for the years ended 31st December 2006.

Year ended 31st December 2006	PRC RMB'000	Europe RMB'000	United States of America RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	8,408,770	1,363,989	908,369	2,257,789	12,938,917

The following tables present revenue information for the Group's geographical segments for the years ended 31st December 2005.

Year ended 31st December 2005	PRC RMB'000	Europe RMB'000	United States of America RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	4,552,080	558,856	472,429	914,965	6,498,330

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and an appropriate proportion of contract revenue of construction contracts during the year.

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

	Notes	Group 2006 RMB'000	Group 2005 RMB'000
Revenue			
Sale of goods		**12,917,599**	6,466,565
Construction contracts		**21,318**	31,765
		12,938,917	6,498,330
Other income			
Subcontracting income		**2,626**	993
Bank interest income	7	**13,956**	6,938
Government grants and subsidies		**11,143**	675
Net rental income	7	**219**	—
Sale of scraps		**73,664**	27,511
Others		**49,114**	390
		150,722	36,507
Gains			
Fair value gains:			
Derivative instruments - transactions not qualifying as hedges	27	**5,181**	10,163
Gain on disposal of items of property, plant and equipment		**1,123**	—
		157,026	46,670

Government grants have been received for setting up research activities in Mainland China. The government grants released have been recognised as income upon receipt. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.

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7. PROFIT BEFORE TAX

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

	Notes	Group 2006 RMB'000	Group 2005 RMB'000 (Restated)
Cost of inventories sold		**8,944,132**	4,017,389
Depreciation	15,16	**476,532**	346,092
Amortisation of intangible assets other than development costs*	19	**15,767**	3,314
Recognition of prepaid land lease payments	17	**7,470**	2,244
Research and development costs:			
Deferred expenditure amortised*	19	**33,401**	6,894
Current year expenditure		**140,555**	106,749
		173,956	113,643
Minimum lease payments under operating leases:			
Land and buildings located in Mainland China		**10,431**	7,288
Auditors' remuneration		**3,074**	2,400
Employee benefits expense (including directors' remuneration (note 9)):			
Wages and salaries		**1,263,275**	589,262
Welfare		**79,792**	40,308
Pension scheme contributions		**90,361**	21,755
		1,433,428	651,325
(Gain)/loss on disposal of items of property, plant and equipment		**(1,123)**	10,809
Foreign exchange differences, net		**24,172**	10,037
Impairment of trade receivables		**56,317**	38,792
Write-down of inventories to net realisable value		**88,723**	68,137
Product warranty provision:			
Additional provision	29	**38,451**	3,429
Fair value gains, net			
Derivative instruments - transactions not qualifying as hedges	27	**(1,668)**	(3,726)
Net rental income		**(219)**	—
Bank interest income		**(13,956)**	(6,938)

* The amortisation of intangible assets for the year are included in "Cost of sales" on the face of the consolidated income statement.

8. FINANCE COSTS

	Group 2006 RMB'000	2005 RMB'000
Interest on bank borrowings wholly repayable within five years	**233,145**	137,438
Bank charges for discounted notes	**16,126**	20,456
Total interest	**249,271**	157,894
Less: Interest capitalised	**(6,224)**	(15,386)
	243,047	142,508
Other finance costs:		
Unrealised loss on interest rate swaps	**3,895**	—
	246,942	142,508

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.41%.

9. DIRECTORS AND SUPERVISORS' REMUNERATION

Directors and Supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2006 RMB'000	2005 RMB'000
Fees	**530**	430
Other emoluments:		
Salaries, allowances and benefits in kind	**1,886**	1,543
Pension scheme contributions	**9**	15
	1,895	1,558
	2,425	1,988

(a) Independent non-executive directors

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

	2006 RMB'000	2005 RMB'000
Mr. Kang Dian	**230**	210
Mr. Li Guo-xun	**150**	110
Mr. Lin You-ren	**150**	110
	530	430

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

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9. DIRECTORS AND SUPERVISORS' REMUNERATION (continued)

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

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2006			
Executive directors:			
Mr. Wang Chuan-fu	**553**	**—**	**553**
Mr. Xia Zuo-quan	**593**	**5**	**598**
Non-Executive director:			
Mr. Lv Xiang-yang	**150**	**—**	**150**
Supervisors:			
Mr. Min De	**20**	**—**	**20**
Ms. Wang Zhen	**234**	**4**	**238**
Professor Dong Jun-qing	**336**	**—**	**336**
	1,886	**9**	**1,895**
2005			
Executive directors:			
Mr. Wang Chuan-fu	516	5	521
Mr. Xia Zuo-quan	504	5	509
Non-Executive director:			
Mr. Lv Xiang-yang	110	—	110
Supervisors:			
Mr. Min De	20	—	20
Ms. Wang Zhen	140	5	145
Professor Dong Jun-qing	253	—	253
	1,543	15	1,558

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five individuals whose remuneration were the highest in the Group for the year included one director and four employees (2005: three directors and two supervisors). Remuneration of directors and supervisors are disclosed in note 9 above. Details of the remuneration of the four (2005: Nil) non-director, non-supervisor, highest paid individuals for the year are as follows:

	2006 RMB'000	2005 RMB'000
Salaries, allowances and benefits in kind	3,899	—
Pension scheme contributions	18	—
	3,917	—

The remuneration of the four (2005: Nil) non-director, non-supervisor, highest paid employees fell within the band from Nil to RMB1,000,000.

11. TAX

No provision for Hong Kong, United States, Hungary, Netherlands, Japan and Denmark profits tax has been made for the year as the Group did not generate any assessable profits from there 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, based on existing legislation, interpretations and practices in respect thereof.

	2006 RMB'000	2005 RMB'000
Group:		
Current – Mainland China		
Charge for the year	74,080	106,643
Overprovision in prior years	(33,312)	—
Deferred (note 30)	12,307	(16,602)
Total tax charge for the year	53,075	90,041

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11. TAX (continued)

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

Group	2006		2005	
	RMB'000	%	RMB'000 (Restated)	%
Profit before tax	1,181,145		590,645	
Tax at the statutory tax rate	389,778	33.0	194,913	33.0
Lower tax rate for specific provinces or local authority	(242,169)	(20.5)	(128,549)	(21.8)
Income not subject to tax	(127,528)	(10.8)	—	—
Expenses not deductible for tax	55,807	4.7	2,113	0.4
Tax losses not recognised	38,347	3.2	21,564	3.7
Tax losses utilised from previous periods	(27,848)	(2.4)	—	—
Adjustments in respect of current tax of previous periods	(33,312)	(2.8)	—	—
Tax charge at the Group's effective rate	53,075	4.5	90,041	15.2

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31st December 2006 includes a loss of RMB39,691,000 (2005: profit of RMB252,334,000) which has been dealt with in the financial statements of the Company (note 32(b)).

13. DIVIDENDS

Shares

	2006 RMB'000	2005 RMB'000
Proposed final – RMB0.4 (2005: Nil) per ordinary share	215,800	—

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

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

The calculation of the basic earnings per share amount is based on the net profit for the year attributable to ordinary equity holders of the parent of RMB1,117,334,000 (2005: RMB503,013,000 (restated)), and the number of ordinary shares in issue during the year which is 539,500,000 (2005: 539,500,000).

No diluted earnings per share amounts have been presented for the years ended 31st December 2006 and 2005 as no diluting events existed during these years.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1st January 2006	1,900,053	17,806	3,186,964	46,565	258,201	739,207	6,148,796
Additions	27,368	132	957,278	14,765	89,619	1,730,756	2,819,918
Transfers	490,888	14,007	323,564	306	5,239	(834,004)	—
Transfer to investment properties (note 16)	(2,319)	—	—	—	—	—	(2,319)
Disposals	—	—	(20,442)	(2,790)	(2,781)	(3,811)	(29,824)
At 31st December 2006	2,415,990	31,945	4,447,364	58,846	350,278	1,632,148	8,936,571
Accumulated Depreciation							
At 1st January 2006	102,169	10,123	671,603	15,995	85,263	—	885,153
Provided during the year	44,627	343	383,491	6,076	41,935	—	476,472
Transfer to investment properties (note 16)	(158)	—	—	—	—	—	(158)
Disposals	—	—	(14,660)	(1,124)	(1,997)	—	(17,781)
At 31st December 2006	146,638	10,466	1,040,434	20,947	125,201	—	1,343,686
Net carrying amount							
At 31st December 2006	2,269,352	21,479	3,406,930	37,899	225,077	1,632,148	7,592,885
At 31st December 2005	1,797,884	7,683	2,515,361	30,570	172,938	739,207	5,263,643

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1st January 2005	1,321,886	7,297	2,092,508	43,584	213,290	771,457	4,450,022
Additions	1,639	—	679,248	8,575	47,209	995,315	1,731,986
Transfers	576,528	10,509	440,052	—	476	(1,027,565)	—
Disposals	—	—	(24,844)	(5,594)	(2,774)	—	(33,212)
At 31st December 2005	1,900,053	17,806	3,186,964	46,565	258,201	739,207	6,148,796
Accumulated Depreciation							
At 1st January 2005	69,449	5,212	425,110	10,559	48,072	—	558,402
Provided during the year	32,720	4,911	262,513	7,029	38,919	—	346,092
Disposals	—	—	(16,020)	(1,593)	(1,728)	—	(19,341)
At 31st December 2005	102,169	10,123	671,603	15,995	85,263	—	885,153
Net carrying amount							
At 31st December 2005	1,797,884	7,683	2,515,361	30,570	172,938	739,207	5,263,643
At 31st December 2004	1,252,437	2,085	1,667,398	33,025	165,218	771,457	3,891,620

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1st January 2006	561,924	4,480	929,379	15,415	106,088	509,675	2,126,961
Additions	83,804	—	248,050	4,241	34,726	227,788	598,609
Reclassifications	—	(4,480)	969	—	3,511	—	—
Transfers	360,032	—	136,680	53	2,074	(498,839)	—
Disposals	—	—	(275,134)	(1,264)	(14,160)	(2,887)	(293,445)
At 31st December 2006	1,005,760	—	1,039,944	18,445	132,239	235,737	2,432,125
Accumulated Depreciation							
At 1st January 2006	24,677	3,808	191,186	6,609	45,441	—	271,721
Provided during the year	19,617	—	113,669	3,113	16,656	—	153,055
Reclassifications	—	(3,808)	607	—	3,201	—	—
Disposals	—	—	(27,708)	(937)	(5,774)	—	(34,419)
At 31st December 2006	44,294	—	277,754	8,785	59,524	—	390,357
Net carrying amount							
At 31st December 2006	961,466	—	762,190	9,660	72,715	235,737	2,041,768
At 31st December 2005	537,247	672	738,193	8,806	60,647	509,675	1,855,240

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15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Buildings	Leasehold improvements	Machinery and equipment	Motor vehicles	Office equipment and fixtures	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost							
At 1st January 2005	369,671	4,480	590,966	14,247	90,062	277,097	1,346,523
Additions	4,919	—	319,105	2,501	24,904	478,079	829,508
Transfers	187,334	—	58,167	—	—	(245,501)	—
Disposals	—	—	(38,859)	(1,333)	(8,878)	—	(49,070)
At 31st December 2005	561,924	4,480	929,379	15,415	106,088	509,675	2,126,961
Accumulated Depreciation							
At 1st January 2005	15,214	3,011	120,094	4,596	32,208	—	175,123
Provided during the year	9,463	797	89,646	2,725	17,472	—	120,103
Disposals	—	—	(18,554)	(712)	(4,239)	—	(23,505)
At 31st December 2005	24,677	3,808	191,186	6,609	45,441	—	271,721
Net carrying amount							
At 31st December 2005	537,247	672	738,193	8,806	60,647	509,675	1,855,240
At 31st December 2004	354,457	1,469	470,872	9,651	57,854	277,097	1,171,400

16. INVESTMENT PROPERTIES

Group	RMB'000
At 1 January 2006	—
Transfer from property, plant and equipment (note 15)	2,319
At 31December 2006	2,319
Accumulated Depreciation	
At 1 January 2006	—
Transfer from property, plant and equipment (note 15)	158
Provided during the year	60
At 31 December 2006	218
Net carrying amount	
At 31 December 2006	2,101
At 31 December 2005	—

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements. The directors considered the carrying amount of the investment properties approximates to its fair value as at 31st December 2006.

17. PREPAID LAND LEASE PAYMENTS

	Group		**Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1st January	**206,179**	208,423	**31,529**	32,208
Additions	**1,535**	—	**—**	—
Recognised during the year	**(7,470)**	(2,244)	**(679)**	(679)
Carrying amount at 31st December	**200,244**	206,179	**30,850**	31,529
Current portion included in prepayments, deposits and other receivables	**(4,378)**	(7,470)	**(679)**	(679)
Non-current portion	**195,866**	198,709	**30,171**	30,850

The leasehold lands are held under a 50-years lease and situated in Mainland China. The prepaid land lease payments includes a land located in Shenzhen, the PRC, for which the Company is still in the process of obtaining the land use certificate. The net book value of the prepaid land lease payment in this respect as at 31st December 2006 amounted to RMB16,084,000 (2005: RMB16,433,000). In the opinion of the directors, there is no major barrier for the Company to obtain the land use certificate.

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18. GOODWILL

	Group RMB'000
At 1st January 2005:	
Cost	50,492
Accumulated impairment	(4,796)
Net carrying amount	45,696
Goodwill arising from acquisition of an additional equity interest in a subsidiary	7,734
Derecognition of negative goodwill	5,173
31st December 2005	58,603
At 1st January 2006 and 31st December 2006:	
Cost	63,399
Accumulated impairment	(4,796)
Net carrying amount	58,603

18. GOODWILL (continued)

Impairment testing of goodwill and intangible assets

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

The carrying amounts of goodwill and development costs allocated to the automobile and related products cash-generating unit are as follows:

	Note	Automobile and related products 2006 RMB'000
Carrying amount of goodwill		58,603
Carrying amount of development costs	19	352,118
		410,721

The recoverable amount of the automobile 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 three-year period approved by senior management. The discount rate applied to the cash flow projections is 10%. No growth rate has been projected beyond three-year period.

Key assumptions were used in the value in use calculation of the automobile and related products cash-generating unit for 31st December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and intangible assets.

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 rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year. The values assigned to key assumptions are consistent with external information sources.

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19. OTHER INTANGIBLE ASSETS

Group	Development costs	Industrial proprietary rights and patents	Know-how	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Restated)				(Restated)
At 1st January 2005:					
Cost - as previously reported	190,446	8,294	49,294	—	248,034
Accumulated amortisation					
- as previously reported	(13,675)	(5,837)	(48,880)	—	(68,392)
Net carrying amount at 1st January 2005 - as previously reported	176,771	2,457	414	—	179,642
Prior year adjustment - cost (note 4)	(66,183)	—	—	—	(66,183)
Net carrying amount at 1st January 2005 (restated)	110,588	2,457	414	—	113,459
Additions (restated)	141,269	25,512	—	—	166,781
Amortisation provided during the year	(6,894)	(3,298)	(16)	—	(10,208)
Net carrying amount at 31st December 2005 and 1st January 2006 (restated)	244,963	24,671	398	—	270,032
Additions	140,556	563	7,300	43,164	191,583
Amortisation provided during the year	(33,401)	(2,824)	(1,069)	(11,874)	(49,168)
Net carrying amount at 31st December 2006	352,118	22,410	6,629	31,290	412,447
At 31st December 2006:					
Cost	406,088	34,369	56,594	43,164	540,215
Accumulated amortisation	(53,970)	(11,959)	(49,965)	(11,874)	(127,768)
Net carrying amount at 31st December 2006	352,118	22,410	6,629	31,290	412,447

Development costs represents expenditure to refine upon the techniques applied in the automobile business. Developement costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production. The remaining useful lives of the development costs are three to five years.

19. OTHER INTANGIBLE ASSETS (continued)

Company

	Industrial proprietary rights and patents	Know-how	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2005:				
Cost	7,952	—	—	7,952
Accumulated amortisation	(5,622)	—	—	(5,622)
Net carrying amount at 1st January 2005	2,330	—	—	2,330
Amortisation provided during the year	(700)	—	—	(700)
Net carrying amount at 31st December 2005 and at 1st January 2006	1,630	—	—	1,630
Additions	528	904	17,772	19,204
Amortisation provided during the year	(204)	(24)	(6,108)	(6,336)
Net carrying amount at 31st December 2006	1,954	880	11,664	14,498
At 31st December 2006:				
Cost	8,480	904	17,772	27,156
Accumulated amortisation	(6,526)	(24)	(6,108)	(12,658)
Net carrying amount at 31st December 2006	1,954	880	11,664	14,498

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20. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	1,393,877	1,049,265

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of 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	RMB30,000,000	90%	6.52%	Research, development, sale and manufacture of Li-ion batteries
Shenzhen BYD Electronics Company Limited ("BYD Electronics")	PRC/ Mainland China	RMB2,500,000	40%	57.91%	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")	PRC/ Mainland China	US$43,000,000	75%	25%	Research, development, sale and manufacture of Li-ion batteries
BYD Europe B.V. ("BYD Europe")	Netherlands	EURO18,151	100%	—	Trading of NiCd, NiMH and Li-ion batteries and related products
BYD America Corporation ("BYD America")	U.S.A.	US$30,000	100%	—	Trading of NiCd, NiMH and Li-ion batteries and related products
BYD (H.K.) Co., Limited ("BYD HK")	Hong Kong	HK$23,410,000	100%	—	Trading of NiCd, NiMH and Li-ion batteries and related products
BYD Automobile Company Limited ("BYD Auto QC")	PRC/ Mainland China	RMB500,000,000	99%	—	Research, development, sale and manufacture of automobiles

20. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xian BYD Electronic Automobile Company Limited ("BYD Auto Xian")	PRC/ Mainland China	RMB80,000,000	99%	—	Research, development, sale and manufacture of automobiles
Shanghai BYD Automobile Company Limited ("BYD Auto SH")	PRC/ Mainland China	RMB10,000,000	90%	9.65%	Research, development, sale and manufacture of automobiles and battery-powered bicycles
Beijing BYD Battery Company Limited ("BYD BJ")	PRC/ Mainland China	RMB50,000,000	80%	19.3%	Research, development and manufacture of rechargeable batteries and Li-ion batteries
Beijing BYD Mould Company Limited ("BYD Mould")	PRC/ Mainland China	RMB30,000,000	68.33%	31.45%	Design and manufacture of moulds
OuBi (Shanghai) Automobile Technology Company Limited ("BYD OuBi")	PRC/ Mainland China	US$200,000	—	100%	International trading, research and development of automobiles, battery-powered automobiles and related spare parts
BYD Precision Manufacture Company Limited ("BYD Precision")	PRC/ Mainland China	US$25,000,000	—	100%	Sale and manufacture of Li-ion batteries and its related products
BYD Auto Sales Company Limited ("BYD Auto Sales")	PRC/ Mainland China	RMB50,000,000	90%	9.65%	Sale and distribute of automobiles; provide related after–sales service
BYD Training School ("BYD Training School")	PRC/ Mainland China	RMB5,000,000	100%	—	Provision of secondary vocational education

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20. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shenzhen BYD Display Technology Co., Limited ("BYD Display")	PRC/ Mainland China	RMB100,000,000	90%	9.65%	Design, production and sale of LCD
Shenzhen BYD Electronic Parts Co., Limited ("BYD Electronic Parts")	PRC/ Mainland China	RMB250,000,000	90%	9.65%	Production and sale of NiMH, NiCd and other batteries, hardware products, instrument and flexible printed circuit board
Shenzhen BYD Microelectronics Co., Limited ("BYD Microelectronics")	PRC/ Mainland China	US$10,000,000	70%	—	Design, production and sale of integrated circuits
BYD Japan Corporation ("BYD Japan")	Japan	US$93,575	100%	—	Trading of NiCd, NiMH and NiMH and Li-ion batteries and related products
BYD Denmark Corporation ("BYD Denmark ")	Denmark	EURO125,000	—	100%	Trading of NiCd, NiMH and Li-ion batteries and related products
BYD Industry and Commerce Co., Limited, Huizhou ("BYD HZ")	PRC/ Mainland China	US$20,000,000	75%	25%	Manufacture and sale of battery related products, optoelectronics
Shenzhen BYD Auto Company Limited ("BYD Auto SZ")	PRC/ Mainland China	RMB10,000,000	100%	—	Research and development of automobiles
Goldern Link Worldwide Limited ("Goldern Link")	British Virgin Islands	US$1	—	100%	Investment holding
BYD (Tianjing) Company limited ("BYD Tianjing")	PRC/ Mainland China	US$15,747,000	—	100%	Manufacture, assembly and sale of mobile handset components and modules

20. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BYD Hungary Corporation ("BYD Hungary")	Hungary	HUF3,000,000	—	100%	Pre-operating
Lead Wealth International Limited ("Lead Wealth")	British Virgin Islands	US$1	—	100%	Investment holding
BYD Electronic Company Limited ("BYD BE")	Cayman Islands	HK$1	—	100%	Investment holding

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

21. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of			Principal activities
			Voting Interest	Profit power	sharing	
Foshan Jinhui Hi-tech optoelectronic material Company Limited ("BYD FS")	Registered capital of RMB1 each	PRC	45%	40%	45%	Manufacture and sale of ion exchange membrane

The above investment in a jointly-controlled entity is held by BYD (H.K.) Co., Limited which is 100% directly held by BYD Company Limited.

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21. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

The following table illustrates the summarised financial information of the Group's jointly controlled entity:

	2006 RMB'000	2005 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	3,684	—
Non-current assets	9,720	—
Current liabilities	(4,534)	—
Net assets	8,870	—
Share of the jointly-controlled entity's results:		
Turnover	251	—
Other revenue	1	—
Total revenue	252	—
Total expenses	(1,478)	—
Tax	—	—
Loss after tax	(1,226)	—

22. INVENTORIES

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Raw materials	1,138,813	955,556	233,348	361,474
Work in progress	1,141,233	994,567	294,609	320,529
Finished goods	876,872	281,433	154,917	138,077
	3,156,918	2,231,556	682,874	820,080

At 31st December 2006, the carrying amount of the Group's inventories was pledged as security for the Group's bank loans amounting to RMB28,506,000 (2005: Nil), as further detailed in note 28(a)(ii) to the financial statements.

23. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Trade receivables	2,547,161	2,031,170	608,619	1,103,862
Bills receivable	656,456	257,338	117,810	101,973
Less: impairment of trade receivables	(209,218)	(164,976)	(86,276)	(93,846)
	2,994,399	2,123,532	640,153	1,111,989

At 31 December 2006, the Company and the Group factored trade receivables of RMB239,800,000 and RMB787,018,000, respectively, (2005: Nil and RMB275,255,000, respectively) to banks on a without-recourse basis for cash. As the Group still retained the risks and rewards associated with the delay in payment by the customers, the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Accordingly, bank advances from the factoring of trade receivables have been accounted for as liabilities in the consolidated balance sheet.

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 a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within three months	2,667,529	1,812,789	522,595	891,074
Three to six months	199,928	229,284	99,869	187,831
Six months to one year	97,732	78,898	17,689	33,084
Over one year	29,210	2,561	—	—
	2,994,399	2,123,532	640,153	1,111,989

At 31st December 2006, the Group has pledged bills receivable of approximately RMB94,771,000 (2005: Nil) to secure the Group's bank loans.

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Prepayments	**130,737**	235,024	**58,390**	76,401
Deposits and other receivables	**70,697**	32,688	**12,082**	18,326
Loans to staff	**54,691**	14,249	**3,950**	4,742
	256,125	281,961	**74,422**	99,469

25. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**1,653,145**	726,364	**374,294**	224,045
Time deposits	**47,932**	3,815	**—**	—
	1,701,077	730,179	**374,294**	224,045
Less: Restricted bank deposits:				
Pledged time deposits	**(40,102)**	(3,815)	**—**	—
Cash frozen for a litigation	**(43,663)**	(44,235)	**(43,663)**	(44,235)
Cash and cash equivalents	**1,617,312**	682,129	**330,631**	179,810

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to RMB314,795,000 (2005: RMB255,672,000). 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.

Restricted bank deposits as at 31st December 2006 included bank balances amounting to RMB25,229,000 and US$2,361,000 (2005: RMB25,229,000 and US$2,361,000) frozen for a litigation proceeding at year end (note 33).

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

26. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**2,671,655**	1,644,451	**564,038**	651,285
Three to six months	**549,432**	299,886	**99,895**	86,061
Six months to one year	**67,309**	15,735	**43,942**	6,826
One to two years	**18,537**	19,989	**373**	2,869
Two to three years	**7,641**	5,654	**3,689**	—
Over three years	**7,448**	—	**437**	—
	3,322,022	1,985,715	**712,374**	747,041

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

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	RMB'000	RMB'000	RMB'000	RMB'000
2006				
Forward currency contracts	5,181	3,513	2,702	1,158
Interest rate swaps	—	3,895	—	2,833
	5,181	7,408	2,702	3,991
Portion classified as non-current:				
Interest rate swaps	—	(3,545)	—	(2,659)
Current portion	5,181	3,863	2,702	1,332
2005				
Forward currency contracts	22,898	19,172	—	—

The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

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28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006			2005		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans - Secured	3.3-5.24	2007	123,277			—
Bank loans - Unsecured	6	2007	3,384,510	5.64	2006	2,178,236
Current portion of long term bank loans - Unsecured	4-6.24	2007	715,926	4-6.24	2006	16,788
			4,223,713			2,195,024
Non-current						
Bank loans - Secured	4	2008-2011	53,146	4	2007-2011	69,669
Bank loans - Unsecured	4.31-7.8	2008-2011	1,460,000	4.56-7.8	2007-2011	1,760,000
			1,513,146			1,829,669
			5,736,859			4,024,693

Company

	2006			2005		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans - Secured	3.3-5.24	2007	25,220			—
Bank loans - Unsecured	6	2007	2,460,249	5.64	2006	1,555,919
Current portion of long term bank loans - Unsecured	4.56-6.24	2007	550,000			—
			3,035,469			1,555,919
Non-current						
Bank loans - Unsecured	4.31-7.8	2008-2011	1,460,000	4.56-7.8	2007-2011	1,610,000
			4,495,469			3,165,919

28. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	**4,223,713**	2,195,024	**3,035,469**	1,555,919
In the second year	**665,000**	669,669	**665,000**	600,000
In the third to fifth years, inclusive	**848,146**	500,000	**795,000**	350,000
Beyond five years	**—**	660,000	**—**	660,000
	5,736,859	4,024,693	**4,495,469**	3,165,919

Notes:

(a) Certain of the Group's bank loans are secured by:

(i) mortgages over the Group's bills receivable, which had an aggregate carrying value at the balance sheet date of approximately RMB94,771,000 (2005: Nil);

(ii) the pledge of certain of the Group's inventories totalling RMB28,506,000 (2005: Nil); and

(iii) the pledge of certain of the Group's fixed assets, which had the net book value at the balance sheet date of RMB33,875,000 (2005: RMB45,420,000).

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**4,252,662**	3,504,135	**3,992,993**	2,864,333
US$	**1,465,802**	435,253	**502,476**	216,281
HK$	**4,327**	85,305	**—**	85,305
EURO	**14,068**	—	**—**	—
	5,736,859	4,024,693	**4,495,469**	3,165,919

The carry amounts of the Group's and the Company's bank and other borrowings approximate to their fair values.

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29. PROVISION

Group

	Product warranties RMB'000
At 1st January 2006	3,157
Additional provision	38,451
Amounts utilised during the year	(28,415)
At 31st December 2006	13,193

The Group provides two-year or below 40,000 kilometres (whichever applicable) warranties on automobiles and the undertakes 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. It is expected that the majority of this expenditure will be incurred within one year.

30. DEFERRED TAX

Deferred tax liabilities

Group

	Construction contracts revenue RMB'000	Development costs RMB'000	Total RMB'000
At 1st January 2006	—	—	—
Deferred tax charged to the income statement during the year (note 11)	6,754	1,501	8,255
At 31st December 2006	6,754	1,501	8,255

30. DEFERRED TAX (continued)

Deferred tax assets

Group

	Depreciation in excess of depreciation allowance RMB'000	Impairment of trade receivables RMB'000	Impairment of inventories RMB'000	Total RMB'000
At 1st January 2006	4,215	14,356	12,405	30,976
Deferred tax credited/(charged) to the income statement during the year (note 11)	6,199	(14,356)	(12,405)	(20,562)
At 31st December 2006	10,414	—	—	10,414

Group

	Depreciation in excess of depreciation allowance RMB'000	Impairment of trade receivables RMB'000	Impairment of inventories RMB'000	Total RMB'000
At 1st January 2005	—	8,003	6,371	14,374
Deferred tax credited to the income statement during the year (note 11)	4,215	6,353	6,034	16,602
At 31st December 2005	4,215	14,356	12,405	30,976

Company

	Depreciation in excess of depreciation allowance RMB'000	Impairment of trade receivables RMB'000	Impairment of inventories RMB'000	Total RMB'000
At 1st January 2006	3,456	8,962	5,451	17,869
Deferred tax credited/(charged) to the income statement during the year	2,929	(8,962)	(5,451)	(11,484)
At 31st December 2006	6,385	—	—	6,385

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30. DEFERRED TAX (continued)

Deferred tax assets (continued)

Company

	Depreciation in excess of depreciation allowance	Impairment of trade receivables	Impairment of inventories	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2005	—	3,959	5,202	9,161
Deferred tax credited to the income statement during the year	3,456	5,003	249	8,708
At 31st December 2005	3,456	8,962	5,451	17,869

The Group has tax losses arising in Mainland China of RMB161,340,000 (2005: RMB331,234,000) that are available for offsetting against future taxable profits of the companies in which the losses arose within five years after the occurrence of tax losses. 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.

At 31st December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint venture entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL

Shares	2006	2005
	RMB'000	RMB'000
Issued and fully paid:		
539,500,000 (2005: 539,500,000) ordinary shares of RMB1 each	539,500	539,500

32. RESERVES

(a) Group

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 page 40 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 incorporated in the PRC has been transferred to the statutory surplus reserve fund which are restricted as to use.

(b) Company

	Note	Share premium account	Capital reserve	Statutory surplus reserve fund	Statutory welfare fund	Retained profits	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2005		1,523,080	(225,407)	125,823	62,913	567,010	2,053,419
Profit for the year	12	—	—	—	—	252,334	252,334
Appropriation to statutory funds		—	—	24,362	12,181	(36,543)	—
At 31st December 2005		1,523,080	(225,407)	150,185	75,094	782,801	2,305,753
Loss for the year	12	—	—	—	—	(39,691)	(39,691)
Proposed final 2006 dividend		—	—	—	—	(215,800)	(215,800)
At 31st December 2006		1,523,080	(225,407)	150,185	75,094	527,310	2,050,262

The Company's capital reserve represents the excess of the net assets of the subsidiaries acquired pursuant to the reorganisation completed on 11th June 2002 in preparation for the Company's listing, over the nominal value of the Company' consideration in exchange therefore.

33. CONTINGENT LIABILITIES

The Group is involved in a litigation sentenced in Jiangsu Province in relation to the dispute of alleged battery quality sold by the Group to one of its customers. According to the terms of the first sentence, the Group would pay a total amount of RMB10,074,000 to the customer. The bank deposit of the Group amounting to RMB25,229,000 and US$2,361,000 were frozen by the court as at 31st December 2006 in this regard.

A provision of RMB10,074,000 for liability in respect of this matter has been made in the Group's financial statements as at 31st December 2006. However, the Group is seeking appeal.

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34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to five 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 31st December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006 RMB'000	2005 RMB'000
Within one year	657	—
In the second to fifth years, inclusive	2,191	—
	2,848	—

(b) As lessee

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

At 31st December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006 RMB'000	2005 RMB'000
Within one year	1,954	2,595
In the second to fifth years, inclusive	3,623	2,651
	5,577	5,246

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2006	2005
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	555,772	155,080
Plant and machinery	649,080	602,765
	1,204,852	757,845
Authorised, but not contracted for:		
Land and buildings	300,000	—
	1,504,852	757,845

36. RELATED PARTY TRANSACTIONS

(a) Name and relationship with a related party

Name	Relationship
Mr.Wang Chuan-fu	Director and shareholder of the Company

(b) The BYD Group did not carry out any material related party transactions during the year.

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36. RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties

As at 31st December 2006, the significant balances with related parties were as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Due from a related party:				
Mr.Wang Chuan-fu	765	1,265	—	1,265
Due from subsidiaries:				
BYD Precision	—	—	599,428	208,042
BYD Microelectronics	—	—	57,140	—
BYD SH	—	—	1,548,096	1,309,961
BYD Auto SH	—	—	20,193	11,019
BYD Oubi	—	—	5,936	4,911
BYD BJ	—	—	86,675	86,682
BYD Mould	—	—	227,083	186,576
BYD HK	—	—	452,454	—
BYD Europe	—	—	99,629	96,359
BYD America	—	—	50,466	90,475
BYD Japan	—	—	2,931	369
BYD Denmark	—	—	74	—
BYD HZ	—	—	182,706	—
BYD Auto SZ	—	—	83,716	—
BYD FS	—	—	3,600	—
BYD Auto Xian	—	—	1,306,557	586,493
BYD Auto QC	—	—	—	297,078
BYD Training School	—	—	—	33
	765	1,265	4,726,684	2,879,263

36. RELATED PARTY TRANSACTIONS (continued)

(c) Balances with related parties (continued)

	Company	
	2006	2005
	RMB'000	RMB'000
Due to subsidiaries:		
BYD Li-ion	**1,194,923**	700,987
BYD Electronics	**5,556**	3,847
BYD Auto Sales	**117,439**	123,033
BYD Microelectronics	**—**	1,575
BYD Electronic Parts	**19,435**	99,999
BYD Display	**99,946**	99,999
BYD HK	**—**	69,324
BYD Electronics of Tianjin	**104,516**	—
	1,541,815	1,098,764

The balances with directors and related parties are unsecured, interest-free and have no fixed repayment terms.

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

	2006	2005
	RMB'000	RMB'000
Short term employees benefits	**5,068**	1,030

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, 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 Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Cash flow 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 a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31st December 2006, after taking into account the effect of the interest rate swaps, approximately 60% (2005: 89%) of the Group's interest-bearing borrowings bore interest at fixed rates.

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 currency. Approximately 40% (2005: 30%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, whilst almost 33% of costs are denominated in the units' functional currency. The Group requires most of its operating units to use forward currency contracts to eliminate the foreign currency exposures for which payment is anticipated more than one month after the Group has entered into a firm commitment for a sale or purchase. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

At 31st December 2006, the Group had hedged 30% of its foreign currency sales for which firm commitments existed at the balance sheet date, extending to 31st March 2007.

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 certain derivative instruments, 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.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. The Group's policy is that not more than 75% of borrowings should mature in any 12-month period. 85% of the Group's debts would mature in less than one year as at 31st December 2006 (2005: 72%).

38. SIGNIFICANT EVENTS

The Company entered into a deed of gift (the "Deed of Gift") on 24 November 2006 with Golden Link Worldwide Limited ("Golden Link"), the immediate holding company of BYD Electronic, and 35 employees of the Group (the "Participants") pursuant to which the Company has agreed to procure Golden Link to transfer, and Golden Link has agreed to transfer, by way of gift, the entire beneficial interest in the 9% shares in BYD Electronic ("Awarded Shares") to a professional trustee to hold the share (the "trustee") for the benefit of the Participants. The Awarded Shares will be transferred to and held by the trustee on trust for the Participants. The Participants shall procure the trustee to hold, administer and exercise all rights of a shareholder attaching to the Awarded Shares in such manner and in all respects according to the terms and conditions of the trust deed for a period no shorter than five years from the date of acquisition, during which the trustee and the Participants shall be restricted from disposing of any of the Awarded Shares. Once the Awarded Shares are transferred to the trustee under the Deed of Gift for the benefit of the Participants, the Company, Golden Link or any subsidiary of the Company will cease to have any interest, right (i.e., title and ownership to the Awarded Shares, such as the rights to receive dividend and to vote at shareholders' meetings) or control over the Awarded Shares or any obligations towards the Participants under the Deed of Gift.

39. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16th March 2007.