



BYD COMPANY LIMITED  
比亞迪股份有限公司

STOCK CODE 股份編號 : 1211

interim report 2007 中期業績報告



TECHNOLOGY  
INNOVATES  
LIFE



## **INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007**

Turnover	+52%	To RMB8,622 million
<hr/>		
Gross profit	+63%	To RMB1,821 million
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Operating profit	+53%	To RMB863 million
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Profit attributable to equity holders of the Company	+47%	To RMB641 million
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Basic earnings per share	+47%	To RMB1.19
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### **HIGHLIGHTS**

- Maintained and strengthened its leading position in the global rechargeable batteries industry and recorded 67% significant growth in sales
- Recorded 51% strong growth in sales of handset components and assembly business
- Recorded 35% growth in turnover and successfully achieved encouraging results in automobiles business

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING ENVIRONMENT REVIEW

In the first half of 2007, the overall demand in the global handset market continued to experience relatively rapid growth. According to the survey report released by Gartner, a market research institution, the global handset market recorded an output of 528 million units, up approximately 16% from 453 million units in the same period last year. The market share occupied by leading global handset brands further increased. Although the performance of individual famous handset brand manufacturer was far from satisfaction, the market share of the top five global handset brands was more concentrated. The main driving factors for the growth of the global handset market included the strong demand brought about by improved living standard and increased purchasing power in emerging markets such as China and India, and the improvement and development of handset technology (such as: 3G technology becoming increasingly mature in overseas markets, the acceleration of the development pace of 3G handsets in China). In addition, the strong personalised demand of subscribers for handsets not only facilitated existing users' needs for replacement but to some extent, also caused some users to use several handsets, thus significantly expanding the existing handset market.

The sales of the global handset grew steadily and with the growth of demand in various emerging markets in Asia, the percentage of the output of low-and-medium-end handsets in the overall output continued to rise. Facing changes in market conditions, famous international handset brand suppliers further relocated their handset production bases to the Asian region after taking into account factors such as costs, production cycle and expansion of the Asian handset market. Meanwhile, they tended to adopt a strategy of selecting suppliers with stronger vertical integration capabilities, and also identified and nurtured a small number of "core" suppliers with high technical and technological standards, good product quality, a competitive cost structure, strong research and development capabilities in Asia. Such strategic change provided the Group with good development opportunities and also expedited the growth of the Group.

In the first half of 2007, the domestic automobile market continued to maintain satisfactory growth in overall production and sales. Given the strong growth of the individual disposable income and the increasing living standard of Chinese citizens and the fact that the penetration rate of automobiles in the PRC remained low when compared with other developed countries, it is anticipated that the China automobile market will maintain its rapid growth. For the first half of 2007, the overall automobile market in the PRC recorded production and sales of more than 4.3 million vehicles, representing a year-on-year growth of more than 20%. Production and sales of sedans reached over 2.2 million vehicles, representing a year-on-year growth of more than 25%. With their market share continuing to rise to 29%, domestic brands have successfully occupied an important position in the market.

## BUSINESS REVIEW

The two principal businesses of BYD comprise the IT component business and the automobile business. The IT component business mainly comprises the rechargeable battery business and the handset component and assembly business.

### IT parts - rechargeable batteries

During the period under review, BYD continued to maintain and strengthened its leading position in the global rechargeable battery market and sustained satisfactory growth. By leveraging its competitive advantages in the market, BYD further expanded its market share in the first half of 2007. Accordingly, sales reached RMB2,970,024,000, representing a substantial year-on-year increase of 56%. The sales growth of lithium-ion battery products was particularly strong. Sales were approximately RMB1,680,071,000, representing a year-on-year increase of 36%. Following the downturn in 2006, the nickel battery product business saw a considerable rebound in sales in the first half of 2007 to approximately RMB1,289,953,000, representing a significant year-on-year increase of 94%.

For the lithium-ion battery business, by leveraging on its excellent product quality and cost-effective competitive strengths, the Group further strengthened its strategic partnership with leading global handset manufacturers and successfully increased the number of orders and expanded BYD's share in supplying products to the customers. In addition, by paying attention to market changes, the Group managed to secure orders from other famous handset brands with strengthening market position. The significant increase in the number of orders further increased the Group's coverage in the global handset market. During the period, given the decline in the average selling price of lithium-ion batteries caused by the continued drop in the average selling price of handsets, together with the continued increase in raw material prices, there was also some pressure in maintaining the gross profit margin of the lithium-ion battery business.

## MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Being a leading global manufacturer in high-quality nickel batteries, BYD's market competitive position continued to be consolidated during the reporting period. In 2006, because of sustained high raw material prices, some nickel battery customers postponed their non-urgent orders. During the period under review, there was improvement in the postponement of orders by customers, the normal level was restored and even additional orders were received. Sustained high prices of raw materials also led to extremely worrying profit position of individual major competitors in the industry. As a result, the market share of BYD further enhanced. Meanwhile, BYD made a moderate price adjustment during the period, resulting in an increase in sales. Besides, this offset the adverse impact on profitability brought about by high raw material prices, thus allowing gross profit margin to return to the normal level.

### IT parts - handset components and assembly services

For the handset component and assembly services business, BYD adopted an operating strategy of providing vertical integration supply services to customers. Apart from providing diversified handset components to famous international handset brands, BYD also started to provide handset assembly services to customers. In the first half of 2007, the Group's handset component and assembly business recorded strong growth, with sales exceeding RMB3,168,451,000, representing a year-on-year increase of 51%.

The Group provides diversified handset component products, including plastic case, keypad, camera module, LCD display and flexible printed circuit board. The Group has highly vertically integrated production processes. While selling basic handset components, it also provides various services for customers, such as research and development, raw material, component procurement and other ancillary services, successfully establishing the Group's market position as an "one-stop handset component supplier" for famous international handset brands.

At present, famous international handset brand suppliers further relocate their production bases to the Asian region and seek for component supplier partners with better price competitiveness. By leveraging on the good and long-term partnership established with international handset suppliers, the Group has successfully grasped the opportunities that continually arise in the market. Apart from securing existing orders and new orders from existing customers, the Group has made good progress in developing new customers and successfully started to provide products and services for some new leading global handset brands.

Considering the promising prospect of the handset precision component business regarding handset components and assembly services, the Board proposed a spin-off listing of BYD Electronic (International) Company Limited (比亞迪電子(國際)有限公司) ("BYD International"), a subsidiary of the Company. References are made to the announcements of the Company dated 22 March 2007, 22 May 2007, 14 June 2007 and the circular of the Company dated 23 May 2007, respectively. An application to The Stock Exchange of Hong Kong Limited for the separate listing of BYD International on the main board has been submitted and such spin-off listing is subject to approval of the shareholders of the Company in general meetings. It is contemplated that after completion of the spin-off, BYD International will remain to be majority owned by the Company and as such, the Company will continue to consolidate all the assets, liabilities and income account items of BYD International and its subsidiaries. The Group believes that the spin-off proposal will bring a lot of advantages to the Company and BYD International, thereby better reflecting the real value of the Company and allows BYD International to capture the anticipated rapid growth potential of the mobile industry for the coming years.

The Company will make further announcements(s) of the spin-off proposal as and when appropriate.

### Automobile business

In the first half of 2007, the automobile business posted satisfactory performance. With the continued upgrade in BYD's market image and position, the expansion of production capacity to satisfy market needs and the implementation of effective marketing strategies within a wider scope, the Group's automobile business posted a strong performance in 2007. During the period under review, the turnover from the automobile business was RMB2,234,248,000, representing a year-on-year increase of 35%. Sales of automobiles were approximately 37,000 vehicles, representing an increase of 21% over the same period last year. The major car model F3 continued to maintain excellent sales performance in the market, with a total of 35,935 vehicles sold, representing a year-on-year increase of 50%.

## MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

During the period under review, the Group paid efforts to expand the marketing network and increase the number of distributors. Apart from that, the Group is going to prepare preliminary deployment for the F6 series to be launched in the second half year. Being the first car model for BYD to strategically penetrate the medium-to-high-end market, F6 is equipped with two displacements, 2.0L and 2.4L and offers manual, automatic gear shift for consumers' choice. Therefore, it has attracted much attention in the industry. At this year's Shanghai International Auto Show, BYD F6 received the honour of the "Best (China) Newly Launched Car (最佳(中國)首發新車)" and was highly recognized by other industry players. F6 will be launched in the market in the fourth quarter and with its high value for money, is expected to gain wide recognition from consumers.

Currently, as far as the automobile business is concerned, the Group has grasped the mature technologies and is well coordinated in research and development, production and management. The Group's strength lies in its wholly independent research and development capability, competitive cost advantage, good product quality and strong capability as well as able to launch new products to respond to the market promptly.

During the period, the construction of a new automobile research and development and production base in Shenzhen by the Group will effectively enhanced the Group's automobile research and development and production capabilities, thereby supporting the rocketing and sustainable growth of the Group's automobile business in the future.

### FUTURE PROSPECTS AND STRATEGIES

#### IT parts - rechargeable batteries

The Group will continue to strengthen strategic partnership with famous international handset brands and will actively develop new customers and strive to secure more orders. It is anticipated that the rechargeable battery business will maintain steady growth in the second half year. Looking ahead, the Group is determined to increase battery product applications and enhance cost control and grasp the market opportunity of increasing demand by implementing competitive pricing strategies so as to strengthen its leading market position in the rechargeable battery industry.

#### IT parts - handset components and assembly services

With increasing global handset demand and the relocation of production bases by famous international handset brands to the Asian region, market demand for cost-effective handset components has kept rising. To capture this business opportunity development of products with high growth and high profit margin and further extension of vertical integration will become the focus of BYD. With the existing customers, it is believed that the customers base for the handset component and assembly services business will be further broadened. Also, it is believed that a global manufacturing and service platform can be established, the research and development capability can be strengthened and the cost structure can be optimized by the Group with the aim of becoming a leading handset component and assembly service supplier in the world.

#### Automobile business

The Group believes there is still enormous room for the development of the automobile industry in China. The success of F3 series has laid a solid foundation for the Group in the automobile industry. Based on industry practice, sales in the second half year are generally better than that in the first half year. The Group anticipates that strong growth momentum will be maintained in the second half of 2007. By leveraging on its competitive edge and high value for money of its products, the Group will launch the new car model F6 targeting the medium-to-high-end market in August, 2007 to meet the needs of different consumers, thereby making new contributions to the profit of the Group. F6 was well-received once it was launched in the market. The Group is confident the new car model will further boost sales, leading to even better performance of the automobile business in the second half year. With the completion of the new automobile research and development as well as production base in Shenzhen, BYD will continue to pursue a development path of "self-research and development, self-production and self-owned brands" and launch diversified quality products with competitiveness and focus on strengthening brand awareness and reputation. BYD is determined to become one of the leaders in the automobile market of the PRC.





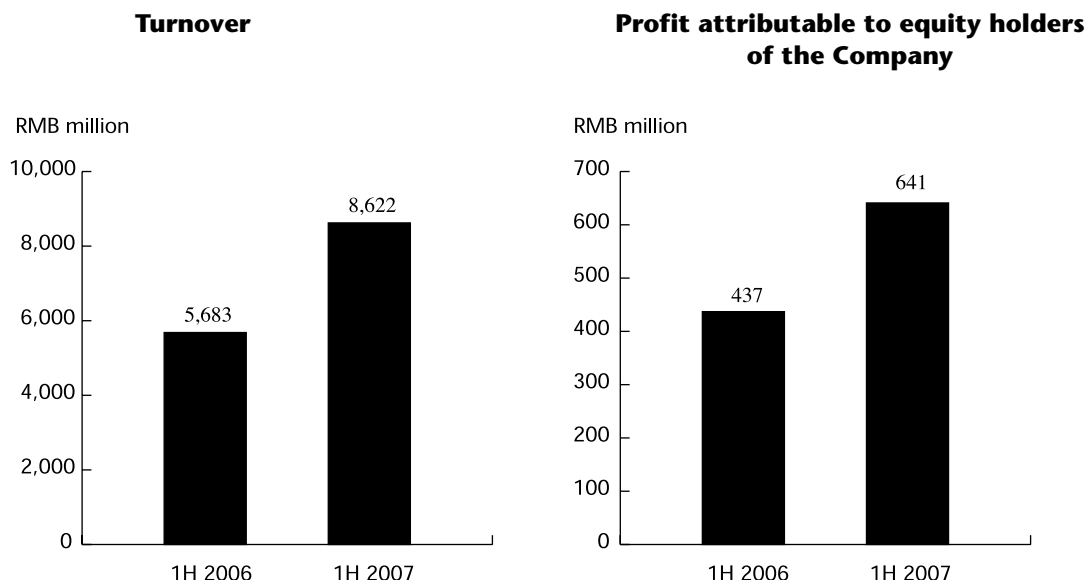




# MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

## FINANCIAL REVIEW

### Turnover and profit attributable to equity holders of the Company

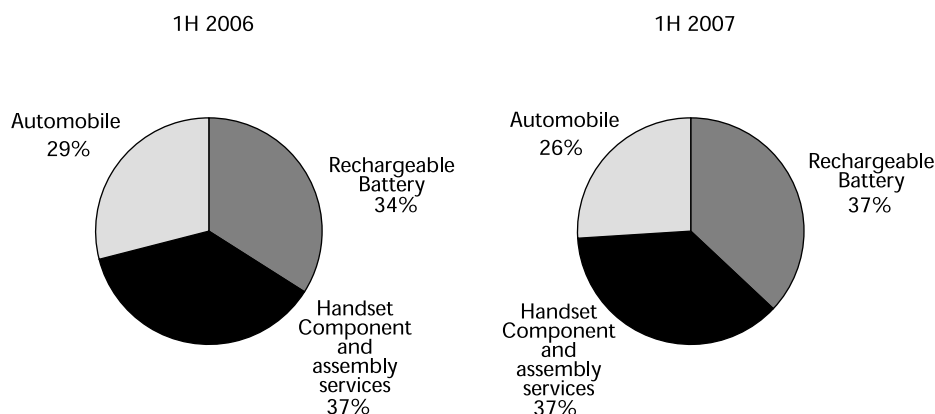


Turnover increased substantially during the period under review, mainly attributable to satisfactory growth of the rechargeable battery business, the handset component and assembly services business and the automobile business. The strong performance of all businesses also contributed to the substantial increase in the profit attributable to equity holders of the Company.

### Segmental information

Set out below are the Group's turnover in terms of product categories for the six months ended 30 June 2006 and 2007:

#### A breakdown of turnover in terms of product categories and percentages



The turnover breakdown of the three major businesses of the Group during the period under review was similar to that in the same period last year. Due to the faster growth of rechargeable battery business, the proportion of revenue from the rechargeable battery business slightly increased.



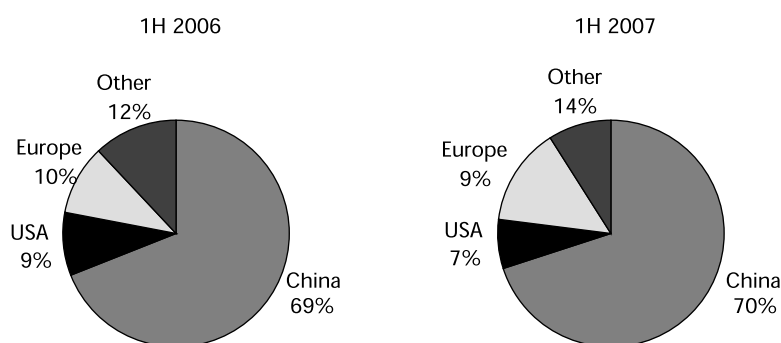




## MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Set out below are the Group's turnover in terms of geographical segments, as determined by locations of its customers for the six months ended 30 June 2006 and 2007:

### A breakdown of turnover in terms of customer location and their percentages



### Gross profit and margin

The Group's gross profit increased by approximately 63% to approximately RMB1,820,920,000 for the six months ended 30 June 2007. Gross profit margin slightly increased from 19.6% in the first half of 2006 to 21.1% in the first half of 2007. The increase in gross profit margin was attributable to during the period, with the Group's expansion of scale in handset component and automobile businesses, the Group was able to enjoy economies of scale. The gross profit margin of handset component and automobile businesses increased, so that gross profit margin of the group increased over the corresponding period last year.

### Liquidity and financial resources

BYD generated net operating cash inflow of approximately RMB292,585,000 for the six months ended 30 June 2007, compared with approximately RMB489,596,000 for the same period in 2006. Total borrowings as at 30 June 2007, including all bank loans, were approximately RMB7,346,656,000, compared with RMB5,736,859,000 as at 31 December 2006. The maturity profile spreaded over a period of five years, with RMB5,342,111,000 repayable within one year, RMB1,016,386,000 in the second year and RMB988,159,000 within the third to fifth years. The increase in total borrowings was to fund numerous projects, R&D investment volume and enhance production capacity. The Group maintains adequate daily liquidity management and capital funding expenditure requirements to regulate internal operating cashflow.

Accounts receivable turnover days were about 62 days for the six months ended 30 June 2007 as compared to approximately 65 days for the six months ended 30 June 2006. Inventory turnover days decreased from 98 days for the six months ended 30 June 2006 to 92 days for the six months ended 30 June 2007.

### Capital structure

The Group's treasury function is responsible for the Group's financial risk management which operates according to policies implemented and approved by top management. As at 30 June 2007, borrowings were primarily denominated in RMB and USD, while cash and cash equivalents were mainly denominated in RMB and USD. The Group's intentions to maintain an appropriate mix of financial equity and debt were to ensure an efficient capital structure during the Year. The loans outstanding as at 30 June 2007 are set out in Note 14 to the consolidated financial statements. The loans remaining outstanding as at 30 June 2007 were at fixed interest rates or floating interest rates for RMB loans and floating interest rates for foreign currency loans.

# MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

## EXPOSURE TO FOREIGN EXCHANGE RISK

Most of the Group's income and expenditure are denominated in RMB and USD. During the Year, the Group did not experience any significant difficulties in its operations or liquidity, due to fluctuations in currency exchange rates. The directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements.

## EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2007, the Group had over 100,000 employees, an increase of approximately 10,000 employees compared with 31 December 2006. During the period under review, total staff cost accounted for approximately 11% of the Group's turnover. Employee remuneration was determined based on performance, experience and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission were also awarded to employees, based on their annual performance evaluation. Incentives and encouragement were offered for personal and career development.

## SHARE CAPITAL

As at 30 June 2007, the share capital of the Company was as follows:

	<b>Number of shares issued</b>	<b>Percentage (%)</b>
Domestic shares	390,000,000	72.29
H shares	149,500,000	27.71
	<u>539,500,000</u>	<u>100.00</u>

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares since the listing on 31 July 2002 and up to 30 June 2007. During the period under review, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

## COMMITMENT

Please refer to Note 17 to the consolidated financial statements for capital commitment.

## CONTINGENT LIABILITIES

Please refer to Note 15 to the consolidated financial statements for contingent liabilities.

# **SUPPLEMENTARY INFORMATION**

## **CORPORATE GOVERNANCE**

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

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

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

#### **Code A.2.1**

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Wang Chuan-fu is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly every three months to discuss issues affecting operations of the Group. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Wang and believes that this appointment to the posts of chairman and chief executive officer is beneficial to the business development of the Company.

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers**

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

### **Audit committee**

The audit committee consists of three independent non-executive Directors and a non-executive Director. A meeting was convened by the Company’s audit committee on 31 August 2007 to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including reviewing the financial statements for the six months ended 30 June 2007 before recommending them to the Board for approval).

## SUPPLEMENTARY INFORMATION

### DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2007, the interests and short positions of each of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange to be notified to the Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the supervisors) were as follows:-

Name	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued domestic shares %
<i>Domestic shares of RMB1.00 each</i>			
Mr. Wang Chuan-fu	150,169,100 (L)	27.83	38.50
Mr. Lu Xiang-yang	107,083,600 (L) (note 1)	19.85	27.46
Mr. Xia Zuo-quan	32,888,700 (L)	6.10	8.43

(L) – Long Position

Note 1: This includes personal interest of 62,954,900 domestic shares representing approximately 16.14% of the Company's total issued domestic shares held by Mr. Lu and corporate interest held through Guangzhou Rongjie Investment Company Limited. Under the SFO, Mr. Lu is deemed to be interested in 44,128,700 domestic shares representing approximately 11.32% of the Company's total issued domestic shares which are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 84% by Mr. Lu.

Name	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued H shares %
<i>H shares of RMB1.00 each</i>			
Mr. Wang Chuan-fu	2,941,500 (L) (note 2)	0.55	1.97

Note 2: According to the legal consultant of the Company, Mr. Wang Chuan-fu, being a director the Company, is not prohibited from purchasing H shares outside the PRC.

Saved as disclosed above, as at 30 June 2007, none of the Directors, supervisors or the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.



## SUPPLEMENTARY INFORMATION

### SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at 30 June 2007, so far as was known to the Directors of the Company, the following persons (other than the Directors, supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO (Cap.571 of the Laws of Hong Kong), or were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:-

*Domestic shares of RMB1.00 each*

Name	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued domestic share %
Guangzhou Rongjie Investment Company Limited ( <i>note 1</i> )	44,128,700 (L)	8.18	11.32
Yang Long-zhong ( <i>note 2</i> )	20,717,300 (L)	3.84	5.31

*Notes:*

- Mr. Lu Xiang-yang, a director of the Company, is also deemed to be interested in 44,128,700 domestic shares representing approximately 11.32% of the Company's total issued domestic shares which are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 84% by Mr. Lu.
- Mr. Yang Long-zhong is a senior management personnel responsible for sales function of the Group.

*H shares of RMB1.00 each*

Name	Number of Shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued H Shares %
The Capital Group Companies, Inc. ( <i>note 1</i> )	8,570,600 (L)	1.59	5.73
JPMorgan Chase & Co. ( <i>note 2</i> )	7,208,300 (L)	1.34	4.82
	5,478,300 (P)	1.02	3.66
Li Lu ( <i>note 3</i> )	8,997,500 (L)	1.67	6.02
LL Group, LLC ( <i>note 4</i> )	8,997,500 (L)	1.67	6.02
LL Investment Partners, L.P.	8,997,500 (L)	1.67	6.02
Franklin Templeton Investments Corp.	4,601,000 (L)	0.85	3.08
Fidelity International Limited	9,153,000 (L)	1.70	6.12
Templeton Global Advisors Ltd.	9,004,500 (L)	1.67	6.02
Value Partners Limited ( <i>note 5</i> )	12,110,000 (L)	2.24	8.10
Cheah Cheng Hye ( <i>note 5</i> )	12,110,000 (L)	2.24	8.10
Halbis Capital Management (Hong Kong) Limited	7,277,500 (L)	1.35	4.86
Northern Trust Fiduciary Services (Ireland) Limited	9,145,000 (L)	1.70	6.12
Baring Asset Management Limited	9,073,000 (L)	1.68	6.07
Janus Capital Management LLC	11,966,000 (L)	2.22	8.00
State Street Corporation	13,487,964 (P)	2.50	9.02

## SUPPLEMENTARY INFORMATION

### Notes:

- (1) The Capital Group Companies, Inc. is deemed to be interested in 8,570,600 H shares (L) through Capital International, Inc. and Capital Group International, Inc., both of which are controlled corporations of The Capital Group Companies, Inc.
- (2) JPMorgan Chase & Co. is deemed to be interested in 7,208,300 H shares (L) and 5,478,300 H shares (P) through, as the case may be, JPMorgan Chase Bank, N.A., J.P. Morgan Chase International Holdings Limited, J.P. Morgan Securities Ltd., J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc, J.P. Morgan Overseas Capital Corporation, J.P. Morgan Whitefriars Inc., JPMorgan Asset Management (Asia) Inc., JF Asset Management Limited and JPMorgan Asset Management Holdings Inc., all of which are controlled corporations of JPMorgan Chase & Co.
- (3) Li Lu is deemed to be interested in 8,997,500 H shares (L) through LL Group, LLC and LL Investment Partners, L.P., both of which are controlled corporations of Li Lu.
- (4) LL Group, LLC is deemed to be interested in 8,997,500 H shares (L) through LL Investment Partners, L.P., which is a controlled corporation of LL Group, LLC.
- (5) Cheah Cheng Hye is deemed to be interested in 12,110,000 H shares (L) through Value Partners Limited, which is a controlled corporation of Cheah Cheng Hye.

The total issued share capital of the Company as at 30 June 2007 was RMB539,500,000, divided into 390,000,000 domestic shares of RMB1.00 each and 149,500,000 H shares of RMB1.00 each, all fully paid up.

*(L) - Long Position, (S) - Short Position, (P) - Lending Pool*

# CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		For the six months ended	
	Notes	30 June 2007 (Unaudited) RMB'000	30 June 2006 (Restated) RMB'000
<b>REVENUE</b>	6	8,622,007	5,683,158
Cost of sales		(6,801,087)	(4,569,226)
Gross profit		1,820,920	1,113,932
Other income and gains	6	99,771	11,472
Research and development costs		(98,342)	(121,016)
Selling and distribution costs		(318,609)	(170,713)
Administrative expenses		(588,419)	(247,730)
Other expense		(52,338)	(21,721)
Finance costs	7	(186,520)	(100,615)
<b>PROFIT BEFORE TAX</b>	8	676,463	463,609
Tax	9	(29,812)	(21,677)
<b>PROFIT FOR THE PERIOD</b>		<u>646,651</u>	<u>441,932</u>
Attributable to:			
Equity holders of the parent		640,996	437,403
Minority interests		5,655	4,529
		<u>646,651</u>	<u>441,932</u>
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB)	10	<u>1.19</u>	<u>0.81</u>

# CONSOLIDATED BALANCE SHEET

30 JUNE 2007

	Notes	<b>30 June 2007</b> <i>(Unaudited)</i> RMB'000	<b>31 December 2006</b> <i>(Audited)</i> RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		8,944,218	7,592,885
Investment properties		2,101	2,101
Prepaid land lease payments		436,424	195,866
Goodwill		58,603	58,603
Other intangible assets		553,430	412,447
Deferred tax assets		15,478	10,414
Total non-current assets		<u>10,010,254</u>	<u>8,272,316</u>
<b>CURRENT ASSETS</b>			
Inventories	11	3,824,191	3,156,918
Trade and bills receivables	12	2,968,584	2,207,381
Factored trade receivables	12	—	787,018
Prepayments, deposits and other receivables		1,003,800	256,125
Due from a director	18	—	765
Derivative financial instruments		10,817	5,181
Restricted bank deposits		43,404	83,765
Cash and cash equivalents		734,909	1,617,312
Total current assets		<u>8,585,705</u>	<u>8,114,465</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	3,771,884	3,322,022
Bank advances on factored trade receivables		—	787,018
Other payables and accruals		1,006,087	688,432
Advances from customers		530,023	429,010
Derivative financial instruments		18,800	3,863
Interest-bearing bank borrowings	14	5,342,111	4,223,713
Deferred tax liabilities		8,255	8,255
Tax payable		4,247	26,943
Provisions		20,704	13,193
Total current liabilities		<u>10,702,111</u>	<u>9,502,449</u>
<b>NET CURRENT LIABILITIES</b>		<u>(2,116,406)</u>	<u>(1,387,984)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>7,893,848</u>	<u>6,884,332</u>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowings	14	2,004,545	1,513,146
Derivative financial instruments		—	3,545
Total non-current liabilities		<u>2,004,545</u>	<u>1,516,691</u>
Net assets		<u>5,889,303</u>	<u>5,367,641</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		539,500	539,500
Reserves		5,192,311	4,537,164
Proposed dividends		—	215,800
		<u>5,731,811</u>	<u>5,292,464</u>
<b>Minority interests</b>		157,492	75,177
Total equity		<u>5,889,303</u>	<u>5,367,641</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Issued capital (Unaudited) RMB'000	Share premium (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Statutory surplus reserve (Unaudited) RMB'000	Statutory public welfare fund (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Proposed final dividend (Unaudited) RMB'000	Retained earnings (Unaudited) (Restated) RMB'000	Total (Unaudited) (Restated) RMB'000	Minority interest (Unaudited) RMB'000	Total equity (Unaudited) (Restated) RMB'000
At 1 January 2006											
As previously reported	539,500	1,523,080	—	217,897	85,956	1,494	—	1,899,301	4,267,228	64,441	4,331,669
Prior year adjustment (note 4)	—	—	—	—	—	—	—	(91,919)	(91,919)	—	(91,919)
As restated	539,500	1,523,080	—	217,897	85,956	1,494	—	1,807,382	4,175,309	64,441	4,239,750
Profit for the period	—	—	—	—	—	—	—	459,764	459,764	4,529	464,293
Exchange realignment	—	—	—	—	—	(49)	—	—	(49)	—	(49)
At 30 June 2006	<u>539,500</u>	<u>1,523,080</u>	<u>—</u>	<u>217,897</u>	<u>85,956</u>	<u>1,445</u>	<u>—</u>	<u>2,267,146</u>	<u>4,635,024</u>	<u>68,970</u>	<u>4,703,994</u>
At 1 January 2007	539,500	1,523,080	362	295,487	85,956	957	215,800	2,631,322	5,292,464	75,177	5,367,641
Profit for the period	—	—	—	—	—	—	—	640,996	640,996	5,655	646,651
Final 2006 dividends	—	—	—	—	—	—	(215,800)	—	(215,800)	—	(215,800)
Equity-settled share expenses (note 19)	—	—	14,250	—	—	—	—	—	14,250	81,060	95,310
Dividends paid to minority interest	—	—	—	—	—	—	—	—	—	(4,400)	(4,400)
Exchange realignment	—	—	—	—	—	(99)	—	—	(99)	—	(99)
At 30 June 2007	<u>539,500</u>	<u>1,523,080</u>	<u>14,612</u>	<u>295,487</u>	<u>85,956</u>	<u>858</u>	<u>—</u>	<u>3,272,318</u>	<u>5,731,811</u>	<u>157,492</u>	<u>5,889,303</u>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	For the six months ended 30 June	
	2007 <i>(Unaudited)</i> RMB'000	2006 <i>(Unaudited)</i> RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	292,585	489,596
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,997,668)	(897,826)
NET CASH INFLOW FROM FINANCING ACTIVITIES	822,779	494,779
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(882,304)	86,549
Cash and cash equivalents at beginning of period	1,617,312	682,129
Effect of foreign exchange rate changes, net	(99)	(49)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	734,909	768,629
Cash and bank balances	727,513	768,629
Non-pledged time deposits with original maturity of less than three months when acquired	7,396	—
	734,909	768,629

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2007

## 1. CORPORATE INFORMATION

BYD Company Limited (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on 11 June 2002 as a joint stock limited company.

The principal activity of the Company is research, development, manufacture and sales of rechargeable batteries, handset components, assembly services and automobile business. The Company’s H shares have been listed on The Stock Exchange of Hong Kong Limited since 31 July 2002.

## 2. BASIS OF PREPARATION

Despite the Group’s net current liabilities of approximately RMB2,116,406,000 as at 30 June 2007, the consolidated financial statements have been prepared on the going concern basis on the basis of the directors’ contention that the Group will be able to generate sufficient net cash inflows and new funding in the future to meet all its obligation when they fall due and will also be able to secure the financial support of its bankers, including the continued ongoing renewal, upon the due date, of the Group’s short term bank loan from its bankers.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify its non-current assets and liabilities as current liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

## 3. SUMMARY OF MAJOR ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. Except for the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs, which also includes HKASs and Interpretations) which affect the Group and are adopted for the first time for the current period’s financial statements, the accounting policies and basis of presentation adopted in the preparation of these condensed consolidated interim financial statements are the same as those adopted in the annual financial statements for the year ended 31 December 2006.

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

The adoption of the above new and revised HKFRSs has had no material impact on the accounting principles for the condensed consolidated interim financial statements of the Group and the calculation methods of the financial statements.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

### 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 RMB22,361,000 as at 30 June 2006 and the basic earning per share was decreased by RMB0.04 for the period 30 June 2006. The effects on the financial result for the period 2006 and earlier periods are summarised below.

	<b>Group</b> <i>RMB'000</i>
Effect on the financial result for the period ended 30 June 2006	
Increase in administrative expenses	<u>22,361</u>
Decrease in profit of period ended 30 June 2006	<u>(22,361)</u>
Consolidated balance sheet and equity at 31 December 2005	
Decrease in reserves (retained profits)	<u>(91,919)</u>



# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

## 5. SEGMENT INFORMATION

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

### (a) Business segments

The Group is principally engaged in three main business segments:

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

The following tables present revenue and profit for the Group's business segments for the six months ended 30 June 2007 and 2006:

	<b>For the six months ended 30 June 2007</b>			
	<b>Battery and related products</b>	<b>Handset components and assembly services</b>	<b>Automobile and related products</b>	<b>Total</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<u>3,219,308</u>	<u>3,168,451</u>	<u>2,234,248</u>	<u>8,622,007</u>
Segment results	<u>228,566</u>	<u>385,604</u>	<u>248,813</u>	862,983
Finance costs				<u>(186,520)</u>
<b>Profit before tax</b>				676,463
Tax				<u>(29,812)</u>
<b>Profit for the period</b>				<u>646,651</u>

	<b>For the six months ended 30 June 2006</b>			
	<b>Battery and related products</b>	<b>Handset components and assembly services</b>	<b>Automobile and related products</b>	<b>Total</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(Restated)</i>	<i>(Restated)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<u>1,922,531</u>	<u>2,104,363</u>	<u>1,656,264</u>	<u>5,683,158</u>
Segment results	<u>192,102</u>	<u>281,831</u>	<u>90,291</u>	564,224
Finance costs				<u>(100,615)</u>
<b>Profit before tax</b>				463,609
Tax				<u>(21,677)</u>
<b>Profit for the period</b>				<u>441,932</u>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

## 5. SEGMENT INFORMATION (cont'd)

### (b) Geographical segments

The following table present revenue for the Group's geographical segments for the six months ended 30 June 2007 and 2006:

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<b>Revenue</b>		
PRC	6,036,960	3,949,722
Europe	747,901	559,357
US	627,011	511,913
Others	1,210,135	662,166
	<u>8,622,007</u>	<u>5,683,158</u>

Revenue are allocated based on the countries in which customers are located.

## 6. REVENUE, OTHER INCOME AND GAINS

### Revenue

Revenue, which is also the Group's turnover, represents the aggregate and an appropriate portion of revenue from battery and related products, handset components, assembly services, automobile and related products sold net of value-added tax. All significant intra-group transactions have been eliminated on consolidation.

### Other income and gains

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Processing income	1,560	3,244
Bank interest income	10,192	5,711
Derivative instruments:		
- forward contracts: transactions not qualifying as hedges	—	917
Sales of scrap materials	71,213	—
Government grants	—	1,600
Others	16,806	—
	<u>99,771</u>	<u>11,472</u>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

## 7. FINANCE COSTS

	For the six months ended	
	30 June 2007 (Unaudited) RMB'000	30 June 2006 (Unaudited) RMB'000
Interest expense on bank loans	152,183	93,942
Finance cost on bills discounted	6,056	3,916
Finance cost on factored trade receivables and other bank charges	28,281	2,757
	<u>186,520</u>	<u>100,615</u>

## 8. PROFIT BEFORE TAX

Profit before tax was determined after charging /(crediting) the following :

	For the six months ended	
	30 June 2007 (Unaudited) RMB'000	30 June 2006 (Unaudited) RMB'000
Cost of inventories sold	6,059,469	3,931,743
Cost of services provided	134,343	—
Derivative instruments:		
- forward contracts: transactions not qualifying as hedges	7,983	(917)
Depreciation, amortisation and impairment expenses	373,290	278,521
Provision for doubtful debts*	41,966	42,853
Provision against inventory obsolescence and net realisable value**	63,825	47,095
Directors' (including supervisors') emoluments	1,713	960
Equity-settled share expense	95,310	—
Loss/(gain) on disposal of items of property, plant and equipment*	<u>2,709</u>	<u>(3,432)</u>

\* The provision for doubtful debts and loss/(gain) on disposal of items of property, plant and equipment are included in "Other expense" on the face of the condensed consolidated income statement.

\*\* The provision against inventory obsolescence and net realisable value are included in "Cost of sales" on the face of the consolidated income statement.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

### 9. TAX

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current - Mainland China (note (a))	34,876	31,408
Deferred	(5,064)	(9,731)
Total tax charge for the period	<u>29,812</u>	<u>21,677</u>

(a) PRC Corporate Income Tax ("CIT")

The Company and its subsidiaries registered in the PRC are subject to CIT on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. The generally applicable CIT rate is 33%. However, according to certain rules and regulations promulgated by the local tax authorities, the Company and certain of its subsidiaries are entitled to preferential CIT rate at 15%. Furthermore, the Company and certain of its subsidiaries are also entitled to full exemption from CIT for the first two years and 50% reduction in CIT for the next three to eight years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

- (b) On 16 March 2007, the National Peoples' Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will become effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their transitional provisions. The Company will further evaluate the impact of the New CIT Law on its operating results and financial positions of future periods as more detailed requirements are issued.

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

The calculation of the earnings per share for the six months ended 30 June 2007 and 2006 are based on:

	For the six months ended	
	30 June 2007	30 June 2006
	(Unaudited)	(Unaudited)
	RMB'000	(Restated) RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the earnings per share calculation	<u>640,996</u>	<u>437,403</u>

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

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

## 11. INVENTORIES

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,412,301	1,138,813
Work-in-progress	1,116,843	1,141,233
Finished goods	1,295,047	876,872
	<u>3,824,191</u>	<u>3,156,918</u>

## 12. TRADE AND BILLS RECEIVABLES / FACTORED TRADE RECEIVABLES

The Group would generally grant a credit term from 0 to 120 days to its customers. At 30 June 2007 and 31 December 2006, the ageing analysis of the trade and bills receivables were as follows:

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months	2,741,465	2,667,529
4 to 6 months	163,501	199,928
7 to 12 months	22,057	97,732
Over 12 months	41,561	29,210
	<u>2,968,584</u>	<u>2,994,399</u>

The Group has taken legal actions against several customers who owed the Group totally amounting to approximately RMB30 million at 30 June 2007. Provision for doubtful debt of approximately RMB27 million was made during the financial year 2006 and the Group has obtained a court order to freeze the customer's property at value of RMB17 million approximately as a security for the settlement of the legal case. The directors considered that the provisions against these receivables are adequate.

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

## 13. TRADE AND BILLS PAYABLE

At 30 June 2007 and 31 December 2006, the ageing analysis of the trade and bills payables were as follows:

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months	2,276,129	2,671,655
4 to 6 months	1,343,923	549,432
7 to 12 months	77,536	67,309
1 to 2 years	59,902	18,537
2 to 3 years	5,947	7,641
Over 3 years	8,447	7,448
	<u>3,771,884</u>	<u>3,322,022</u>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

## 14. INTEREST-BEARING BANK BORROWINGS

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current:		
Long-term bank borrowings	2,035,317	2,229,073
Less: current portion of long-term borrowings	<u>30,772</u>	<u>715,927</u>
	<u>2,004,545</u>	<u>1,513,146</u>
Current:		
Short-term bank borrowings	5,311,339	3,507,786
Current portion of long-term borrowings	<u>30,772</u>	<u>715,927</u>
	<u>5,342,111</u>	<u>4,223,713</u>
Total borrowings	<u><u>7,346,656</u></u>	<u><u>5,736,859</u></u>
Within one year	5,342,111	4,223,713
In the second year	1,016,386	665,000
In the third to fifth years, inclusive	<u>988,159</u>	<u>848,146</u>
	<u><u>7,346,656</u></u>	<u><u>5,736,859</u></u>

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

	<b>30 June 2007</b>	<b>31 December 2006</b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	6,523,898	4,252,662
US dollar	762,041	1,465,802
HK dollar	60,717	4,327
Euro	—	14,068
	<u><u>7,346,656</u></u>	<u><u>5,736,859</u></u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

### 15. CONTINGENT LIABILITIES

- (a) In June 2007, a subsidiary and an affiliate of Foxconn International Holdings Limited (the "Plaintiffs") initialled an action to Hong Kong High Court (the "Court") against the Company and certain of its subsidiaries (the "Defendants") in respect of a claim of RMB5,134 million for using confidential information obtained improperly from the Plaintiffs (the "Hong Kong Action"). The Plaintiffs alleged that the defendants have induced and procured certain former employees of the Plaintiffs (some of whom were subsequently employed by the Group) to breach their contractual and fiduciary duties with their former employer, the Plaintiffs, by disclosing to the Defendants confidential information that such employees have acquired through their employment with the Plaintiffs. In addition, it was alleged that the Defendants knew or ought to have known the confidential nature of such information and that the Defendants allowed or acquiesced its misuse in establishing a handset production system that is highly similar to the handset production system adopted by the Plaintiffs. The remedies sought by the Plaintiffs include an injunction restraining the Defendants from using the alleged confidential information, an order for the disgorgement of profit made by the Defendants through the use of the confidential information and unspecified damage.

The Hong Kong Action is still ongoing as at the date hereof. The Group has made an application to the court for a stay of the proceedings. The Company has received legal advice that its chance of success is good. In the opinion of the directors, in the event that the Group failed in the said interlocutory application and the parties proceed to a full trial for the Hong Kong Action, the Defendants have valid defences against the claims.

The legal proceedings brought by the Plaintiffs against the Company in the Intermediate People's Court in Shenzhen in June 2006 (the "PRC Action" ) as mentioned in the Company's announcements dated 12 June 2007 and 13 June 2007 are also still ongoing. The amount claimed by the Plaintiffs is RMB5 million.

The Company believes that the Hong Kong Action and the PRC Action are generated from the same incident.

Based on the above, the Company is of the view that the Hong Kong Action and the PRC Action would not have any material adverse impact on the Group's financial position. Accordingly, no provision in respect of the claims was considered necessary.

- (b) The Group is involved in litigation proceeding initiated by one of its customers at the People Court of Jiangsu Province in relation to a dispute over quality of battery products of the Group. Based on the court judgement of the trial at first instance, the Group was ordered to pay compensation in the amount of RMB10,074,000 to the Plaintiff and an order was also granted to freeze bank deposit of the Group amounting to RMB25,229,000 and USD\$2,361,000 as at 30 June 2007.

Provision (RMB10,074,000) was made in respect of the judgement in the Group's financial statement as at 30 June 2007. The Group has made an application for an appeal again the judgement.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

### 16. OPERATING LEASE ARRANGEMENTS

At 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2007</b> <i>(Unaudited)</i> <i>RMB'000</i>	<b>31 December 2006</b> <i>(Audited)</i> <i>RMB'000</i>
Within one year	3,481	1,954
In the second to fifth years, inclusive	409	3,623
	<u>3,890</u>	<u>5,577</u>

### 17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following capital commitments:

	<b>30 June 2007</b> <i>(Unaudited)</i> <i>RMB'000</i>	<b>31 December 2006</b> <i>(Audited)</i> <i>RMB'000</i>
Contracted but not provided for		
Buildings	402,683	555,772
Machinery and equipment	837,868	649,080
	<u>1,240,551</u>	<u>1,204,852</u>
Authorised, but not contracted for:		
Land and buildings	742,314	300,000
	<u>1,982,865</u>	<u>1,504,852</u>



# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (cont'd)

30 JUNE 2007

## 18. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties:

	<b>30 June 2007</b> <i>(Unaudited)</i> RMB'000	<b>31 December 2006</b> <i>(Audited)</i> RMB'000
Due from a director	—	765

Balance is unsecured, non-interest bearing and no fixed terms of repayment.

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

	<b>For the six months ended</b>	
	<b>30 June 2007</b> <i>(Unaudited)</i> RMB'000	<b>30 June 2006</b> <i>(Unaudited)</i> RMB'000
Short term employee benefits	1,710	958
Post-employment benefits	3	2
	<u>1,713</u>	<u>960</u>

## 19. SHARE AWARD PLAN

During the period, the Company launched a share award plan to reward the Company's senior management and full-time employees of core business divisions of the Group (the "Participants"), for their services rendered in previous years. Pursuant to which the Company has agreed to grant, on an one-off basis, 9% interest (the "Awarded Shares") of BYD Electronic (International) Company Limited (the "BYD International"), the Company's wholly owned subsidiary, for the benefit of the Participants.

The participants shall be restricted from disposing of any of the Awarded Shares for a period no shorter than 5 years. The shares awarded by the Company under the share award plan are considered to be shared-based payments under HKFRS 2.

The fair value of the shares awarded was estimated at RMB95,310,000.

The fair value of shares awarded was estimated as at the date of grant, valued by an independent professional valuer, Shenzhen Ju Yuan CPA ("深圳巨源會計師事務所"), taking into account the Price over Earning per Share (the "PE") ratio and the Earning Before Interest, Depreciation, Tax and Amortisation (the "EBIDTA") of BYD International at the date of grant, and other terms and conditions upon which the shares were awarded.

## 20. COMPARATIVE AMOUNTS

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

## 21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 31 August 2007.



BYD COMPANY LIMITED

比亞迪股份有限公司