比亞迪股份有限公司
BYD COMPANY LIMITED
(Stock Code 股份代號: 1211)

# A Great Leap Forward

ANNUAL REPORT 2007 年年報

# Company Profile 公司簡介

BYD Company Limited ("BYD" or "the Company" together with its subsidiaries, "the Group" stock code: 1211) is principally engaged in two core businesses, namely IT components business, which include rechargeable battery as well as handset components and assembly service, and automobiles business.

BYD is a leading rechargeable battery manufacturer in the global arena with an extensive clientele of renowned international and domestic brand names. The Group currently produces a diversified models of Li-ion and Nickel battery, which are widely applied on mobile phones, cordless phones, power tools and other kinds of portable electronic devices.

As a one-stop handset component supplier, the Group produces quality handset components, such as plastic cases, key-pads, LCD screens, flexible printed circuits as well as camera modules and handset assembly service. Capitalizing on its robust R&D, innovative products and comprehensive services, BYD successfully received recognition from customers and established good reputation. The Group successfully spun off BYD Electronic (International) Company Limited ("BYD Electronic") for a separate listing on the Main Board of Hong Kong Stock Exchange on 20 December 2007.

Since tapping into the automobiles business in 2003, BYD achieved remarkable growth. Leveraging on its international quality and superior performance-to-price ratio, the Group's F3 series model became one of the best selling national brand automobiles in China.

BYD is committed to developing into the world's leading rechargeable battery manufacturer, a market leader of one-stop handset component supply and the top automobile manufacturer in China.

比亞迪股份有限公司（「比亞迪」或「本公司」，連同其附屬公司統稱「本集團」；股份代號：1211）主要從事兩大核心業務，分別為包括二次充電電池和手機部件及組裝服務的IT零部件業務，以及汽車業務。

比亞迪為全球領先的二次充電電池製造商，客戶基礎龐大，涵蓋多個享譽國際及本地市場的知名品牌。集團現時生產各款型號的鋰離子及鎳電池，可廣泛應用於手提電話、無線電話、電動工具及其他便攜式電子產品。

作為一站式手機部件供應商，本集團生產各種優質的手機零部件，包括塑膠外殼、手機鍵盤、液晶顯示屏、柔性線路板及相機攝像頭等，並提供手機組裝服務。比亞迪成功憑藉其雄厚的研發實力、創新的產品及完善的服務，獲得客戶的肯定和認同，並建立了良好的商譽。於二零零七年十二月二十日，手機部件業務成功分拆比亞迪電子(國際)有限公司(「比亞迪電子」)並於香港聯交所主板獨立上市。

自二零零三年拓展汽車業務以來，比亞迪在此業務板塊取得可觀增長。全賴其具備國際標準的卓越品質及高性價比的競爭優勢，集團旗下的F3系列車型已成為國內最暢銷的民族汽車品牌之一。

比亞迪銳意發展成為全球領導的二次充電電池生產商、市場領先的一站式手機部件供應商，以及傲視中國市場的汽車生產商。

# A Great Leap
# Forward

ANNUAL REPORT 2007

## Contents

# FINANCIAL HIGHLIGHTS

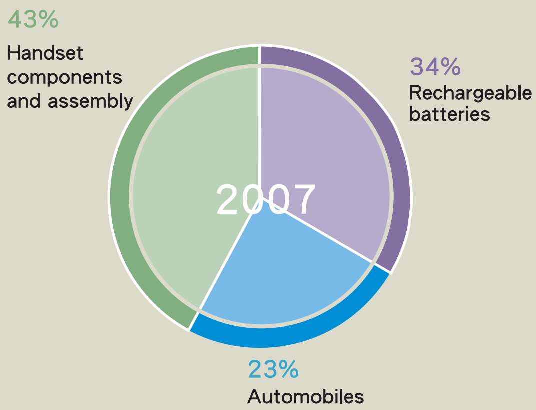
## Five-year Comparison of Key Financial Figures

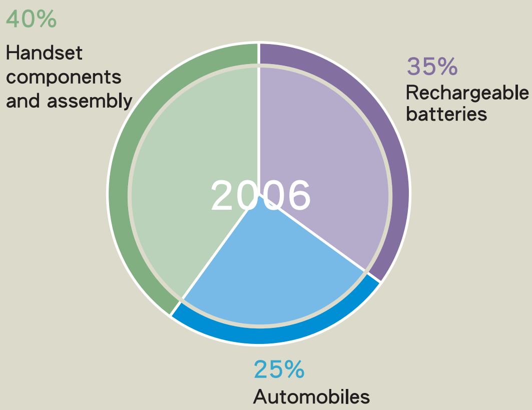
| | For the year ended 31st December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | (Restated) | (Restated) | (Restated) |
| Turnover | **21,211,213** | 12,938,917 | 6,498,330 | 6,425,753 | 4,063,270 |
| Gross profit | **4,247,687** | 2,738,183 | 1,454,545 | 1,704,890 | 1,323,046 |
| Gross profit margin (%) | **20** | 21 | 22 | 27 | 33 |
| Profit attributable to equity holders of the Company | **1,611,711** | 1,117,334 | 503,013 | 994,190 | 840,489 |
| Net profit margin (%) | **8** | 9 | 8 | 15 | 21 |

| | As at 31st December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | (Restated) | (Restated) | (Restated) |
| Net assets (Less minority interests) | **10,708,118** | 5,292,464 | 4,175,309 | 3,978,310 | 3,256,862 |
| Total assets | **29,288,491** | 16,386,781 | 11,213,354 | 8,737,676 | 5,554,522 |
| Gearing ratio (%) (Note 1) | **24** | 77 | 79 | 60 | 7 |
| Current ratio (times) | **1.05** | 0.85 | 1.05 | 1.00 | 1.52 |
| Account receivable turnover (days) | **73** | 72 | 106 | 97 | 94 |
| Inventory turnover (days) | **83** | 96 | 135 | 91 | 87 |

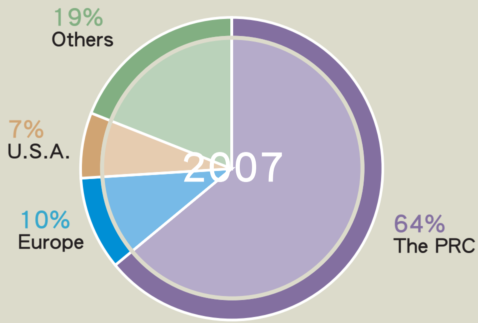
Notes: 1. Gearing ratio = Total borrowings net of cash and cash equivalents/net assets

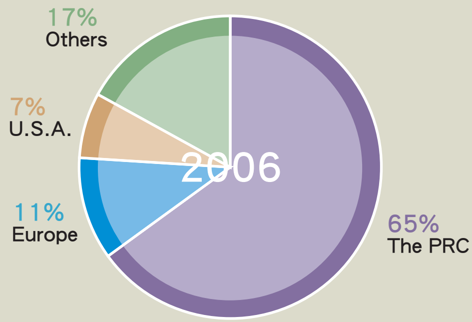
## Turnover Breakdown by Product Categories




## Turnover Breakdown by Location of Customers



# CORPORATE INFORMATION

## Executive Directors
Wang Chuan-fu

## Non-Executive Directors
Lu Xiang-yang
Xia Zuo-quan (Re-designated on 20th March 2008)

## Independent Non-Executive Directors
Li Dong (appointed on 20 March 2008)
Kang Dian
Lin You-ren

## Supervisors
Dong Jun-qing
Min De
Wang Zhen
Zhang Hui-bin (appointed on 20 March 2008)
Yan Chen (appointed on 20 March 2008)

## Company Secretary
Wu Jing-sheng

## Audit Committee
Lu Xiang-yang
Li Dong (appointed on 20 March 2008)
Kang Dian (Chairman)
Lin You-ren

## Remuneration Committee
Wang Chuan-fu (Chairman)
Xia Zuo-quan
Li Dong (appointed on 20 March 2008)
Kang Dian
Lin You-ren

## Nomination Committee
Wang Chuan-fu (Chairman)
Lu Xiang-yang
Li Dong (appointed on 20 March 2008)
Kang Dian
Lin You-ren

## Authorized Representatives
Wang Chuan-fu
Wu Jing-sheng

## Legal Address
Yan An Road
Kuichong
Longgang District
Shenzhen
Guangdong Province
The PRC

## International Auditors
Ernst & Young

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

## Hong Kong Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Investor and Media Relations Consultant
iPR Ogilvy Ltd.
Tel: (852) 2136 6185
Fax: (852) 3170 6606

## Website
www.byd.com.cn

## Stock Code
1211

# CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the Board of Directors (the "Board') of BYD Company Limited ("BYD" or the "Company") and its subsidiaries (collectively the "Group"), I hereby present the annual report for the year ended 31st December 2007 (the "Year").

2007 was an important year during the course of development of BYD. During the year under review, the Group's rechargeable battery business performed well, while the handset component business grew rapidly. The Group had successfully spun off BYD Electronic (International) Company Limited ("BYD Electronic") for listing separately on the Main Board of the Stock Exchange of Hong Kong Limited. Besides, the automobile business achieved breakthrough development, contributing substantially to the profit of the Group. In 2007, the Group's turnover reached approximately RMB21,211 million, representing an increase of nearly 63.9% times as compared with the same period last year. Profit attributable to equity holders recorded an impressive growth of approximately 44.2% to over RMB1,612 million. The strong growth in turnover and profit attributable to equity holders was mainly driven by the encouraging growth in rechargeable batteries, handset components and assembly services and automobiles.

With increasing popularity of handsets coupled with the advancement of handset technology, the overall demand in the global handset market in 2007 continued to grow, as a result, handset manufacturers have to launch new handset models in the market at affordable prices frequently and quickly. The existing handset market has kept expanding, which has directly boosted the demand for handset batteries. BYD has also successfully maintained its leading position in the global rechargeable battery industry. The Group has persisted in supplying products of excellent quality and maintaining its cost-effective competitive edge, and continued to strengthen its strategic partnership with leading global handset manufacturers so as to promote the continued growth of the lithium-ion battery business. In addition, product recall and contingent events occurring in the industry had also brought about urgent orders for the Group's lithium-ion battery business, resulting in substantial growth of the Group's sales during the Year. On the other hand, increasing prices of raw materials for nickel batteries had affected the profitability of overseas competitors and demonstrated the cost effective competitive edge of the Group. During the year, BYD continued to enhance its competitive position in the market.

During the year under review, global handset sales had grown steadily, and ongoing industry consolidation had created tremendous development opportunities and growth momentum for the Group. The Group has gained extensive recognition from customers since the provision of one-stop supply services for handset components to customers. The Group adopted an operation strategy of providing one-stop vertically integrated supply services to customers. Apart from providing diversified handset components for famous international handset brands, the Group also provided handset assembly services in full swing to customers in the Year to further establish the leading market position of the Group as an "one-stop handset components supplier" for international famous handset brands. Apart from an increase in the number of orders from existing customers, the Group was also active in establishing business relationship with emerging international leading handset supplier customers in order to capture new orders and hence further expand its market share.

Considering the prospect of the handset precision components business and assembly services, the Group decided and managed to spin off BYD Electronic for separate listing on the Main Board of the Hong Kong Stock Exchange on 20th December 2007. The Group believes that the spin-off can reflect the intrinsic value of BYD Electronic and allows it to capture opportunities arising from the expected rapid growth of the handset industry in the coming years.

With the rapid development of the economy of China and given the strong growth of individual disposable income and the improving living standard of Chinese residents in the PRC, market demand for automobiles will continue to grow. During the year under review, the Group's automobile business achieved breakthrough development . Leveraging on its international product quality and the competitive advantage of high value for money, the primary F3 model continued to be one of the best selling automobiles in the market and was well received by customers. The Group believes that there is enormous room for the future development of the automobile business. The Group will offer comprehensive support in the aspects of management, research and development, and production. The Group aims at catering to the needs of different consumers through continued optimization of production techniques, upgrading of sales networks, implementation of cost effective sales strategies as well as the launch of new automobile models in a timely manner. Leveraging on the Group's competitive advantages and the high value for money of its products, the Group is confident that the new car models will further boost sales, leading to better performance of the automobile business in the years to come.

Finally, on behalf of BYD, I would like to thank our loyal customers, business partners, investors and shareholders for their support and trust. Besides , I would also like to thank all the staff members for their valuable dedications over the past years, and achieving new business heights with the Group. We are confident that BYD will become a leading global rechargable battery manufacturer, a leading one-stop handset components supplier in the market and the top automobile manufacturer in China, thereby enhancing returns for our shareholders.

**Wang Chuan-fu**
Chairman

Shenzhen, the PRC, 20th March 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING ENVIRONMENT REVIEW

The overall demand in the global handset market in 2007 continued to grow rapidly, mainly supported by driving forces from emerging markets such as China and India. This, coupled with the evolving and upgrading handset technology and the acceleration of obsolete handsets by new functions, has speed up the growth of the handset industry. Increasing popularity of handsets and greater emphasis on external design not only attracted more new mobile phone users, but also boosted greater desire for replacement of handsets from existing users. As a result, handset manufacturers had to launch new handset models in the market at affordable prices frequently and quickly, prompting continuous expansion of the existing handset market. According to the survey report by Gartner, a market research institution, the global handset market recorded approximately an output of 1,120 million units in 2007, up approximately 14% from approximately 980 million units in the same period last year.

Despite steady growth in global handset sales, the rate of increase has slowed down. Continuous industry consolidation has resulted in further increase in market share of leading global handset brands. With higher concentration of the industry which led to intensifying market competition, the market positions of some famous handset brands were replaced by Asian handset brands and encountered difficulties in their operations. Producers of many famous international handset brands relocated their production, procurement and logistics bases to Asia and other regions of the emerging markets to reduce production costs and satisfy the needs for low price, short product life cycle and more diversified product portfolios. Meanwhile, OEM manufacturers of handsets inclined to select suppliers with high capabilities for vertical integration as partners. Riding on the expertise and techniques of such suppliers in R&D, production and supply chain operations, OEM manufacturers could shorten the time for launching new products, achieve better flexibility, lower costs and faster capital turnover, and concentrate on the product development with high profit margin and the enhancement of brand value. The consolidation of the handset industry brought about huge opportunities for suppliers with vertically integrated global manufacturing and service platforms.

As the domestic handset market opened up, the operation environment of domestic handset manufacturers also changed. While facing competition from overseas handset suppliers, domestic handset manufacturers also encountered threats from non-original handsets. Favorable factors such as changes in the handset market trends (such as the strategy for diversified suppliers), increasing maturity of the 3G technology in overseas markets and the acceleration of the development pace of 3G handsets in China, provided sound business opportunities for the Group's IT parts operations.

In the automobile market, given the strong growth of individual disposable income and the increasing living standard in the PRC, the domestic automobile market continued to grow rapidly at an annual rate of over 20% in terms of production and sales. In 2007, the aggregate production and sales volume of the automobile market in China reached a historical high of over 8.5 million vehicles, representing a year-on-year increase of over 20%, of which, sales of sedans exceeded 4.7 million units, representing a year-on-year growth rate of over 23%. Domestic brands accounted for approximately 26% of total sales volume of sedans and continued to occupy a major position in the market.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The two principal businesses of BYD are the IT parts business and the automobile business. The IT parts business mainly comprises the rechargeable battery business and the handset component and assembly business. During the year under review, the Group's rechargeable battery business performed well, and the handset and assembly component business recorded continuous rapid growth. At the end of the year, the Group had successfully spun off the handset components and modules and assembly business to the BYD Electronic (International) Company Limited ("BYD Electronic") which was listed on the Main Board of the Stock Exchange of Hong Kong Limited and successfully raised gross proceeds of approximately HK$6.69 billion (after partial exercise of the over-allotment option and before deduction of any listing-related expenses). During the year, the automobile business achieved breakthrough development and brought about encouraging income and profit contribution to the Group.

### IT Parts — Rechargeable Batteries

During the year under review, BYD continued to maintain and strengthen its leading position in the global rechargeable battery market and achieved strong growth. In 2007, sales amounted to approximately RMB7,149,237,000, representing a substantial year-on-year increase of approximately 57%. The sales of lithium-ion battery products achieved strong growth, with sales of approximately RMB3,994,438,000, representing a year-on-year increase of approximately 39%. Following the downturn in 2006, the nickel battery business experienced a strong rebound in sales in 2007 to approximately RMB2,974,208,000, representing a significant year-on-year increase of approximately 83%.

For the lithium-ion battery business, leveraging on the Group's consistent supply of excellent quality products and cost-effective competitive strengths, coupled with its strategic partnership with leading global handset manufacturers, the Group's share in supplying lithium-ion battery to the customers increased substantially. Apart from an increase in the number of orders from existing customers, the Group was also active in establishing business relationship with emerging international handset suppliers and customers. During the year under review, product recall and contingent events of the industry had tightened market supply of lithium-ion batteries, causing customers to be more prudent and stringent in selecting suppliers. The ample production capacity, quality products and competitive prices of the Group had fully satisfied the urgent market needs for lithium-ion batteries and brought about a large quantity of urgent orders, resulting in the substantial growth of sales for the year. Facing the changing market trends, BYD captured the business opportunities brought by the consolidation of the handset market and increased the Group's market share in the worldwide handset battery market. It was inevitable that the gross profit margin of the Group's lithium-ion battery business was under pressure with increasing prices of raw materials, though the Group was able to shift part of the increase to customers.

During the year, BYD continued to enhance its competitiveness and strengthen its leading position in the market as a leading global manufacturer of high-quality nickel batteries. Since raw material prices remained at high levels, some nickel battery customers had to postpone their non-urgent orders last year. During the year under review, not only did the number of orders return to the normal level, but the number of additional orders also increased. Besides, the increasing prices of raw materials affected the profitability of overseas competitors and reinforced the unique cost effectiveness of BYD, who has maintained a leading position in the industry and possessed price setting power. During the year, the Group made an appropriate price adjustment, leading to an increase in sales

revenue that partially offset the adverse impact brought about by high raw material prices on profit, the gross profit margin maintained at the normal level.

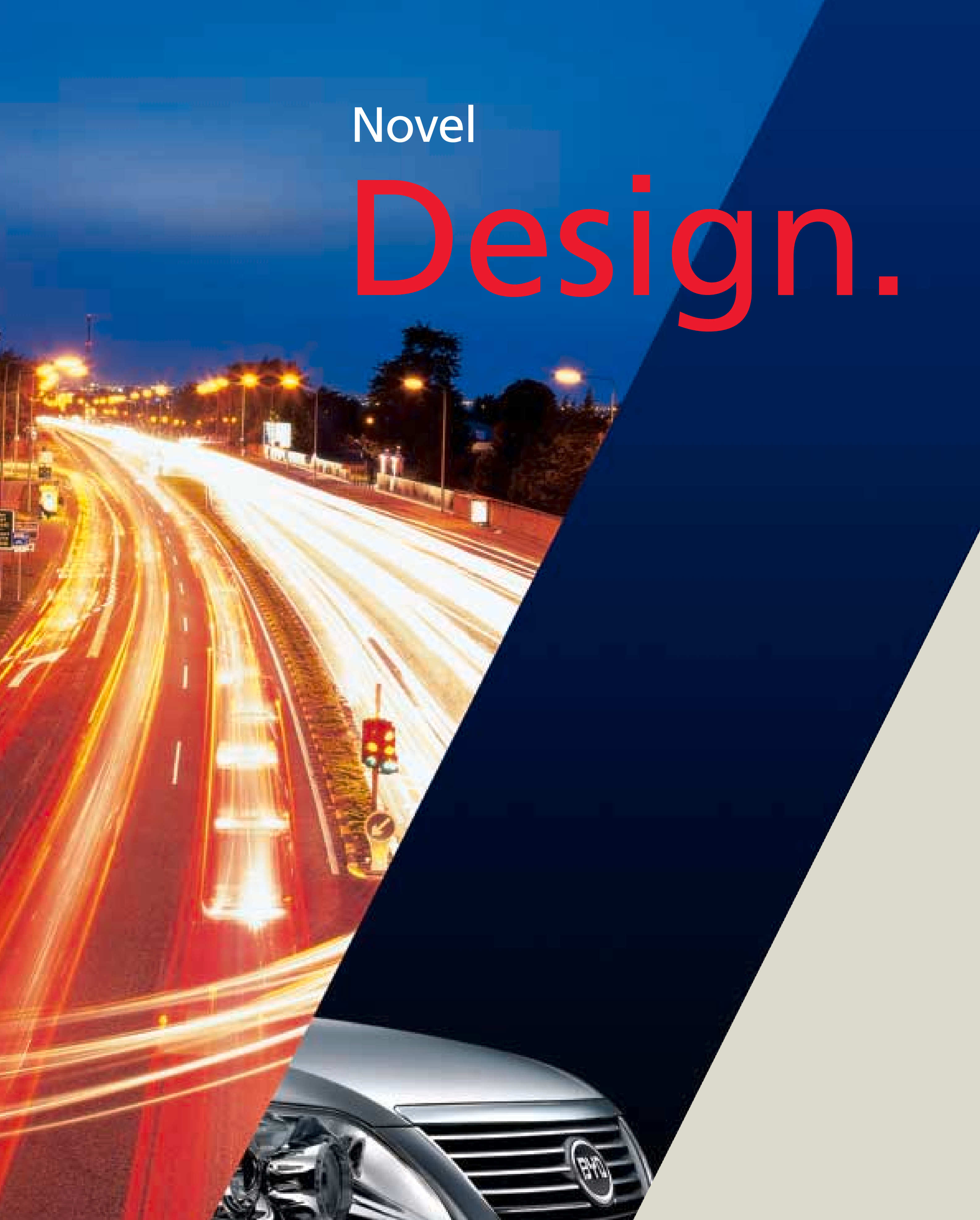
### IT Parts — Handset Components and Assembly Services

For the handset component and assembly services business, BYD adopted an strategy of providing vertically integrated supply services to customers. Apart from providing diversified handset components to famous international handset brands, BYD started to provide handset assembly services to customers in 2006, to enhance the vertically integrated production processes and establish the market position of the Group as a "one-stop handset components supplier" of famous international handset brands. Riding on vertically integrated production processes, quality products, price advantage and full range of services, the Group's handset component and assembly business recorded strong growth in 2007, with sales approximately RMB9,186,864,000, representing a year-on-year increase of approximately 79%.

Considering the prospect of handset components business and assembly services, the Group successfully spun off BYD Electronic for listing on the Main Board of the Stock Exchange of Hong Kong Limited on 20th December 2007. Upon completion of the spin-off exercise, the Company continued to be a controlling shareholder of BYD Electronic. Therefore, the Group will continue to consolidate all assets, liabilities and profit and loss accounts of BYD Electronic and its subsidiaries. The Group believes that the spin-off has brought many benefits to the Group and BYD Electronic. Apart from reflecting the value of BYD Electronic, the exercise has also provided sufficient funds and a financing platform for BYD Electronic to capture the opportunities of rapid growth of the handset industry in the coming years. It also offered an investment opportunity for investors to capture the rapid growth of the handset component market.

During the year under review, the sales of BYD Electronic amounted to approximately RMB5,767,256,000 (including its sales to the Group), representing a year-on-year increase of approximately 89%. The primary business of BYD Electronic includes the manufacture and sales of handset components (including handset casings and keypads) and modules incorporated with mechanical components such as handset casing, microphones, connectors and other handset assembly parts, and the provision of two types of assembly services, including high-level assembly service and PCB assembly service.

# Novel Design.



Apart from the handset components and assembly parts undertaken by BYD Electronic, the Group's handset component business also includes production of LCD display, flexible printed circuit board and handset camera module, etc. During the year under review, sales of non-BYD Electronic handset components amounted to approximately RMB3,496,465,000, representing a year-on-year increase of approximately 63%, mainly due to the significant growth of sales in all products. Products of this business segment received a number of certifications granted by customers during the year, which will support growth in 2008 and beyond.

The Group will benefit from the continuous growth in global demand for handsets, the shifting of handset production bases to Asia and other regions of emerging markets, the change in outsourcing policies of international renowned handsets brands, as well as the inclination to select suppliers with high capabilities of vertical integration and global manufacturing and sales platform as partners. During the year, the Group enhanced its product design and production capabilities and started to supply medium to high end products. Meanwhile, the Group established new production facilities in Huizhou of Guangdong Province in China, Chennai in India, Komaron in Hungary and Cluj in Romania for the construction of global production platforms, providing customers with more tailor-made services and capturing business opportunities to satisfy the needs of persistent growth.

## Automobile Business

BYD was striving to enhance its market image and position in the automobile industry, expand production capacity and strengthen product research and development to satisfy market needs, and implement effective marketing strategies in the past two years, resulted in a breakthrough development for the automobile business of the Group during the year. During the year under review, the revenue of the automobile business was approximately RMB4,871,993,000, representing a year-on-year increase of approximately 51%. Automobile sales volume amounted to 85,942 vehicles, a year-on-year increase of approximately 56%, with continuing hot sales of the primary F3 model in the market which recorded a sales volume of 84,021 vehicles, a year-on-year increase of approximately 81%, while Flyer recorded a sales volume of 1,921 vehicles.

During the year under review, the Group's automobile business posted satisfactory performance in the aspects of marketing strategy and product research and development. The Group actively expanded its sales and marketing network and increased the number of sales agents for launching various product series. The Group's F3 model successfully won the top 3 sales ranking for single model vehicle in a number of well-developed cities including Shenzhen, Chongqing, etc. On the other hand, the Group launched F3R model, an upgraded version of the F3 model, to further strengthen the product portfolio and to enhance the brand awareness. During the year, the Group was ready for the launching of three new car models F1, F6 and F8. The F6 series, targeting at the medium- to high-end markets, offered two types of displacements, 2.0L and 2.4L, with manual or automatic transmission gear system at the choice of consumers. At the Shanghai International Auto Show 2007, BYD F6 was highly honoured by industry players, receiving the awards of the "Best Newly Launched Car (in China)" （最佳（中國）首發新車）, the "Best Shanghai Style" （最具上海風尚） and the "Best Sedan Car Design" （最佳設計轎車）.

The Group's automobile business has mastered 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 the ability to launch new products promptly in response to the market needs.

During the year, the Group has commenced the construction of a new automobile research and development and production base in Shenzhen. Upon completion of the construction, the Group's automobile research and development and production capabilities will be enhanced, supporting the fast and sustainable growth of the Group's automobile business in the future.

## FUTURE PROSPECTS AND STRATEGIES

### IT Parts — Rechargeable Batteries

With the global growing trend of the handset industry which provides us with enormous business opportunities, the Group will strengthen strategic partnership with manufacturers of famous international handset brands. Meanwhile, the Group will actively explore new customers while striving to secure more orders from existing customers. It is anticipated that the industry consolidation will be beneficial to the Group's rechargeable battery business which is expected to continue its steady growth. Looking ahead, the Group will strive to increase the application of battery products and enhance cost control, and to capture 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 manufacturers of famous international handset brands to Asia and other regions of emerging markets, BYD will leverage on the financing platform available after the separate listing of BYD Electronic to continue the product development with high growth and high profit margins, so as to widen its portfolio of products and services for the further vertically integrated production. The Group will also create collaboration opportunities with new customers on the basis of strengthening the strategic relationship with existing customers. Meanwhile, the Group will establish and maintain an integrated global platform for manufacture and services, to strengthen research and development capabilities, and to enhance cost structure and cost savings, with the aim of becoming a leading global supplier of handset components and assembly services.

### Automobile Business

With the rapid growth of the automobile industry in China, the Group believes that there is enormous room for future development. The success of the F3 series which has become the Group's best selling car model, has laid a solid foundation for the Group in the automobile industry. Looking forward, apart from the F3 series, the Group launched the F6 series in the first quarter of 2008 and will launch the F8 series during 2008, aiming to build a brand image of medium to high end autombile which caters for the needs of different customer segments. The Group also plans to launch the F1 series targeting market of low discharge vehicles during the year, providing consumers with various choices of higher value for money vehicles. Leveraging on the Group's competitive advantages and the high value for money of its products, the Group is confident that the new car model will boost sales, leading to better performance of the automobile business in the years to come. With the completion of the new bases for automobile research and development and production in Shenzhen, BYD will continue to pursue a development path of "self-research and development, self-production and self-owned brands", launch diversified quality products with competitiveness, and focus on strengthening brand awareness and reputation, aiming to become one of the leaders in the automobile market of the PRC.

### Proposed Issue of A Shares

The Company issued an announcement on 28th January 2008, proposing the issue of up to 58,500,000 A Shares (on the basis that no shares are alloted and issued pursuant to the proposed bonus issue of the Company ("Bonus Issue")) or up to 222,300,000 A Shares (on the basis that the Bonus Issue is completed and a total of 1,510,600,000 Bonus Shares are issued), subject to the approval by the relevant regulatory authorities. The Group considers that the issue of A Shares will establish a new financing platform for BYD, thereby strengthening its business development and further enhancing its competitiveness. The proceeds will be applied in the Group's IT parts and automobile businesses. The proposed issue of A shares has been approved by the shareholders of the Company at the SGM, domestic class meeting and the H shares class meeting held on 20th March 2008.

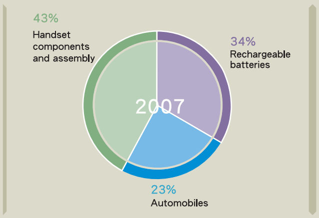
# Financial Review

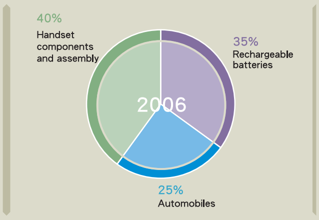
## Turnover and Profit Attributable to Equity Holders of the Company

Turnover increased substantially during the year mainly due to the strong growth brought by the rechargeable battery business, handset component and assembly business and automobile business. Strong growth in the various business also contributed to the substantial increase in profit attributable to equity holders of the Company.

## Segmental Information

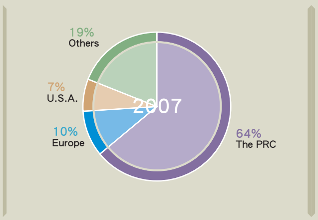
The table below sets out comparisons of the Group's turnover by product category for 2006 and 2007:

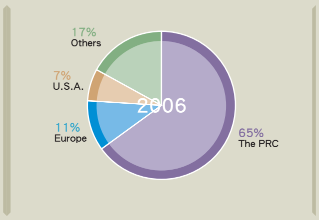



During the year, the proportion of the three major businesses to the overall turnover was basically the same when compared with the corresponding period of the previous year. Due to the substantial increase in the handset components and assembly business, the proportion of such business to the overall turnover also increased.

The table below sets out comparisons of the Group's geographical segments by customer locations for 2006 and 2007:




## Gross Profit and Margin

The Group's gross profit increased by approximately 55% to approximately RMB4,247,687,000 for the year ended 31st December 2007. Gross profit margin decreased slightly from approximately 21% in 2006 to approximately 20% in 2007. Decrease in gross profit margin was mainly due to the gross profit margin of rechargeable battery and handset components and assembly business decreased as compared with that of last corresponding period.

## Liquidity and Financial Resources

BYD generated operating cash inflows of approximately RMB1,910,810,000 for the year ended 31st December 2007, compared with RMB2,497,721,000 for the year ended 31st December 2006. Total borrowings as at 31st December 2007, including all bank loans, were approximately RMB8,123,686,000, compared with approximately RMB5,736,859,000 as at 31st December 2006. The maturity profile spread over a period of five years, with approximately RMB6,828,843,000 repayable within one year, approximately RMB300,000,000 in the second year and approximately RMB994,843,000 within three to five years. The increase in total borrowings was due to the increase of the number of new projects, research and development expenses and production capacity. The Group's maintaining adequate daily liquidity management and capital funding expenditure requirements to regulate internal operating cashflow.

The turnover days of accounts receivables were about 73 days for the year ended 31st December 2007 as compared to approximately 72 days for the year ended 31st December 2006. Inventory turnover days decreased from 96 days for the year ended 31st December 2006 to 83 days for the year ended 31st December 2007.

## Capital Structure

The Group's treasury department is responsible for the Group's financial risk management which operates according to policies implemented and approved by top management. As at 31st December 2007, borrowings were primarily denominated in RMB and USD, while cash and cash equivalents were primarily 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 remaining outstanding as at 31st December 2007 were set out in the face of the consolidated accounts. The loans remaining outstanding as at 31st December 2007 were at fixed interest rates or floating interest rates for RMB loans and floating interest rates for foreign currency loans.

## 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 and will adopt applicable mesures to prevent explosure to exchange rate risk.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Employment, Training and Development

As at 31st December 2007, the Group had over 120,000 employees, an increase of approximately 30,000 employees compared with that as at 31st December 2006. During the year, total staff cost accounted for approximately 12.5% of the Group's turnover. Employees 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 were offered to encourage personal and career development.

## Share Capital

As at 31st December 2007, the share capital of the Company was as follows:

| | Number of shares issued | Percentage (%) |
|---|---|---|
| Domestic shares | 390,000,000 | 72.29 |
| H shares | 149,500,000 | 27.71 |
| | 539,500,000 | 100.00 |

## Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares since the listing on 31st July 2002 and up to 31st December 2007. During the year, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

## Capital Commitment

Please refer to note 36 to the audited consolidated financial statement for details of capital commitments.

## Contingent Liabilities

Please refer to note 34 to the audited consolidated financial statement for details of contingent liabilities.

## Post Balance Sheet Events

Please refer to note 40 to the audited consolidated financial statement for details of post balance sheet events.

## Litigation

The Group was involved in a legal action commenced by certain affiliates of Foxconn International Holdings Limited as plaintiffs in the Intermediate People's Court of Shenzhen regarding alleged unauthorised use of confidential information. Such legal action has been withdrawn by the plaintiffs and is now discontinued. The Company is given to understand that the Shenzhen Public Security Bureau, Baoan Branch (the "Shenzhen Public Security Bureau") has filed a case of investigation against the Company in response to the request of the affiliates of Foxconn International Holdings Limited. The legal action against the Group and commenced by the same parties at the Hong Kong High Court in October 2007 relating to the same allegations is still ongoing. The Group will continue to defend the case vigorously.

Reference is also made to the announcement dated 11 April 2008 of the Company.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Executive Directors

### Wang Chuan-fu

Mr. Wang, aged 42, president of the Company, is a senior engineer. Mr. Wang was appointed as an Executive Director with effect from 11th June 2002. He is responsible for overseeing the general operation of the Group and determining the business strategies for the Group. He graduated from 中南工業大學 (Central South Industrial University of Technology) in the PRC in 1987, with a bachelor degree major in metallurgy physical chemistry and 北京有色金屬研究總院 (Beijing Non-Ferrous Research Institute) in the PRC in 1990 with a master degree major in metallurgy physical chemistry. He held the position of vice supervisor in 北京有色金屬研究總院 (Beijing Non-Ferrous Research Institute) from 1990 to 1995. From June 1993 to November 1994, he held the position of general manager in 深圳市比格電池有限公司 (Shenzhen Bi Ge Battery Co. Limited). In February 1995, he founded 深圳市比亞迪實業有限公司 (Shenzhen BYD Battery Company Limited) ("BYD Industries") with Mr. Xia and Mr. Lu and took the position of chairman. Due to the prominent operating results of BYD Industries and 深圳市比亞迪鋰電池有限公司 (Shenzhen BYD Lithium Battery Company Limited) ("BYD Lithium-ion"), he was awarded with — 深圳市青年科技專家－中銀集團獎 (Bank of China Group Award of Young Technology Expert in Shenzhen), the first prize of 彭年科技獎 (Pengnian Technology Medal), 鵬城青年創造勳章 (Pengcheng Young Creative Medal). Mr. Wang, being a technology expert, enjoyed special allowances from the State Council, and was elected the Deputy of the Shenzhen Municipal People's Congress in March 2000. In 2002, he was awarded with 紫荊花傑出企業家獎 (Bauhinia Outstanding Entrepreneur) in Hong Kong. In June 2003, he was awarded Star of Asia by BusinessWeek. On 4th November 2004, he was awarded with 二零零四年深圳市市長獎 (Mayor award of Shenzhen in 2004) by the Shenzhen Municipal Government. In May 2005, he was elected member of the Standing Committee of the Shenzhen Municipal People's Congress. He is a non-executive director and the chairman of BYD Electronic (International) Company Limited (Stock Code: 285).

## Non-executive Director

### Lu Xiang-yang

Mr. Lu, cousin of Mr. Wang, aged 46, was appointed as a Non-executive Director with effect from 11th June 2002. Mr. Lu worked at 中國人民銀行巢湖中心分行 (Chaohu Centre Branch of the People's Bank of China) from 1978 to 1992. In 1993, he founded 廣州新科學實業有限公司 (Guangzhou New Science Industrial Company Limited) and held the position of Chairman and General Manager respectively. In 1995, he established 廣州融捷投資管理集團有限公司(Guangzhou Rongjie Investment Company Limited) and took the position of Chairman till now. In 1995, he founded BYD Industries and took the position of Vice Chairman since then. In 1998, he was also a co-founder of BYD Lithium-ion.

### Xia Zuo-quan

Mr. Xia, aged 45, was appointed as an Executive Director on 11th June 2002 and re-designated as a Non-executive Director on 20th March 2008. He was a Vice President of the Company from 11th June 2002 to 20th March 2008, and was the co-founder of BYD Industries. He is responsible for overseeing the general operation of the Group. He studied computer science in 北京鋼鐵學院 (Beijing Institute of Iron and Steel Engineering) (now known as 北京科技大學 University of Science & Technology of Beijing) in the PRC from 1985 to 1987. In 2007, he graduated from 光華管理學院 (Guanghua School of Management) of the Beijing University with a master degree in advanced business administration. From 1983 to 1985 and from 1987 to 1991, he worked at 湖北省保險公司 (Hubei Province Insurance Company) and participated in financial management work. In 1992, he engaged in securities investment business and founded 武漢晨鳴信息有限公司 (Wuhan Chen Ming Information Co. Limited) and 武漢創景科技有限公司 (Wuhan Chuang Jing Technology Co. Limited) successively, and took the position of Chairman. He has joined the Group since September 2001.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## Independent Non-executive Directors

### Li Dong

Madam Li Dong, aged 43, was appointed as an Independent Non-executive Director with effect from 20th March 2008. She is a registered accountant and registered assets valuer in the PRC. Madam Li is the deputy chief accountant of Beijing Xinghua Accounting Firm Co., Ltd. (北京興華會計師事務所有限責任公司). Madam Li graduated from the Faculty of Finance and Politics 財政系 of Beijing Finance and Trade Academy (北京財貿學院) (now known as Capital University of Economics and Business (首都經濟貿易大學)) with a bachelor degree of Economy. She worked in the Joint Venture Department (合資處) of Beijing Finance Bureau (北京市財政局) for the period between July 1986 and December 1992. Madam Li acted as the manager of the Valuation Department of Beijing Xinghua Accounting Firm Co., Ltd. when she joined the firm in December 1992. She then acted as the manager of the audit department of the firm since 1996, and then deputy chief accountant of the firm from October 2000 until she took on the current position.

### Kang Dian

Mr. Kang, aged 60, was appointed as an Independent Non-executive Director with effect from 11th June 2002. He is presently a director of 時瑞投資管理有限公司 (Springridge Investment Management Limited), which is principally engaged in the provision of consulting and management services and the chairman of the supervisory committee of 深圳發展銀行股份有限公司 (Shenzhen Development Bank Co., Ltd.). Mr. Kang graduated from 北京鋼鐵學院 (Beijing Institute of Iron and Steel Engineering) (now known as 北京科技大學 University of Science & Technology of Beijing) in the PRC, with a bachelor degree majoring in engineering in 1982. In 1984, he graduated from 中國社會科學院研究生院 (Graduate School of Academy of Social Science of China) in the PRC and obtained a master degree in economics. Prior to his present positions, Mr. Kang was the Director and Vice President of 粵海企業（集團）有限公司 (Guangdong Enterprise (Holdings) Limited), a holding company of a conglomerate group, from 1994 to 2000. From 1990 to 1994, Mr. Kang was the Vice President of 中國包裝總公司 (China National Packaging Co.) From 1987 to 1990, Mr. Kang was the Vice President of 中國農村信託投資公司 (China Agriculture Trust & Investment Co.).

### Lin You-ren

Mr. Lin, aged 70, researcher level senior engineer, was appointed as an Independent Non Executive Director since 10th November 2004. Mr. Lin graduated from the Automobile Engineering Department of 北京工業學院 (Beijing University of Technology)(the current Beijing Institute of Terchnology) in 1962, started in 1981 a training course of Industrial Management in Nanjing University of Science and Technoloy which is completed in 1982. Mr. Lin first worked with 五機部 (the 5th Machinery Department) of 第五設計院 the PRC Government from 1962 to 1991 as a technician and department head. From 1991 to 2004, Mr. Lin worked for China Ordnance Industry Group successively as head of the Planning Bureau and Automobile Bureau, bureau level deputy inspector, as well as project leader of automobile projects and advisor of International Corporation Department of the company. Mr. Lin is very experienced in the PRC automobile industry and has been involved in many important industrial development projects as well as automobile research and development projects in the PRC. Mr. Lin was a committee member of the Automobile Encyclopedia Publishing Committee of the China Automobile Engineering Society, a committee member of the Jilin University Automobile Simulation State-Selected Laboratory and a member of the first expert committee of the National Development Bank.

## Supervisors

### Dong Jun-qing

Professor Dong, aged 74, is a Senior Engineer of professor level. He was appointed as 外部監事 (an Independent Supervisor) with effect from 12th June 2002. In 1959, he graduated from Non-Ferrous Metal and Gold Faculty in Moscow, USSR, with a bachelor degree majoring in aluminium and magnesium metallurgy, and obtained the title of USSR engineer. From 1959 to 1962, he lectured at 東北大學有色冶金系 (Non-Ferrous Metallurgy Faculty of the Northeast University) in the PRC, and was transferred to work at 北京有色金屬研究總院 (Beijing Ferrous Metals Research Institute) in October 1962. He was honored with 科學大會獎 (Science Gold Medals), 國家發明獎 (National Invention Medal) and various provincial technology advancement medals. In the past 40 years, he participated in over 40 large and significant projects, many of which have already been promoted for application in production. He published over 40 articles in both domestic and overseas professional meetings and public magazines, and obtained approvals on three patents. From October 1998 to December 2007, Professor Dong worked for BYD Industries and was engaged in research and development.

### Min De

Mr. Min, aged 46, is a Senior Engineer. He was appointed as 外部監事 (an Independent Supervisor) with effect from 12th June 2002. He graduated from 中南工業大學 (Central South University of Technology) in 1985 with a bachelor degree in 有色金屬冶金 (Non-ferrous Metallurgy) and obtained a master degree in 有色金屬冶金 (Non-ferrous Metallurgy) in 1988 from the same university. From June 1988 to August 1991, Mr. Min worked in 廣州有色金屬研究稀土室 (Guangzhou Non-Ferrous Metal Research Institute Rare Earth Office) as an Engineer. From August 1991 to February 1998, Mr. Min worked in 廣州有色金屬研究稀土室 (Guangzhou Non-Ferrous Metal Research Institute Non-Ferrous Metal Office) as Senior Engineer and Deputy Supervisor. From February 1998 to October 2002, Mr. Min has become the General Manager of 深圳亞蘭德金屬製品有限公司 (Shenzhen Ya Lan De Metal Product Co. Ltd.). From October 2002 until now, he was been the director of the technical centre of 肆會市遠博文有限公司 (Sihui City Double Win Industry Co., Ltd.) in Guangdong Province From October 2003 until now, he has been the general manager of 三元材料科技有限公司 (Shenzhen City San Yuan Material Technology Co., Ltd.).

### Wang Zhen

Ms. Wang, aged 32, was appointed as a Supervisor (as staff representative) with effect from 11th June 2002. She was then a sales personnel of the Company's marketing division. She graduated from 廣州外國語學院 (Guangzhou Institute of Foreign Languages) in the PRC in 1998, major in Spanish language and obtained the degree of Bachelor of Arts. She joined BYD Industries since 1998 until 2005. She is responsible for the collection of information of overseas markets, mainly responsible for daily contacts with strategic large customers of the Group, the daily management of business secretarial duties and teamwork of the division. From October 2005 until now, she has served as the officer of the president's office.

### Yan Chen

Madam Yan Chen, aged 31, was appointed as a Supervisor (as staff representative) with effect from 20th March 2008. She graduated from Beijing University of Aeronautics & Astronautics in July 2000 with a bachelor degree. Madam Yan was a system engineer of Division One Quality Assurance Department of the Company from October 2000 to March 2001, system engineer of the System Office of the Company and secretary to the president for Quality Assurance from March 2001 to December 2002, secretary to the president of BYD Automobile Company Limited from January 2003 to October 2003, chief office director of the management department of Shanghai BYD Company Limited from October 2003 to October 2005, manager of the regional administration department for Shanghai and Xian and manager of the automobile business office of the Company from October 2005 to May 2007, and thereafter up to present, manager of the automobile business office of the Company for the Shanghai, Shenzhen and Xian regions. She is also in charge of the Pudong branch of Shanghai BYD Company Limited. Madam Yan is also a committee member of the third session of Sungjiang District, Shanghai of China People's Political Consultative Congress, and a member of the third session of League Commission of Sungjiang District, Shanghai (中國人民政治協商會上海市松江區第三屆政協委員、上海市松江區第三屆團委委員), and the secretary to Shanghai BYD Company Limited committee of China Communism Youth Association (中國工產主義青年團上海比亞迪有限公司團委書記).

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Zhang Hui-bin

Mr. Zhang Hui-bin, aged 39, was appointed as a Supervisor (as shareholders representative) with effect from 20th March 2008. He is a holder of master degree in EMBA awarded by Zhongshan University in June 2006. Mr. Zhang worked at Agricultural Machinery Supervisory and Administration Station of He County in Anhui province (安徽省和縣農機監理站) from September 1992 to July 1994. Mr. Zhang joined Guangzhou Rongjie Investment Company Limited (廣州融捷投資管理集團有限公司) as a deputy manager in August 1994 and since then he has acted as manager of the administration department, general manager of the planning and investment department, finance department and marketing director of the company at different periods. Mr. Zhang was appointed as vice-president of the company in October 2006. He is also a deputy general manager of Financing & Guarantee of Guangzhou Rongjie Financing Company Limited (廣東融捷融資擔保有限公司) and the general manager of Guangzhou Jianjin Information and Technology Company Limited (廣州漸進信息科技有限公司).

## Senior Management

### Yang Long-zhong

Mr. Yang, aged 43, engineer, is a Vice President of the Company, responsible for sales function of the Group. From 1983 to 1987, he studied in 中南工業大學 (Central South Industrial University of Technology) in the PRC, major in metallurgy physical chemistry, and obtained a degree in engineering. During 1987 to 1994, he worked at 江西省銅業公司德興銅礦 (Jiangxi Province Copper Corporation De Xing Copper Mine) and 深圳市比格電池有限公司 (Shenzhen Bi Ge Battery Co. Limited) as engineer and manager. Mr. Yang has joined the Group since February 1995, responsible for sales and marketing.

### Wang Nian-qiang

Mr. Wang, aged 44, engineer, Vice President of the Company, is responsible for the production technology of the Group's NiCd and NiMH batteries. He graduated from 中南工業大學 (Central South Industrial University of Technology) in the PRC in 1987, major in industrial analysis and obtained a degree in engineering. During 1987 to 1994, he worked at 銅陵有色金屬公司 (Tong Ling Non-Ferrous Metal Company) as Engineer. Mr. Wang has joined the Group since February 1995 as the chief engineer of BYD Industries. He became the general manager of the Group's First Business Division in June 2002, and department head of the Group's First Business Department in February 2008.

### Wu Jing-sheng

Mr. Wu, aged 45, is the Vice President and Company Secretary of the Company, who oversees the Group's supervisory, financial and administration divisions. Mr. Wu took part in 全國律師統考 (National Examination for lawyers) and obtained qualification as a lawyer from 安徽省司法廳 (the Judiciary of Anhui Province) in 1992. Mr. Wu also passed 註冊會計師全國統一考試 (National Examination for Certified Public Accountant) and obtained the qualification as 中國註冊會計師 (the PRC Certified Public Accountant) in 1995. He graduated from 安徽省師範大學 (Normal University of Anhui) in the PRC, major in Chinese language. In July 2006, he graduated from advanced business administration at 光華管理學院 (Guanghua School of Management) at the Peking University with a master degree. From 1994 to 1995, he worked at Guangzhou Rongjie Investment Company Limited and was responsible for finance and related duties. Since September 1995, he has joined the Group as the Financial Manager. Since 2002, Mr Wu has been the Group's Financial Controller. Mr. Wu is assisted by Mr. Chan Wai Leung from 1st January 2005 in discharging his responsibility as a qualified accountant. He is a non-executive director of BYD Electronic (International) Company Limited (Stock Code: 285).

Mr. Chan Wai Leung has over 10 years working experience in leading international accounting firms and has extensive experience in assisting clients on internal controls review and accounting compliance review. Mr. Chan graduated with a Bachelor of Business Administration degree and he has obtained a Master degree of Global Business and E-Commerce from the University of Hong Kong. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

### Mao De-he

Mr. Mao, aged 52, Senior Engineer, is a Vice President of the Company, responsible for research and production of automobile parts, and research and development of equipment. He graduated from 零六一基地「七•二一」大學 (Base 061 No. 7.21 University) (now known as 貴州航天局工業大學 (Industrial University of Guizhou Aeronautics Bureau)) in the PRC majoring in mechanical manufacture and process in 1979. During 1971 to 1992, he was appointed as the head of the process technology institute of 貴州航天局三四零七廠 (Factory 3407 of Guizhou Aeronautics Bureau). Later, Mr. Mao was appointed the Deputy Head and Chief Engineer of 深圳建設集團宏威液壓機械廠 (Shenzhen Construction Group Hong Wei Hydraulic Pressing Machine Factory), and the Deputy Chief Engineer of 深圳比格電池有限公司 (Shenzhen Bi Ge Battery Co. Limited). Mr. Mao joined the Group in 1996 and successively worked as the manager of the design department of the Second Business Division, the general manager of the Second Business Division and the general manager of the Fifteenth Business Division and etc. In May 2004, he became the general manager of the Sixteenth Business Division of the Group.

### Lian Yu-bo

Mr. Lian, aged 44, Senior Engineer, is a Vice President of the Company, responsible for research and development of automobile and related products. He graduated from 南京航空航天大學 (Nanjing University of Aeronautics and Astronautics) in July 1986, with a bachelor degree majoring in aircraft manufacturing engineering. In September 2000, he graduated from advanced business administration at 南京大學 (Nanjing University) with a master degree. He has engaged in research and development on automobiles at 中國汽車研究中心 (China Automotive Technology and Research Center) during November 1987 to October 1991. He was a deputy chief engineer of 上汽儀征汽車公司 (SAIC Motor Yizheng Company) during October 1991 to November 2000. In November 2000 to December 2003, he was the deputy general manager of 上海同濟同捷汽車設計公司 (Shanghai Tongji Tongjie Automobile Design Company). Since February 2004, he joined the Group and has been the deputy general manager of the Thirteenth Business Division, he has been the chief engineer of the automobile business since June 2005.

### He Long

Mr. He, aged 36, Engineer, is a Vice President of the Company, responsible for the production technology of the Group's Lithium-ion batteries. He graduated from the Department of Technical Physics of Peking University, majoring in applied chemistry with a bachelor of science degree in 1995 and obtained a master of science degree in radioactive chemistry from Peking University in July 1999. From 1993 to 1996, he attended the second degree programme at the School of Intellectual Property of 北京大學 (Peking University) and was awarded a bachelor of law degree. Mr. He has been with the Group since July 1999, holding the posts of research team head, the manager of the quality department, general manager of the Group's Second Business Division and etc. Since February 2008, he has concurrently been the department head of the Second Business Department of the Group and director of Quality Control Division of the IT industrial group.

# CORPORATE GOVERNANCE REPORT

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

The Hong Kong Stock Exchange has promulgated a new Code on Corporate Governance Practices (the "Code") which came into effect in January 2005. The Company has put in place corporate governance practices to comply with all the provisions and most of the recommended best practices of the Code in 2005 except for the deviation from the code provision A.2.1 which provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Wang Chuan-fu is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly 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 prospects of the Company.

## Board of Directors

Accountable to the Shareholders, the Board of Directors is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies.

## The Directors

As of the date of this report, the Board comprises six Directors. There are one Executive Director who is the President, two Non-Executive Directors and three Independent Non-Executive Directors. Detailed biographies outlining each individual Director's range of specialist experience and suitability of the successful long-term running of the Group are set out on pages 15 to 19 of this annual report.

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

The Company has received from each of the Independent Non-Executive Directors an annual confirmation of his independence as required under the Listing Rules. The Company considers all Independent Non-Executive Directors to be independent.

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

The Board met five times this year to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matter is specifically addressed to the Board for its decision. Specific topics discussed at these Board meetings include overall strategy; major acquisitions and disposals; annual budgets; interim and annual results; recommendations on Directors' appointment(s) or reappointment(s); matters relating to share capital; approval of major capital project; dividend policies; and other significant operational and financial matters.

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

In accordance with the Company's Articles of Association and related Board resolutions, each Board member and each member of the Supervisory Committee is appointed for a term of 3 years and is subject to re-election at the end of the period.

## Board Meetings

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a board meeting. The meeting agenda is set in consultation with members of the Board. The Board held five meetings in 2007. The attendance of individual Director (including the authorisation) at the Board meetings is set out below:

| Members of the Board | Number of Board meetings attended | Attendance rate |
|---|---|---|
| **Executive Directors** | | |
| WANG Chuan-fu | 5 | 100% |
| XIA Zuo-quan | 5 | 100% |
| **Non-Executive Director** | | |
| LU Xiang-yang | 5 | 100% |
| **Independent Non-Executive Directors** | | |
| LI Guo-xun | 5 | 100% |
| KANG Dian | 5 | 100% |
| LIN You-ren | 5 | 100% |

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

— the Audit Committee;

— the Remuneration Committee; and

— the Nomination Committee

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

## Audit Committee

One of the primary duties of the Audit Committee is to review the financial reporting process of the Group. As at 31st December 2007, Audit Committee consists of three independent non-executive Directors, namely Professor Li Guo-xun, Mr. Kang Dian and Mr. Lin You-ren, and a non-executive Director, Mr. Lu Xiang-yang, with Mr. Kang Dian as the Chairman. Meetings were convened by the Company's Audit Committee and the Company's auditors to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including the financial statements for the year ended 31st December 2006 and the six months ended 30th June 2007) before recommending them to the Board for approval.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and have been revised in 2005 to comply with the Corporate Governance Code.

The Audit Committee held two meetings in 2007 to review the internal and external audit findings, the accounting principles and practices adopted by the Group, and Listing Rules and statutory compliance, and to discuss auditing, internal controls, risk management and financial reporting matters including the interim and annual accounts, before recommending them to the Board for approval. The external auditors and the finance department of the Company also attended these meetings. The individual attendance of its members of the meetings is set out as follows:

| Member of the Audit Committee | Number of Committee meetings attended | Attendance rate |
|---|---|---|
| LI Guo-xun | 2 | 100% |
| KANG Dian | 2 | 100% |
| LU Xiang-yang | 2 | 100% |
| Lin You-ren | 2 | 100% |

## Remuneration Committee

Pursuant to code provision B.1.1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), the Board of Directors established a Remuneration Committee on 27th June 2005. The primary role of the Remuneration Committee is to regularly review human resource management policies, make recommendations on the compensation and benefit plans of Directors and senior executives, as well as setting performance goals for senior executives of the Group. As at 31st December 2007, the Remuneration Committee comprises Mr. Wang Chuan-fu, Mr. Xia Zuo-quan, Mr. Kang Dian, Professor Li Guo-xun and Mr. Lin You-ren, with Mr. Wang Chuan-fu as the Chairman.

The Remuneration Committee has reviewed its terms of reference in 2007 to comply with the Corporate Governance Code.

### Remuneration Policy for Directors

The primary goal of the Group's remuneration policy for Executive Directors is to enable the Company to retain and motivate Executive Directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results and taking into accounts of the comparable market conditions. The principal elements of the remuneration package of Executive Directors include basic salary and discretionary bonus.

Recommendation on the remuneration of Non-Executive Directors which includes mainly the Director's fee is a matter for the Board as a whole. The Company reimburses reasonable expenses incurred by these Directors in the course of their duties as Directors.

Directors do not participate in decisions on their own remuneration.

The emoluments paid to each Director of the Company for the year ended 31st December 2007 are set out in note 8 to the financial statements.

## Nomination Committee

Pursuant to the relevant provision of the Code, the Group established the Nomination Committee. As at 31st December 2007, the Nomination Committee comprises Mr. Wang Chuan-fu, Mr. Lu Xiang-yang, Mr. Kang Dian, Professor Li Guo-xun and Mr. Lin You-ren, with Mr. Wang Chuan-fu as the Chairman. The Nomination Committee will perform such duties as set out in the Code, including making recommendations to the Board on selection of individuals nominated for directorship.

## External Auditors

For the year ended 31st December 2007, the total remuneration paid and payable to the external auditors were RMB2,500,000 for audit services. The audit fee was approved by the Audit Committee.

The re-appointment of Ernst & Young as auditors of the Company has been recommended and endorsed by the Board and is subject to approval by shareholders at the forthcoming annual general meeting.

## Internal Control

### Internal Control System

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness through the Audit Committee. The Company's system of internal control plays a key role in the management of risks that are significant to the fulfillment of its business objectives. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records and for the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed for compliance of applicable laws, rules and regulations.

During the Year under review, the Company engaged external professional adviser and initiated a project to review and establish internal control manuals for its financial, operational and compliance controls and risk management functions with a view to further enhance the effectiveness of the Group's internal control system.

### Internal Audit

The Group has an Internal Audit Department which plays an important role in the Group's internal control framework. The tasks of the Department include regular review and audit of the practices, procedures and internal control systems on those areas of the Group's activities with the greatest perceived risks. Apart from conducting special reviews of areas of concern identified by management or the Audit Committee, the Department also conducts routine examinations and reviews on the soundness and effectiveness of general business management, thus achieving effective control and driving improvement in the overall business activities of the Company to the greatest extent possible.

The Internal Audit Department is under the supervision of the Chief Financial Officer and has direct access to the Audit Committee.

With the development of the Company, the Internal Audit Department has established various internal audit standard documents such as "Regulations on Internal Audit of the Company" and "Internal Control Standard of the Company", creating and strictly implementing a standardized auditing practice flow from risk evaluation → determination of the scope of auditing → approval of the auditing plan → announcement of audit → sufficient communication with the department to be audited prior to auditing → on-site auditing → communication and confirmation of auditing results → auditing issue improvement and feedback.

The annual work plan of internal audit is reviewed and endorsed by the Audit Committee and a summary of major audit findings is reported regularly to the Audit Committee. During the reporting year, the Internal Audit Department reviewed the key operations of the Group, identified areas of concern and held constructive communications with the Audit Committee.

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuerscontained in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities transactions by its Directors. All Directors complied with their obligations under the Model Code regarding their securities transactions during the Year.

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2007.

## Shareholders' Rights

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

To safeguard shareholders' rights, the Company adopts the policy of voting by poll for all resolutions put forward at any shareholders' meetings.

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

## Investor Relations

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

# REPORT OF THE DIRECTORS

The directors of the Company ("Directors") submit their report together with the audited consolidated accounts of BYD Company Limited (the "Company") and its subsidiaries (together with the Company hereinafter collectively referred to as the "Group") for the year ended 31st December 2007.

## Principal Activities and Geographical Analysis of Operations

The principal activities of the Group are research, development, manufacture and sale of rechargeable batteries, handset components and assembley service as well as automobiles and related products. The activities of the Company's subsidiaries are set out in Note 19 to the accompanying consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31st December 2007.

An analysis of the Group's performance for the year ended 31st December 2007 by business and geographical segments is set out in Note 4 to the accompanying consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31st December 2007 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements on page 33 to page 96 of this annual report.

The Board did not recommend a final dividend payment for the year ended 31st December 2007.

## Closure of Register of Members

The register of members of the Company will be closed from 9th May 2008 (Friday) to 10th June 2008 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to attend and vote at such meeting, all documents about transfer of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 8th May 2008 (Thursday).

## Reserves

Movements in the reserves of the Group and the Company during the year are set out on page 36 of this annual report and in Note 33 to the accompanying consolidated financial statements, respectively.

## Donations

Charitable and other donations made by the Group during the year ended 31st December 2007 amounted to approximately RMB4,619,400 (2006: RMB9,619,000).

## Property, Plant and Equipment

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

## Share Capital

Details of the movements in share capital of the Company are set out in Note 32 to the accompanying consolidated financial statements.

## Distributable Reserves

Distributable reserves of the Company as at 31st December 2007, calculated under section 79B of the Companies Ordinance and the relevant legislation applicable in the PRC, the Company's place of incorporation, amounted to approximately RMB741,315,000 (2006: RMB527,310,000).

## Pre-Emptive Rights

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

## Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2 and page 96 of this annual report.

## Directors

The Directors who held office during the year ended 31st December 2007 and up to the date of this report are:

— Executive director:
Mr. Wang Chuan-fu
Mr. Xia Zuo-quan (appointed as executive director on 11th June 2002 and re-designated as non-executive director on 20th March 2008)

— Non-executive director:
Mr. Lu Xiang-yang

— Independent non-executive director:
Mr. Li Guo-xun (resigned on 20th March 2008)
Madam Li Dong (appointed on 20th March 2008)
Mr. Kang Dian
Mr. Lin You-ren

## Directors' and Supervisors' Service Contracts

All Directors, except Mr. Lin You-ren who was re-elected with effect from 1st October 2007 and Madam Li Dong who was appointed on 20th March 2008, had renewed their service contracts with the Company for a term of three years commencing on 11th June 2005. And Mr. Lin You-ren has renewed his service contract with the company for a term to be expired on the date of the forthcoming AGM. Ms. Li Dong has entered into a service contract with the Company for a term starting from 20 March 2008 and ending on the date of the forthcoming AGM. Mr. Xia Zuo-quan has also entered into a supplementary contract with the Company relating to his re-designation from executive Director to non-executive Director.

All Supervisors, except Mr. Zhang Hui-bin and madam Yan Chen who were appointed on 20th March 2008, had renewed their service contracts with the Company for a term of three years commencing on 11th June 2005. And Mr. Zhang Hui-bin and Ms. Yan Chan have entered into service contracts with the Company for a term starting from 20 March 2008 and ending on the date of the forthcoming AGM.

## Directors' Interests in Contracts

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

## Directors Remunerations

The emolument payable to each Executive Director is based on (i) his duties and responsibilities; (ii) prevailing market conditions and (iii) performance and profitability of the Company. Details of the remuneration of the Directors are set out in note 8 to the consolidated financial statements.

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

## Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out on pages 15 to 19.

## Directors', Supervisors' and Chief Executives' Interests

As at 31st December 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 share % |
|---|---|---|---|
| *Domestic shares of RMB1.00 each* | | | |
| 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 % |
|---|---|---|---|
| *H shares of RMB1.00 each* | | | |
| 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 31st December 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.

## Shareholders with Notifiable Interests

As at 31st December 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 *(note 1)* | 44,128,700 (L) | 8.18 | 11.32 |
| Yang Long-zhong *(note 2)* | 20,717,300 (L) | 3.84 | 5.31 |

*Notes:*

1. 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.
2. 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. *(note 1)* | 9,110,500 (L) | 1.68 | 6.09 |
| JPMorgan Chase & Co. *(note 2)* | 7,208,300 (L) | 1.34 | 4.82 |
| | 5,478,300 (P) | 1.02 | 3.66 |
| Li Lu *(note 3)* | 10,769,000 (L) | 1.99 | 7.20 |
| Fidelity International Limited | 15,010,000(L) | 2.78 | 10.04 |
| Value Partners Limited *(note 4)* | 11,979,000 (L) | 2.22 | 8.01 |
| Cheah Cheng Hye *(note 4)* | 12,129,000 (L) | 2.24 | 8.11 |
| To Hau Yin *(note 5)* | 12,129,000 (L) | 2.24 | 8.11 |
| Janus Capital Management LLC | 13,397,500 | 2.48 | 8.96 |
| The Northern Trust Company (ALA) | 8,649,040(P) | 1.60 | 5.79 |
| State Street Corporation *(note 6)* | 13,487,964(P) | 2.50 | 9.02 |

*Notes:*

(1) The Capital Group Companies, Inc. is deemed to be interested in 9,110,500 H shares (L) through Capital Group International Inc., Capital Guardian Trust Company, Capital International, Inc., Capital International Limited, and Capital International S.A., all 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 10,769,000 H shares (L) through LL Group LLC and LL Investment Partners, L.P., both of which are controlled corporations of Li Lu.

(4) Cheah Cheng Hye is deemed to be interested in 11,979,000 H shares (L) through Value Partners Limited, which is a controlled corporation of Cheah Cheng Hye.

(5) To Hau Yin is deemed to be interested in 12,129,000 H shares (L) of Cheah Cheng Hye as Cheah Cheng Hye is the spouse of To Hau Yin.

(6) State Street Corporation is deemed to be interested in 13,487,964 H shares (P) through State Street Bank & Trust Company, which is a controlled corporation of State Street Corporation.

The total issued share capital of the Company as at 31st December 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, (P) - Lending Pool*

## Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31st December 2007.

## Major Customers and Suppliers

The percentage of purchases and sales for the year ended 31st December 2007 attributable to the Group's major suppliers and customers are as follows:

| | |
|---|---|
| **Purchases** | |
| — the largest supplier | 8% |
| — the five largest suppliers combined | 21% |
| **Sales** | |
| — the largest customer | 8% |
| — the five largest customers combined | 26% |

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

## Connected Transactions

There was no connected transaction entered into by the Group during the year ended 31st December 2007 which is required to be disclosed under the Listing Rules.

## Sufficiency of Public Float

Based on information which is publicly available to the Company and within the knowledge of its directors as at 20th March 2008 prior to the issue of the annual report, the directors confirm that the Company had sufficient public float as required by the Listing Rules.

## Confirmation of Independence

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

## Auditors

The consolidated financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Wang Chuan-fu**
*Chairman*

Shenzhen, The PRC, 20th March 2008

# REPORT OF THE SUPERVISORY COMMITTEE

In 2007, in accordance with the principle of being accountable to all shareholders, the Supervisory Committee of the Company fully complied with the duties to supervise and ensure that the resolutions as passed in the Shareholders' General Meetings were consistently implemented, the legal interest of shareholders was protected and the duties conferred under the Articles of Association and in the Shareholders' General Meetings were completed in accordance with the Company Law, the Articles of Association and the relevant provisions, in order to facilitate a disciplined operation and sustainable development of the Company.

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

On 16th March 2007, the Supervisory Committee convened its meeting at the office of the Company, where the annual report of the Company for 2006 was considered and approved accordingly.

On 31st August 2007, the Supervisory Committee convened its meeting at the office of the Company, where the interim report of the Company for 2007 was considered and approved accordingly.

## 2. Progress of the Work of the Supervisory Committee During the Reporting Period

During the reporting period, the Supervisory Committee of the Company performed its supervisory functions in a fiduciary manner. Apart from participating in the Shareholders' General Meeting for 2007 and attending every board meeting of the Company held in 2007, the Supervisory Committee duly supervised and examined the Company's financial situation, the Board of Directors' execution of the resolutions passed in the Shareholders' General Meeting, operational decisions of the management, the operations of the Company in compliance with the laws, the acts of the Directors, managers and senior management, and the connected transactions entered into with its controlling shareholder. The Supervisory Committee considered that:

(1) The operating activities of the Company and its subsidiaries in 2007 did not violate the Company Law, the Articles of Association, financial accounting procedures and the laws and regulations of the PRC.

(2) During the discharge of their duties in 2007, the directors, managers and senior management of the Company fulfilled their fiduciary duties by acting lawfully, regularized management, explored for innovation, with discipline to protect the interests of all the shareholders of the Company. None of the parties named above was found in breach of the Company Law, the Articles of Association or the laws and regulations of the PRC.

(3) The auditors presented an unqualified auditors' report. The report truly, objectively and accurately reflected the financial condition of the Company.

**Dong Jun-qing**
*Chairman of the Supervisory Committee*

20th March 2008

# INDEPENDENT AUDITORS' REPORT

## To the shareholders of BYD Company Limited

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

We have audited the financial statements of BYD Company Limited set out on pages 33 to 95, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants

Ernst & Young, Hong Kong
18th Floor
Two International Finance Centre
8 Finance Street, Central, Hong Kong

20 March 2008

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **REVENUE** | 5 | **21,211,213** | 12,938,917 |
| Cost of sales | | **(16,963,526)** | (10,200,734) |
| Gross profit | | **4,247,687** | 2,738,183 |
| Other income and gains | 5 | **285,333** | 157,026 |
| Selling and distribution costs | | **(648,187)** | (480,177) |
| Administrative expenses | | **(1,656,995)** | (850,197) |
| Other expenses | | **(96,537)** | (136,748) |
| Finance costs | 7 | **(388,421)** | (246,942) |
| **PROFIT BEFORE TAX** | 6 | **1,742,880** | 1,181,145 |
| Tax | 10 | **(40,551)** | (53,075) |
| **PROFIT FOR THE YEAR** | | **1,702,329** | 1,128,070 |
| Attributable to: | | | |
| Equity holders of the Company | 11 | **1,611,711** | 1,117,334 |
| Minority interests | | **90,618** | 10,736 |
| | | **1,702,329** | 1,128,070 |
| **DIVIDENDS** | | | |
| Proposed dividends | 12 | **701,350** | 215,800 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY – Basic (RMB)** | 13 | **2.99** | 2.07 |

# CONSOLIDATED BALANCE SHEET

31 December 2007

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **10,341,577** | 7,482,960 |
| Investment properties | 15 | **2,043** | 2,101 |
| Prepaid land lease payments | 16 | **1,448,294** | 195,866 |
| Goodwill | 17 | **58,603** | 58,603 |
| Other intangible assets | 18 | **586,181** | 412,447 |
| Non-current prepayment | | **386,587** | 109,925 |
| Deferred tax assets | 31 | **165,221** | 10,414 |
| Total non-current assets | | **12,988,506** | 8,272,316 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | **4,548,545** | 3,156,918 |
| Trade receivables | 22 | **4,031,652** | 1,550,925 |
| Bills receivable | 22 | **1,400,925** | 656,456 |
| Factored trade receivables | 22 | **—** | 787,018 |
| Prepayments, deposits and other receivables | 23 | **675,003** | 256,125 |
| Due from related parties | | **—** | 765 |
| Derivative financial instruments | 28 | **60,913** | 5,181 |
| Restricted bank deposits | 24 | **43,446** | 83,765 |
| Cash and cash equivalents | 24 | **5,539,501** | 1,617,312 |
| Total current assets | | **16,299,985** | 8,114,465 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | 25 | **5,715,394** | 3,322,022 |
| Bank advances on factored trade receivables | | **—** | 787,018 |
| Other payables and accruals | 26 | **1,374,210** | 688,432 |
| Advances from customers | | **969,985** | 429,010 |
| Deferred income | 27 | **425,593** | — |
| Derivative financial instruments | 28 | **42,725** | 3,863 |
| Interest-bearing bank borrowings | 29 | **6,828,843** | 4,223,713 |
| Deferred tax liabilities | 31 | **2,215** | 8,255 |
| Tax payable | | **178,879** | 26,943 |
| Provision | 30 | **45,545** | 13,193 |
| Total current liabilities | | **15,583,389** | 9,502,449 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **716,596** | (1,387,984) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **13,705,102** | 6,884,332 |

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **13,705,102** | 6,884,332 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 29 | **1,294,843** | 1,513,146 |
| Derivative financial instruments | 28 | **—** | 3,545 |
| Total non-current liabilities | | **1,294,843** | 1,516,691 |
| Net assets | | **12,410,259** | 5,367,641 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | 32 | **539,500** | 539,500 |
| Reserves | 33 | **9,467,268** | 4,537,164 |
| Proposed dividends | 12 | **701,350** | 215,800 |
| | | **10,708,118** | 5,292,464 |
| **Minority interests** | | **1,702,141** | 75,177 |
| Total equity | | **12,410,259** | 5,367,641 |

*Director* *Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 | Share premium account RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve fund RMB'000 | Statutory welfare fund RMB'000 (note 33) | Exchange fluctuation reserve RMB'000 (note 33) | Retained profits RMB'000 | Proposed dividends RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
| At 1 January 2006 | 539,500 | 1,523,080 | 362 | 217,897 | 85,956 | 1,136 | 1,807,378 | — | 4,175,309 | 64,441 | 4,239,750 |
| Profit for the year | — | — | — | — | — | — | 1,117,334 | — | 1,117,334 | 10,736 | 1,128,070 |
| Appropriation to statutory surplus reserve fund | — | — | — | 77,590 | — | — | (77,590) | — | — | — | — |
| Proposed final 2006 dividend | — | — | — | — | — | — | (215,800) | 215,800 | — | — | — |
| Exchange realignment | — | — | — | — | — | (179) | — | — | (179) | — | (179) |
| At 31 December 2006 and 1 January 2007 | 539,500 | 1,523,080 | 362 | 295,487 | 85,956 | 957 | 2,631,322 | 215,800 | 5,292,464 | 75,177 | 5,367,641 |
| Profit for the year | — | — | — | — | — | — | 1,611,711 | — | 1,611,711 | 90,618 | 1,702,329 |
| Equity settled share expenses | — | — | 68,940 | — | — | — | — | — | 68,940 | 81,060 | 150,000 |
| Final 2006 dividends | — | — | — | — | — | — | — | (215,800) | (215,800) | — | (215,800) |
| Appropriation to statutory surplus reserve fund | — | — | — | 62,260 | 16,675 | — | (78,935) | — | — | — | — |
| Proposed interim 2007 dividend | — | — | — | — | — | — | (701,350) | 701,350 | — | — | — |
| Disposal to minority interests | — | — | 1,971,058 | — | — | — | — | — | 1,971,058 | 199,898 | 2,170,956 |
| Gain on deemed disposal of a subsidiary | — | — | 1,979,906 | — | — | — | — | — | 1,979,906 | 1,259,787 | 3,239,693 |
| Dividend paid to minority interests | — | — | — | — | — | — | — | — | — | (4,399) | (4,399) |
| Exchange realignment | — | — | — | — | — | (161) | — | — | (161) | — | (161) |
| At 31 December 2007 | 539,500 | 1,523,080* | 4,020,266* | 357,747* | 102,631* | 796* | 3,462,748* | 701,350 | 10,708,118 | 1,702,141 | 12,410,259 |

* *These reserve accounts comprise the consolidated reserves of RMB9,467,268,000 (2006: RMB4,537,164,000) in the consolidated balance sheet.*

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **1,742,880** | 1,181,145 |
| Adjustments for: | | | |
| Finance costs | 7 | **388,421** | 246,942 |
| Bank interest income | 6 | **(28,483)** | (13,956) |
| (Gain)/loss on disposal of items of property, plant and equipment | 6 | **12,657** | (1,123) |
| Net fair value gains on derivative instruments - transactions not qualifying as hedges | 6 | **(4,097)** | (1,668) |
| Equity settled share expenses | 6 | **150,000** | — |
| Depreciation | 14,15 | **840,021** | 476,532 |
| Write-down of inventories to net realisable value | 6 | **32,752** | 88,723 |
| Impairment of trade receivables | 6 | **31,229** | 56,317 |
| Written off as uncollectible | 6 | **(19,949)** | (2,809) |
| Impairment losses reversed | 6 | **(19,099)** | (9,266) |
| Recognition of prepaid land lease payments | 16 | **12,720** | 7,470 |
| Impairment of property, plant and equipment | 6 | **102,998** | — |
| Impairment of other intangible assets | 6 | **38,679** | — |
| Amortisation | 18 | **58,452** | 49,168 |
| | | **3,339,181** | 2,077,475 |
| Increase in inventories | | **(1,424,379)** | (1,014,084) |
| Increase in trade receivables | | **(1,685,890)** | (791,345) |
| Increase in bills receivable | | **(744,469)** | (399,118) |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(418,878)** | 25,836 |
| Decrease in amounts due from related parties | | **765** | 500 |
| Increase in trade and bills payables | | **1,606,354** | 2,123,325 |
| Increase in other payables and accruals | | **685,778** | 277,192 |
| Increase in advances from customers | | **540,975** | 247,121 |
| Increase in provision for warranties | | **32,352** | 10,036 |
| Decrease in factored trade receivables | | **—** | (511,663) |
| Increase bank advances on factored trade receivables | | **—** | 511,663 |
| Cash generated from operations | | **1,931,789** | 2,556,938 |
| Interest received | | **28,483** | 13,956 |
| Taxes paid | | **(49,462)** | (73,173) |
| Net cash inflow from operating activities | | **1,910,810** | 2,497,721 |

## CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2007

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| Net cash inflow from operating activities | | **1,910,810** | 2,497,721 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(4,060,598)** | (2,744,190) |
| Increase in non-current prepayment | | **(276,662)** | (69,504) |
| Increase in prepaid land lease payments | 16 | **(1,265,148)** | (1,535) |
| Receipt of government grants | 27 | **425,593** | — |
| Additions to other intangible assets | 18 | **(270,865)** | (191,583) |
| Proceeds from disposal of items of property, plant and equipment | | **246,363** | 13,166 |
| (Increase)/decrease in derivative financial assets | | **(51,635)** | 17,717 |
| Increase/(decrease) in derivative financial liabilities | | **35,317** | (13,610) |
| (Increase)/decrease in restricted bank deposits | | **40,319** | (35,715) |
| Net cash outflow from investing activities | | **(5,177,316)** | (3,025,254) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | | **6,980,611** | 5,122,793 |
| Repayment of bank loans | | **(4,593,784)** | (3,410,627) |
| Interest paid | | **(388,421)** | (249,271) |
| Dividends paid | | **(215,800)** | — |
| Dividends paid to minority shareholders | | **(4,399)** | — |
| Proceeds from issue of subsidiary's shares | 19 | **5,410,650** | — |
| Net cash inflow from financing activities | | **7,188,857** | 1,462,895 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **3,922,351** | 935,362 |
| Cash and cash equivalents at beginning of year | | **1,617,312** | 682,129 |
| Effect of foreign exchange rate changes, net | | **(162)** | (179) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **5,539,501** | 1,617,312 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 24 | **5,529,501** | 1,609,482 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 24 | **10,000** | 7,830 |
| | | **5,539,501** | 1,617,312 |

# BALANCE SHEET

31 December 2007

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **2,128,967** | 2,007,586 |
| Investments in subsidiaries | 19 | **1,954,479** | 1,393,877 |
| Prepaid land lease payments | 16 | **29,492** | 30,171 |
| Other intangible assets | 18 | **25,172** | 14,498 |
| Non-current prepayment | | **13,200** | 34,182 |
| Deferred tax assets | 31 | **10,218** | 6,385 |
| Total non-current assets | | **4,161,528** | 3,486,699 |
| **CURRENT ASSETS** | | | |
| Inventories | | **1,061,928** | 682,874 |
| Trade receivables | | **1,072,928** | 282,543 |
| Bills receivable | | **202,653** | 117,810 |
| Factored trade receivables | | **—** | 239,800 |
| Tax recoverable | | **10,895** | — |
| Prepayments, deposits and other receivables | 23 | **215,417** | 74,422 |
| Due from subsidiaries | 19 | **5,291,117** | 4,726,684 |
| Derivative financial instruments | | **21,925** | 2,702 |
| Restricted bank deposits | 24 | **2** | 43,663 |
| Cash and cash equivalents | 24 | **330,853** | 330,631 |
| Total current assets | | **8,207,718** | 6,501,129 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | | **1,318,398** | 712,374 |
| Other payables and accruals | 26 | **227,971** | 160,013 |
| Advanced from customers | | **31,779** | 26,523 |
| Derivative financial instruments | | **1,544** | 1,332 |
| Interest-bearing bank borrowings | 29 | **4,727,305** | 3,035,469 |
| Due to subsidiaries | 19 | **1,497,132** | 1,541,815 |
| Tax payable | | **—** | 2,281 |
| Bank advances on factored trade receivables | | **—** | 239,800 |
| Total current liabilities | | **7,804,129** | 5,719,607 |
| **NET CURRENT ASSETS** | | **403,589** | 781,522 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,565,117** | 4,268,221 |

# BALANCE SHEET

31 December 2007

| | Notes | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,565,117** | 4,268,221 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank borrowings | 29 | **1,060,000** | 1,460,000 |
| Derivative financial instruments | | **—** | 2,659 |
| Total non-current liabilities | | **1,060,000** | 1,462,659 |
| Net assets | | **3,505,117** | 2,805,562 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | 32 | **539,500** | 539,500 |
| Reserves | 33 | **2,264,267** | 2,050,262 |
| Proposed dividends | 12 | **701,350** | 215,800 |
| Total equity | | **3,505,117** | 2,805,562 |

*Director* *Director*

# NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 1. CORPORATE INFORMATION

BYD Company Limited (the "Company") is a joint stock limited liability company registered in the People's Republic of China (the "PRC"). The Company's H shares have been listed on The Stock Exchange of Hong Kong Limited since 31 July 2002. The registered office of the Company is located at Yan An Road, Kuichong, 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 19.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

## 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 interpretations has had no material effect on these financial statements.

| | |
|---|---|
| HKFRS 7 | *Financial Instruments: Disclosures* |
| HKAS 1 Amendment | *Capital Disclosures* |
| HK(IFRIC)-Int 8 | *Scope of HKFRS2* |
| HK(IFRIC)-Int 9 | *Reassessment of Embedded Derivatives* |
| HK(IFRIC)-Int 10 | *Interim Financial Reporting and Impairment* |

The principal effects of adopting these new and revised HKFRSs are as follows:

### (a) HKFRS 7 *Financial Instruments: Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

### (b) Amendment to HKAS 1 *Presentation of Financial Statements - Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 39 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

**(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2***

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not only issued equity instruments to the Group's employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

**(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives***

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

**(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment***

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available for sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

## 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.

| | |
|---|---|
| HKFRS 8 | *Operating Segments* [1] |
| HKAS 1 (Revised) | *Presentation of Financial Statements* [1] |
| HKAS 23 (Revised) | *Borrowing Costs* [1] |
| HK(IFRIC)-Int 11 | *HKFRS 2 – Group and Treasury Share Transactions* [2] |
| HK(IFRIC)-Int 12 | *Service Concession Arrangements* [4] |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes* [3] |
| HK(IFRIC)-Int 14 | *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [4] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

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

HKAS 1 has been revised and it sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirement for their content. The Group expects to adopt HKAS 1 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 HKFRS 8 and HKAS 1 (revised) 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 invests 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 ventures 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 ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

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;

(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 investment 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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity is eliminated to the extract of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

*Goodwill on acquisitions for which the agreement date is on or after 1 January 2005.*

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. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill 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.

### 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 entity, 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 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, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its Company;

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

(f) 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 (d) or (e); or

(g) 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 residual value over its estimated useful life. The estimated useful lives are as follows:

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

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 and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

### Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially 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 each investment property 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.

*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.

*Know-how*

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

*Software*

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

*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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

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

### 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 and 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 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. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

*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 less any allowance for impairment. 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.

*Fair value*

The fair value of investment 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 and discounted cash flow analysis.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the 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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Financial liabilities including trade and other payables and interest-bearing bank 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. The related interest expense is recognised within "finance costs" in the income statement.

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. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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 that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the 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 is 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 interest in joint venture, 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 interest in joint venture, 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.

## 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 and assembly service income, when services have been rendered.

### Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Business Enterprise Value Ratio, the Earning Before Interest, Depreciation and Tax and Amortisation (the "EBIDAT"), further details of which are given in note 37 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

### Other 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 this plan 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 and interim 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 dates 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

*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 31 December 2007 was RMB58,603,000 (2006: RMB58,603,000). More details are given in note 17.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Deferred tax assets

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 31 December 2007 was RMB165,221,000 (2006: RMB10,414,000). Further details are included in note 31 to the financial statements.

### Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2007, the best estimate of the carrying amount of capitalised development costs was RMB509,216,000 (2006: RMB352,118,000). Further details are contained in note 18 to the financial statements.

## 4. 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 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, non-manufacturing business 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.

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. 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 31 December 2007 and 2006.

| Year ended 31 December 2007 | 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 | 7,149,237 | 9,186,864 | 4,871,993 | 3,119 | 21,211,213 |
| **Segment results** | 755,862 | 1,072,742 | 257,348 | (883) | 2,085,069 |
| Interest and unallocated gain | | | | | 46,232 |
| Finance costs | | | | | (388,421) |
| Profit before tax | | | | | 1,742,880 |
| Tax | | | | | (40,551) |
| Profit for the year | | | | | 1,702,329 |
| **Assets and liabilities:** | | | | | |
| Segment assets | 5,275,423 | 13,844,254 | 8,385,042 | 4,309 | 27,509,028 |
| Corporate and other unallocated assets | | | | | 1,779,463 |
| Total assets | | | | | 29,288,491 |
| Segment liabilities | 2,609,628 | 3,718,079 | 3,246,944 | 1,556 | 9,576,207 |
| Corporate and other unallocated liabilities | | | | | 7,302,025 |
| Total liabilities | | | | | 16,878,232 |
| **Other segment information:** | | | | | |
| Depreciation and amortisation | 271,952 | 349,173 | 276,742 | 606 | 898,473 |
| Capital expenditure | 472,250 | 2,152,590 | 2,997,473 | 43 | 5,622,356 |

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

| Year ended 31 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** | 405,439 | 896,966 | 116,181 | (730) | 1,417,856 |
| Interest and unallocated gain | | | | | 10,231 |
| 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 | 5,055,008 | 5,433,123 | 4,324,370 | 269,091 | 15,081,592 |
| Corporate and unallocated assets | | | | | 1,305,189 |
| Total assets | | | | | 16,386,781 |
| Segment liabilities | 1,579,734 | 1,525,594 | 1,324,402 | 31,181 | 4,460,911 |
| Corporate and other 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 |
| Capital expenditure | 582,995 | 1,117,625 | 994,470 | 248,442 | 2,943,532 |

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following table presents revenue information for the Group's geographical segments for the year ended 31 December 2007 and 2006.

| **Year ended 31 December 2007** | **PRC RMB'000** | **Europe RMB'000** | **United States of America RMB'000** | **Others RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | **13,493,285** | **2,102,664** | **1,454,385** | **4,160,879** | **21,211,213** |

| Year ended 31 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 |

## 5. 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; the value of assembly services rendered and an appropriate proportion of contract revenue of construction contracts during the year.

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

| | | Group | |
|---|---|---|---|
| | Notes | **2007 RMB'000** | 2006 RMB'000 |
| **Revenue** | | | |
| Sale of goods | | **19,300,606** | 12,863,512 |
| Assembly service income | | **1,898,106** | 54,087 |
| Construction contracts | | **12,501** | 21,318 |
| | | **21,211,213** | 12,938,917 |
| **Other income** | | | |
| Subcontracting income | | **1,561** | 2,626 |
| Bank interest income | 6 | **28,483** | 13,956 |
| Government grants and subsidies* | | **6,173** | 11,143 |
| Net rental income | 6 | **9,356** | 219 |
| Gain on disposal of scrap | | **167,860** | 73,664 |
| Others | | **67,803** | 49,114 |
| | | **281,236** | 150,722 |
| **Gains** | | | |
| Net fair value gain on derivative instruments- transactions not qualifying as hedges | 28 | **4,097** | 5,181 |
| Gain on disposal of items of property, plant and equipment | | **—** | 1,123 |
| | | **285,333** | 157,026 |

* During the year, the Group received VAT subsidies on the amount of VAT paid for high technological products and mould in China. The government subsidies have been recognised as income upon receipt. There is no unfulfilled conditions or contingencies relating to these grants and subsidies.

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 6. PROFIT BEFORE TAX

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

| | | Group | |
|---|---|---|---|
| | | **2007** | 2006 |
| | Notes | **RMB'000** | RMB'000 |
| Cost of inventories sold | | **12,630,514** | 8,944,132 |
| Cost of services provided | | **1,848,001** | 60,716 |
| Depreciation | 14,15 | **840,021** | 476,532 |
| Impairment of property, plant and equipment | 14 | **102,998** | — |
| Impairment of other intangible assets | 18 | **38,679** | — |
| Amortisation of intangible assets other than development costs | 18 | **16,494** | 15,767 |
| Recognition of prepaid land lease payments | 16 | **12,720** | 7,470 |
| Research and development costs: | | | |
| Deferred expenditure amortised* | 18 | **41,958** | 33,401 |
| Current year expenditure | | **653,263** | 370,934 |
| | | **695,221** | 404,335 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings located in Mainland China | | **12,954** | 10,431 |
| Auditors' remuneration | | **4,078** | 3,074 |
| Employee benefits expense (including directors' and supervisor's remuneration (note 8)): | | | |
| Wages and salaries | | **2,237,923** | 1,263,275 |
| Equity-settled share expenses | 37 | **150,000** | — |
| Welfare | | **22,656** | 79,792 |
| Retirement benefit scheme contributions | | **237,901** | 90,361 |
| | | **2,648,480** | 1,433,428 |
| (Gain)/loss on disposal of items of property, plant and equipment** | | **12,657** | (1,123 ) |
| Foreign exchange differences, net** | | **73,814** | 24,172 |
| Impairment of trade receivables | 22 | **31,229** | 56,317 |
| Written off as uncollectible | 22 | **(19,949)** | (2,809 ) |
| Impairment losses reversed | 22 | **(19,099)** | (9,266 ) |
| Write-down of inventories to net realisable value* | | **32,752** | 88,723 |
| Product warranty provision: | | | |
| Additional provision* | 30 | **82,016** | 38,451 |
| Net fair value gains on derivative instruments-transactions not qualifying as hedges | | **(4,097)** | (1,668 ) |
| Net rental income | 5 | **(9,356)** | (219 ) |
| Bank interest income | 5 | **(28,483)** | (13,956 ) |

* The deferred expenditure amortised, write-down of inventories to net realisable value and product warranty provision for the year are included in "Cost of sales" on the face of the consolidated income statement.

** The foreign exchange loss and loss on disposal of items of property, plant and equipment for the year are included in "Other expenses" on the face of consolidated income statements.

## 7. FINANCE COSTS

| | Group 2007 RMB'000 | Group 2006 RMB'000 |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | **380,153** | 233,145 |
| Bank charges for discounted notes | **9,373** | 16,126 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **389,526** | 249,271 |
| Less: Interest capitalised | **(1,105)** | (6,224 ) |
| | **388,421** | 243,047 |
| Other finance costs: | | |
| Unrealised loss on interest rate swaps | **—** | 3,895 |
| | **388,421** | 246,942 |

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.33% (2006: 5.41%).

## 8. DIRECTORS' AND SUPERVISOR'S 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 2007 RMB'000 | Group 2006 RMB'000 |
|---|---|---|
| Fees | **530** | 530 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **2,877** | 1,886 |
| Retirement benefit scheme contributions | **8** | 9 |
| | **2,885** | 1,895 |
| | **3,415** | 2,425 |

### (a) Independent non-executive directors

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

| | Group 2007 RMB'000 | Group 2006 RMB'000 |
|---|---|---|
| Mr. Kang Dian | **230** | 230 |
| Mr. Li Guo-xun | **150** | 150 |
| Mr. Lin You-ren | **150** | 150 |
| | **530** | 530 |

There was no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

## 8. DIRECTORS' AND SUPERVISOR'S 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 |
|---|---|---|---|
| 2007 | | | |
| Executive directors: | | | |
| Mr. Wang Chuan-fu | **1,807** | **—** | **1,807** |
| Mr. Xia Zuo-quan | **150** | **4** | **154** |
| Non-executive director: | | | |
| Mr. Lv Xiang-yang | **150** | **—** | **150** |
| Supervisors: | | | |
| Mr. Min De | **20** | **—** | **20** |
| Ms. Wang Zhen | **393** | **4** | **397** |
| Professor Dong Jun-qing | **357** | **—** | **357** |
| | **2,877** | **8** | **2,885** |
| 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 |

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all employees. (2006: one director and four employees). The emoluments of these five highest paid employees fell into bands which are from RMB4,000,000 to RMB6,000,000. Details of these highest paid employees for the year were as follow:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **8,190** | 3,899 |
| Retirement benefit scheme contributions | **21** | 18 |
| Share award plan | **20,715** | — |
| | **28,926** | 3,917 |

## 10. TAX

No provision for profits tax in Hong Kong, United States of America, Japan, Denmark, India, Hungary, Romania and Finland has been made for the year as the Group did not generate any assessable profits from these jurisdictions during the year. Taxes on profits assessable in PRC have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Group: | | |
| Current – PRC | | |
| Charge for the year | **105,896** | 74,080 |
| Underprovision/(overprovision) in prior years | **1,871** | (49,822) |
| Deferred (note 31) | **(67,216)** | 28,817 |
| Total tax charge for the year | **40,551** | 53,075 |

## 10. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions 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 rate) to the effective tax rates, are as follows:

| Group | 2007 | | 2006 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % |
| Profit before tax | 1,742,880 | | 1,181,145 | |
| Tax at the statutory tax rate | 575,150 | 33.0 | 389,778 | 33.0 |
| Lower tax rate for specific provinces or local authority | (589,171) | (33.8) | (242,169) | (20.5) |
| Income not subject to tax | (59,992) | (3.4) | (111,018) | (9.4) |
| Expenses not deductible for tax | 92,041 | 5.3 | 55,807 | 4.7 |
| Tax losses not recognised | 55,071 | 3.2 | 38,347 | 3.2 |
| Tax losses utilised from previous periods | (28,456) | (1.6) | (27,848) | (2.4) |
| Effect on opening DTA increased tax rate | (5,963) | (0.3) | — | — |
| Adjustments in respect of current tax of previous periods | 1,871 | 0.1 | (49,822) | (4.2) |
| Tax charge at the Group's effective rate | 40,551 | 2.5 | 53,075 | 4.4 |

On 16 March 2007, the National people's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic-invested and foreign-invested enterprises from 1 January 2008 will decrease from 33% to 25%. According to HKAS 12, deferred tax assets and deferred tax 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.

## 11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of RMB915,355,000 (2006: loss of RMB39,691,000) which has been dealt with in the financial statements of the Company (note 33(b)).

## 12. DIVIDENDS

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Proposed interim – RMB1.3 (2006: Nil) per ordinary share | 701,350 | — |
| Proposed final – Nil (2006: RMB0.4) per ordinary share | — | 215,800 |
| | 701,350 | 215,800 |

The proposed interim dividend for the year has been approved by the Company's shareholders at the Extraordinary General Meeting held on 20 March 2008.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB1,611,711,000 (2006: RMB1,117,334,000), and the number of ordinary shares in issue during the year is 539,500,000 (2006: 539,500,000).

No diluted earnings per share amount has been presented for the years ended 31 December 2007 and 2006 as no diluting events existed during these years.

## 14. PROPERTY, PLANT AND EQUIPMENT

| Group | Buildings RMB'000 | Leasehold improvements RMB'000 | Machinery and equipment RMB'000 | Motor vehicles RMB'000 | Office equipment and fixtures RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2007** | | | | | | | |
| At 31 December 2006 and at 1 January 2007 | | | | | | | |
| Cost | 2,415,990 | 31,945 | 4,447,364 | 58,846 | 350,278 | 1,522,223 | 8,826,646 |
| Accumulated depreciation and impairment | (146,638) | (10,466) | (1,040,434) | (20,947) | (125,201) | — | (1,343,686) |
| Net carrying amount | 2,269,352 | 21,479 | 3,406,930 | 37,899 | 225,077 | 1,522,223 | 7,482,960 |
| At 1 January 2007, net of accumulated depreciation and impairment | 2,269,352 | 21,479 | 3,406,930 | 37,899 | 225,077 | 1,522,223 | 7,482,960 |
| Additions | 69,519 | 7,723 | 1,258,664 | 23,401 | 302,557 | 2,398,734 | 4,060,598 |
| Disposals | (1,025) | (24,971) | (42,487) | (483) | (2,178) | (187,876) | (259,020) |
| Impairment | — | — | (102,998) | — | — | — | (102,998) |
| Depreciation provided during the year | (59,894) | (2,388) | (690,474) | (10,848) | (76,359) | — | (839,963) |
| Transfers | 499,725 | — | 763,358 | 138 | 31,136 | (1,294,357) | — |
| At 31 December 2007, net of accumulated depreciation and impairment | 2,777,677 | 1,843 | 4,592,993 | 50,107 | 480,233 | 2,438,724 | 10,341,577 |
| **At 31 December 2007** | | | | | | | |
| Cost | 2,982,748 | 11,336 | 6,332,940 | 79,434 | 655,711 | 2,438,724 | 12,500,893 |
| Accumulated depreciation and impairment | (205,071) | (9,493) | (1,739,947) | (29,327) | (175,478) | — | (2,159,316) |
| Net carrying amount | 2,777,677 | 1,843 | 4,592,993 | 50,107 | 480,233 | 2,438,724 | 10,341,577 |

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 14. 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 |
| **31 December 2006** | | | | | | | |
| At 31 December 2005 and at 1 January 2006 | | | | | | | |
| Cost | 1,900,053 | 17,806 | 3,186,964 | 46,565 | 258,201 | 698,786 | 6,108,375 |
| Accumulated depreciation and impairment | (102,169) | (10,123) | (671,603) | (15,995) | (85,263) | — | (885,153) |
| Net carrying amount | 1,797,884 | 7,683 | 2,515,361 | 30,570 | 172,938 | 698,786 | 5,223,222 |
| At 1 January 2006, net of accumulated depreciation and impairment | 1,797,884 | 7,683 | 2,515,361 | 30,570 | 172,938 | 698,786 | 5,223,222 |
| Additions | 27,368 | 132 | 957,278 | 14,765 | 89,619 | 1,661,252 | 2,750,414 |
| Disposals | — | — | (5,782) | (1,666) | (784) | (3,811) | (12,043) |
| Depreciation provided during the year | (44,627) | (343) | (383,491) | (6,076) | (41,935) | — | (476,472) |
| Transfer to investment properties | (2,161) | — | — | — | — | — | (2,161) |
| Transfers | 490,888 | 14,007 | 323,564 | 306 | 5,239 | (834,004) | — |
| At 31 December 2006, net of accumulated depreciation and impairment | 2,269,352 | 21,479 | 3,406,930 | 37,899 | 225,077 | 1,522,223 | 7,482,960 |
| **At 31 December 2006** | | | | | | | |
| Cost | 2,415,990 | 31,945 | 4,447,364 | 58,846 | 350,278 | 1,522,223 | 8,826,646 |
| Accumulated depreciation and impairment | (146,638) | (10,466) | (1,040,434) | (20,947) | (125,201) | — | (1,343,686) |
| Net carrying amount | 2,269,352 | 21,479 | 3,406,930 | 37,899 | 225,077 | 1,522,223 | 7,482,960 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

| Company | Buildings RMB'000 | Machinery and equipment RMB'000 | Motor vehicles RMB'000 | Office equipment and fixtures RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2007** | | | | | | |
| At 31 December 2006 and at 1 January 2007 | | | | | | |
| Cost | 1,005,760 | 1,039,944 | 18,445 | 132,239 | 201,555 | 2,397,943 |
| Accumulated depreciation and impairment | (44,294) | (277,754) | (8,785) | (59,524) | — | (390,357) |
| Net carrying amount | 961,466 | 762,190 | 9,660 | 72,715 | 201,555 | 2,007,586 |
| At 1 January 2007, net of accumulated depreciation and impairment | 961,466 | 762,190 | 9,660 | 72,715 | 201,555 | 2,007,586 |
| Additions | 9,397 | 36,367 | 5,481 | 169,946 | 176,576 | 397,767 |
| Disposals | — | (68,747) | (640) | (8,637) | (3,449) | (81,473) |
| Depreciation provided during the year | (25,750) | (136,730) | (2,763) | (29,670) | — | (194,913) |
| Transfers | 106,540 | 108,336 | 71 | 28,262 | (243,209) | — |
| At 31 December 2007, net of accumulated depreciation | 1,051,653 | 701,416 | 11,809 | 232,616 | 131,473 | 2,128,967 |
| **At 31 December 2007** | | | | | | |
| Cost | 1,121,696 | 1,101,641 | 21,846 | 317,410 | 131,473 | 2,694,066 |
| Accumulated depreciation and impairment | (70,043) | (400,225) | (10,037) | (84,794) | — | (565,099) |
| Net carrying amount | 1,051,653 | 701,416 | 11,809 | 232,616 | 131,473 | 2,128,967 |

## 14. 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 |
| **31 December 2006** | | | | | | | |
| At 31 December 2005 and at 1 January 2006 | | | | | | | |
| Cost | 561,924 | 4,480 | 929,379 | 15,415 | 106,088 | 482,118 | 2,099,404 |
| Accumulated depreciation and impairment | (24,677) | (3,808) | (191,186) | (6,609) | (45,441) | — | (271,721) |
| Net carrying amount | 537,247 | 672 | 738,193 | 8,806 | 60,647 | 482,118 | 1,827,683 |
| At 1 January 2006, net of accumulated depreciation and impairment | 537,247 | 672 | 738,193 | 8,806 | 60,647 | 482,118 | 1,827,683 |
| Additions | 83,804 | — | 248,412 | 4,241 | 35,036 | 221,163 | 592,656 |
| Disposals | — | (672) | (247,426) | (327) | (8,386) | (2,887) | (259,698) |
| Depreciation provided during the year | (19,617) | — | (113,669) | (3,113) | (16,656) | — | (153,055) |
| Transfers | 360,032 | — | 136,680 | 53 | 2,074 | (498,839) | — |
| At 31 December 2006, net of accumulated depreciation and impairment | 961,466 | — | 762,190 | 9,660 | 72,715 | 201,555 | 2,007,586 |
| **At 31 December 2007** | | | | | | | |
| Cost | 1,005,760 | — | 1,039,944 | 18,445 | 132,239 | 201,555 | 2,397,943 |
| Accumulated depreciation and impairment | (44,294) | — | (277,754) | (8,785) | (59,524) | — | (390,357) |
| Net carrying amount | 961,466 | — | 762,190 | 9,660 | 72,715 | 201,555 | 2,007,586 |

As 31 December 2007, none of the Group's property, plant and equipment was pledged to secure general banking facilities granted to the Group (2006: net book value of RMB33,875,000) (note:29(a)(iii)).

## 15. INVESTMENT PROPERTIES

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **2,101** | — |
| Transfer from property, plant and equipment (note 14) | **—** | 2,161 |
| Depreciation provided during the year | **(58)** | (60) |
| Carrying amount at 1 December | **2,043** | 2,101 |

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

## 16. PREPAID LAND LEASE PAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 | **2007 RMB'000** | 2006 RMB'000 |
| Carrying amount at 1 January | **200,244** | 206,179 | **30,850** | 31,529 |
| Additions | **1,290,893** | 1,535 | **—** | — |
| Recognised during the year | **(12,720)** | (7,470) | **(679)** | (679) |
| Carrying amount at 31 December | **1,478,417** | 200,244 | **30,171** | 30,850 |
| Current portion included in prepayments, deposits and other receivables | **(30,123)** | (4,378) | **(679)** | (679) |
| Non-current portion | **1,448,294** | 195,866 | **29,492** | 30,171 |

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 Huizhou and Xi'an, the PRC, for which the Group is still in the process of obtaining the land use certificates. The net book value of the prepaid land lease payments in this respect as at 31 December 2007 amounted to RMB270,062,000 (2006: RMB16,084,000). In the opinion of the directors, there is no major barrier for the Group to obtain the land use certificates.

## 17. GOODWILL

| Group | RMB'000 |
|---|---|
| At 1 January 2006: | |
| Cost | **63,399** |
| Accumulated impairment | **(4,796)** |
| Net carrying amount | **58,603** |
| At 1 January 2007 and 31 December 2007: | |
| Cost | **63,399** |
| Accumulated impairment | **(4,796)** |
| Net carrying amount | **58,603** |

## 17. GOODWILL (continued)

### Impairment testing of goodwill

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 recoverable amount of the automobile and related products cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10% (2006: 10%). The growth rate used to extrapolate the cash flows of the automobile and related products unit beyond the five-year period is 8% (2006: 8%). This growth rate exceeds the average growth rate of the industry in which the industrial products unit operates by one percentage point. Senior management of the industrial products unit believes that this growth rate is justified, given the new technology internally developed by the Group during the year.

Key assumptions were used in the value in use calculation of the automobile and related products cash-generating units for 31 December 2007 and 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

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

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

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

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** RMB'000 |
|---|---|---|
| Carrying amount of goodwill | | 58,603 |
| Carrying amount of development costs | 18 | 509,216 |
| | | 567,819 |

## 18. OTHER INTANGIBLE ASSETS

| Group | Development costs RMB'000 | Industrial proprietary rights and patents RMB'000 | Know-how RMB'000 | Software RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2007** | | | | | |
| Cost at 1 January 2007, net of accumulated amortisation | **352,118** | **22,410** | **6,629** | **31,290** | **412,447** |
| Additions - internal development | **237,735** | **—** | **—** | **—** | **237,735** |
| Additions - acquired | **—** | **444** | **1,338** | **31,348** | **33,130** |
| Amortisation provided during the year | **(41,958)** | **(3,529)** | **(608)** | **(12,357)** | **(58,452)** |
| Impairment | **(38,679)** | **—** | **—** | **—** | **(38,679)** |
| At 31 December 2007 | **509,216** | **19,325** | **7,359** | **50,281** | **586,181** |
| At 31 December 2007: | | | | | |
| Cost | **626,971** | **34,812** | **57,932** | **74,512** | **794,227** |
| Accumulated amortisation and impairment | **(117,755)** | **(15,487)** | **(50,573)** | **(24,231)** | **(208,046)** |
| Net carrying amount at 31 December 2007 | **509,216** | **19,325** | **7,359** | **50,281** | **586,181** |
| **31 December 2006** | | | | | |
| Cost at 1 January 2006, net of accumulated amortisation | 244,963 | 24,671 | 398 | — | 270,032 |
| Additions - internal development | 140,556 | — | — | — | 140,556 |
| Additions - acquired | — | 563 | 7,300 | 43,164 | 51,027 |
| Amortisation provided during the year | (33,401) | (2,824) | (1,069) | (11,874) | (49,168) |
| At 31 December 2006 | 352,118 | 22,410 | 6,629 | 31,290 | 412,447 |
| At 31 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 31 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. Development 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 two to five years.

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## 18. OTHER INTANGIBLE ASSETS (continued)

| Company | Industrial proprietary rights and patents RMB'000 | Know-how RMB'000 | Software RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2007** | | | | |
| Cost at 1 January 2007, net of accumulated amortisation | **1,954** | **880** | **11,664** | **14,498** |
| Additions - acquired | **604** | **1,338** | **14,491** | **16,433** |
| Amortisation provided during the year | **(1,037)** | **(267)** | **(4,455)** | **(5,759)** |
| At 31 December 2007 | **1,521** | **1,951** | **21,700** | **25,172** |
| At 31 December 2007: | | | | |
| Cost | **9,084** | **2,242** | **32,263** | **43,589** |
| Accumulated amortisation | **(7,563)** | **(291)** | **(10,563)** | **(18,417)** |
| Net carrying amount at 31 December 2007 | **1,521** | **1,951** | **21,700** | **25,172** |
| **31 December 2006** | | | | |
| Cost at 1 January 2006, net of accumulated amortisation | 1,630 | — | — | 1,630 |
| Additions - acquired | 528 | 904 | 17,772 | 19,204 |
| Amortisation provided during the year | (204) | (24) | (6,108) | (6,336) |
| At 31 December 2006 | 1,954 | 880 | 11,664 | 14,498 |
| At 31 December 2006: | | | | |
| Cost | 8,480 | 904 | 17,772 | 27,156 |
| Accumulated amortisation | (6,526) | (24) | (6,108) | (12,658) |
| Net carrying amount at 31 December 2006 | 1,954 | 880 | 11,664 | 14,498 |

## 19. INVESTMENTS IN SUBSIDIARIES

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB5,291,117,000 (2006: RMB4,726,684,000) and RMB1,497,132,000 (2006: RMB1,541,815,000) respectively, are unsecured, interest-free and are repayable on demand or within one year. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

| | Company | |
|---|---|---|
| | **2007 RMB'000** | 2006 RMB'000 |
| Unlisted investments, at cost | **1,954,479** | 1,393,877 |

## 19. INVESTMENTS IN SUBSIDIARIES (continued)

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$51,500,000 | 75% | 25% | Research, development,sale and manufacture of Li-ion batteries |
| BYD Europe B.V. ("BYD Europe") | Netherlands | EUR18,151 | 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 | US$4,002,600 | 100% | — | Trading of NiCd, NiMH and Li-ion batteries and related products |
| BYD Auto Company Limited ("BYD Auto QC") | PRC/Mainland China | RMB580,000,000 | 99% | — | Research, development, sale and manufacture of automobiles |
| Shanghai BYD Electric Vehicle 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 Auto Mould 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 |

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## 19. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (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 | |
| Euro-BYD (Shanghai) Automotive 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 | — | 67.35% | Manufacture, assembly and sale of mobile handset components and modules |
| 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 |
| 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 | RMB400,000,000 | 96% | 3.86% | Production and sale of NiMH, NiCD and other batteries, hardware products, instruments and flexible printed circuit boards |
| Shenzhen BYD Microelectronics Co., Limited ("BYD Microelectronics") | PRC/Mainland China | US$10,000,000 | 70% | — | Design, production and sale of integrated circuits |
| BYD Japan Company Limited ("BYD Japan") | Japan | US$93,575 | 100% | — | Trading of NiCd, NiMH and Li-ion batteries and related products |
| BYD Denmark ApS ("BYD Denmark") | Denmark | DKK125,000 | — | 100% | Trading of NiCd, NiMH and Li-ion batteries and related products |
| BYD (Huizhou) Company Limited ("BYD HZ") | PRC/Mainland China | US$20,000,000 | 75% | 25% | Manufacture and sale of battery related products, and optoelectronics |
| Huizhou BYD Battery Company Limited ("BYD HZ Battery") | PRC/Mainland China | US$20,000,000 | 75% | 25% | Research, development, sale and manufacture of Li-ion batteries |
| Shenzhen BYD Auto Company Limited ("BYD Auto SZ") | PRC/Mainland China | RMB10,000,000 | 100% | — | Research and development of automobiles |
| BYD Electronic (International) Company Limited (BYD Int'l) | Hong Kong | HK$440,000,000 | — | 67.35% | Investment holding |

## 19. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (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 | |
| Golden Link Worldwide Limited ("Golden Link") | British Virgin Islands | US$1 | — | 100% | Investment holding |
| Beijing BTC Wireless Limited Company ("BYD BTC") | PRC/Mainland China | RMB20,000,000 | — | 69% | Research, manufacture and sale of battery moulds |
| Shenzhen BYD Battery Mould Company Limited ("BYD Battery Mould") | PRC/Mainland China | US$2,100,000 | 75% | 25% | Research, manufacture and sale of battery moulds |
| Shenzhen BYD Auto Parts Company Limited ("BYD Auto Parts") | PRC/Mainland China | US$24,600,000 | 75% | 25% | Research, manufacture and sale of auto moulds and relevant accessories and equipment |
| Shenzhen BYD Auto R&D Company Limited ("BYD Auto R&D") | PRC/Mainland China | RMB5,000,000 | 100% | — | Research and develop of auto technologies |
| BYD Electronic Company Limited ("BYD Electronic") | Cayman Islands | HK$1 | — | 67.35% | Investment holding |
| Lead Wealth International Limited ("Lead Wealth") | British Virgin Islands | US$1 | — | 67.35% | Investment holding |
| BYD (Tianjin) Company Limited ('BYD Tianjin") | PRC/Mainland China | US$20,000,000 | — | 67.35% | High-level assembly and PCB assembly |
| Huizhou BYD Electronic Company Limited ("BYD Huizhou Electronics") | PRC/Mainland China | US$50,000,000 | — | 67.35% | High-level assembly |
| BYD Hungary Guarto, Szolgaltato es Kereskedelmi Korlatolt Felelossegu Tarsasag ("BYD Hungary") | Hungary | HUF3,000,000 | — | 67.35% | Manufacture, assembly and sale of mobile handset components and modules and logistic |
| BYD Electronics India Private Limited ("BYD India") | India | RS936,638,327 | — | 67.35% | Manufacture, assembly and sale of mobile handset components and modules |
| BYD Electronic Romania S.R.L ("BYD Romania") | Romania | RON231,120 | — | 67.35% | Manufacture and sale of mobile handset components and modules |
| BYD Finland Oy ("BYD Finland") | Finland | EUR2,500 | — | 67.35% | Sales and marketing |

* Pursuant to the Deed of Gift, entered by the Company, Golden Link and 35 participants of the share award plan (the "Participants") and the 9% shareholding interest in BYD Int'l was transferred to a trustee appointed by the Participants on 30 January 2007.

BYD Int'l was listed on Hong Kong Stock Exchange at an offer price of HK$10.75 per share on 22 December 2007, the net proceeds after deducting share issue expenses was RMB3,418,000,000. In the spin-off listing, the Group has disposed the 23.65% equity interest of BYD Int'l for a cash consideration of RMB5,410,650,000.

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.

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## 20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

Particulars of the jointly-controlled entity is as follows:

| Name | Particulars of registered capital held | Place of registration | Interest | Percentage of Voting power | Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Foshan Jinhui Hi-tech Optoelectronic Material Company Limited ("BYD FS") | US$2,810,000 | PRC/Mainland China | 45% | 40% | 45% | Manufacture and sale of ion exchange membrane |

The above investment in a jointly-controlled entity is held by BYD HK which is 100% directly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity included in the consolidated financial statements:

| | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Share of the jointly-controlled entity's assets and liabilities: | | |
| Current assets | **15,810** | 3,684 |
| Non-current assets | **8,348** | 9,720 |
| Current liabilities | **(6,648)** | (4,534) |
| Net assets | **17,510** | 8,870 |
| Share of the jointly-controlled entity's results: | | |
| Revenue | **23,360** | 251 |
| Income | **364** | 1 |
| | **23,724** | 252 |
| Total expenses | **(15,084)** | (1,478) |
| Tax | **—** | — |
| Profit/(loss) after tax | **8,640** | (1,226) |

## 21. INVENTORIES

| | Group 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Raw materials | **1,747,683** | 1,106,104 |
| Work in progress | **836,495** | 1,141,233 |
| Finished goods | **1,714,066** | 876,872 |
| Moulds held for production | **250,301** | 32,709 |
| | **4,548,545** | 3,156,918 |

At 31 December 2007, the carrying amount of the Group's inventories which were pledged as security for the Group's bank loans amounted to RMB107,278,000 (2006: RMB59,464,000), as further detailed in note 29(a)(ii) to the financial statements.

## 22. TRADE AND BILLS RECEIVABLES

| | Group 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Trade receivables | **4,233,051** | 2,547,161 |
| Bills receivable | **1,400,925** | 656,456 |
| Less: Impairment of trade receivables | **(201,399)** | (209,218) |
| | **5,432,577** | 2,994,399 |

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 month, extending up to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. 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 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|
| Within three months | **5,105,216** | 2,667,529 |
| Three to six months | **310,387** | 199,928 |
| Six months to one year | **10,600** | 97,732 |
| Over one year | **6,374** | 29,210 |
| | **5,432,577** | 2,994,399 |

At 31 December 2007, the Group pledged bills receivable of RMB168,206,000 (2006: RMB94,771,000) to secure the Group's bank loans, as further detailed in note 29(a)(i) to the financial statements.

## 22. TRADE AND BILLS RECEIVABLES (continued)

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| At 1 January | **209,218** | 164,976 |
| Impairment losses recognised (note 6) | **31,229** | 56,317 |
| Written off as uncollectible (note 6) | **(19,949)** | (2,809) |
| Impairment losses reversed (note 6) | **(19,099)** | (9,266) |
| At 31 December | **201,399** | 209,218 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB201,399,000 (2006: RMB209,218,000) with a carrying amount of RMB370,699,000 (2006: RMB2,545,191,000). The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **3,275,999** | 1,845,478 |
| Less than one year past due | **589,691** | 20,519 |
| | **3,865,690** | 1,865,997 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments | **348,426** | 130,737 | **90,644** | 58,390 |
| Deposits and other receivables | **304,893** | 70,697 | **118,057** | 12,082 |
| Loans to staff | **21,684** | 54,691 | **6,716** | 3,950 |
| | **675,003** | 256,125 | **215,417** | 74,422 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

## 24. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | | **5,529,501** | 1,653,145 | **330,853** | 374,294 |
| Time deposits | | **53,446** | 47,932 | **2** | — |
| | | **5,582,947** | 1,701,077 | **330,855** | 374,294 |
| Less: Restricted bank deposits: | | | | | |
| Pledged time deposit | (i) | **(43,446)** | (40,102) | **(2)** | — |
| Cash frozen for a litigation | | **—** | (43,663) | **—** | (43,663) |
| Cash and cash equivalents | (ii) | **5,539,501** | 1,617,312 | **330,853** | 330,631 |

(i) At 31 December 2007, the pledged bank deposit of RMB43,446,000 (2006: RMB40,102,000) was pledged for banking facilities of RMB41,281,000 (2006: RMB40,102,000) and for importing materials of RMB2,165,00 (2006: Nil)

(ii) At the balance sheet date, the cash and cash equivalents of the Group denominated in RMB amounted to RMB660,570,000 (2006: RMB314,795,000). 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.

(iii) Cash at banks earns 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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

## 25. 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 | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Within three months | **4,781,248** | 2,671,655 |
| Three to six months | **786,254** | 549,432 |
| Six months to one year | **94,405** | 67,309 |
| One to two years | **30,956** | 18,537 |
| Two to three years | **11,598** | 7,641 |
| Over three years | **10,933** | 7,448 |
| | **5,715,394** | 3,322,022 |

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

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## 26. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Other payables | **844,758** | 423,477 | **97,251** | 99,184 |
| Accruals | **97,008** | 70,875 | **27,155** | 33,226 |
| Accrued payroll | **432,444** | 194,080 | **103,565** | 27,603 |
| | **1,374,210** | 688,432 | **227,971** | 160,013 |

## 27. DEFERRED INCOME

Deferred income represented government grants received from 深圳市發展和改革局 in December 2007, for subsidising the research and development of its automobile facilities in Shenzhen, PRC. As the conditions relating to the grant has yet been fulfilled, the Group did not recognise the government grant as other income in 2007.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | |
|---|---|---|
| | **Assets** | **Liabilities** |
| | **RMB'000** | **RMB'000** |
| 2007 | | |
| Forward currency contracts – current portion | **60,913** | **42,725** |

| | Group | |
|---|---|---|
| | Assets | Liabilities |
| | RMB'000 | RMB'000 |
| 2006 | | |
| Forward currency contracts | 5,181 | 3,513 |
| Interest rate swaps | — | 3,895 |
| | 5,181 | 7,408 |
| Interest rate swaps: | | |
| Portion classified as non-current | — | (3,545) |
| Current portion | 5,181 | 3,863 |

The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values. The Group has entered into various forward currency contacts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to RMB4,097,000 were credited to the income statement during the year (2006: RMB1,668,000).

## 29. INTEREST-BEARING BANK BORROWINGS

| Group | 2007 Effective interest rate (%) | 2007 Maturity | 2007 RMB'000 | 2006 Effective interest rate (%) | 2006 Maturity | 2006 RMB'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Bank loans - Secured | 5.14-6.19 | 2008 | 642,809 | 3.3-5.24 | 2007 | 123,277 |
| Bank loans - Unsecured | 5.14-6.48 | 2008 | 5,021,349 | 6 | 2007 | 3,384,510 |
| Current portion of long term bank loans - Unsecured | 4.59-6.48 | 2008 | 1,164,685 | 4-6.24 | 2007 | 715,926 |
| | | | 6,828,843 | | | 4,223,713 |
| **Non-current** | | | | | | |
| Bank loans - Secured | | | — | 4 | 2008-2011 | 53,146 |
| Bank loans - Unsecured | 3.6-7.44 | 2009-2011 | 1,294,843 | 4.31-7.8 | 2008-2011 | 1,460,000 |
| | | | 1,294,843 | | | 1,513,146 |
| | | | 8,123,686 | | | 5,736,859 |

| Company | 2007 Effective interest rate (%) | 2007 Maturity | 2007 RMB'000 | 2006 Effective interest rate (%) | 2006 Maturity | 2006 RMB'000 |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Bank loans - Secured | 5.14-6.19 | 2008 | 593,059 | 3.3-5.24 | 2007 | 25,220 |
| Bank loans - Unsecured | 5.14-6.48 | 2008 | 2,984,246 | 6 | 2007 | 2,460,249 |
| Current portion of long term bank loans - Unsecured | 4.59-6.48 | 2008 | 1,150,000 | 4.56-6.24 | 2007 | 550,000 |
| | | | 4,727,305 | | | 3,035,469 |
| **Non-current** | | | | | | |
| Bank loans - Unsecured | 3.6-7.44 | 2009-2011 | 1,060,000 | 4.31-7.8 | 2008-2011 | 1,460,000 |
| | | | 5,787,305 | | | 4,495,469 |

| | Group 2007 RMB'000 | Group 2006 RMB'000 | Company 2007 RMB'000 | Company 2006 RMB'000 |
|---|---|---|---|---|
| **Analysed into:** | | | | |
| Bank loans repayable: | | | | |
| Within one year | 6,828,843 | 4,223,713 | 4,727,305 | 3,035,469 |
| In the second year | 300,000 | 665,000 | 100,000 | 665,000 |
| In the third to fifth years, inclusive | 994,843 | 848,146 | 960,000 | 795,000 |
| | 8,123,686 | 5,736,859 | 5,787,305 | 4,495,469 |

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 RMB168,206,000 (2006: RMB94,771,000), and

(ii) the pledge of certain of the Group's inventories totalling RMB107,278,000 (2006: RMB59,464,000), and

(iii) There is no pledge on Group's property, plant and equipment at the balance sheet date of 2007. (2006 : RMB33,875,000)

(b) The carrying amounts of the Group's and the Company's bank and other borrowings approximate to their fair values.

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## 30. PROVISION

| Group | Note | Product warranties RMB'000 2007 | RMB'000 2006 |
|---|---|---|---|
| At 1 January | | **13,193** | 3,157 |
| Additional provision | 6 | **82,016** | 38,451 |
| Amounts utilised during the year | | **(49,664)** | (28,415) |
| At 31 December | | **45,545** | 13,193 |

The Group provides two-year or below 40,000-kilometre (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. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

## 31. DEFERRED TAX

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

### Deferred tax assets

| Group | Depreciation in excess of depreciation allowance RMB'000 | Impairment of trade receivables RMB'000 | Impairment of inventories RMB'000 | Government grant RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2007 | **10,414** | **—** | **—** | **—** | **—** | **10,414** |
| Deferred tax credited to the income statement during the year (note 10) | **44,645** | **—** | **8,275** | **—** | **8,256** | **61,176** |
| Deferred tax credited to tax payable during the year | **—** | **—** | **—** | **93,631** | **—** | **93,631** |
| At 31 December 2007 | **55,059** | **—** | **8,275** | **93,631** | **8,256** | **165,221** |
| At 1 January 2006 | 4,215 | 14,356 | 12,405 | — | — | 30,976 |
| Deferred tax credited/(charged) to the income statement during the year (note 10) | 6,199 | (14,356) | (12,405) | — | — | (20,562) |
| At 31 December 2006 | 10,414 | — | — | — | — | 10,414 |

## 31. DEFERRED TAX (continued)

| Company | Depreciation in excess of depreciation allowance RMB'000 | Impairment of trade receivables RMB'000 | Impairment of inventories RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2007 | **6,385** | **—** | **—** | **6,385** |
| Deferred tax credited/ (charged) to the income statement during the year | **(18)** | **—** | **3,851** | **3,833** |
| At 31 December 2007 | **6,367** | **—** | **3,851** | **10,218** |
| **Company** | | | | |
| At 1 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 31 December 2006 | 6,385 | — | — | 6,385 |

**Deferred tax liabilities**

| Group | Construction contract revenue RMB'000 | Development costs RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2007 | **6,754** | **1,501** | **8,255** |
| Deferred tax credited to the income statement during the year (note 10) | **(6,040)** | **—** | **(6,040)** |
| At 31 December 2007 | **714** | **1,501** | **2,215** |
| At 1 January 2006 | — | — | — |
| Deferred tax charged to the income statement during the year (note 10) | 6,754 | 1,501 | 8,255 |
| At 31 December 2006 | 6,754 | 1,501 | 8,255 |

The Group has tax losses arising in Mainland China of RMB176,254,000 (2006: RMB161,340,000) 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 31 December 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unmerited earnings of certain of the Group's subsidiaries or its joint-controlled 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.

## 32. SHARE CAPITAL

### Shares

| | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---|---|---|
| Issued and fully paid: | | |
| 539,500,000 (2006: 539,500,000) ordinary shares of RMB1 each | **539,500** | 539,500 |

## 33. 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 of the financial statements.

Pursuant to the relevant laws and regulations for business enterprises, a portion of the profits of the Group's entities which are registered in the PRC has been transferred to the statutory surplus reserve fund which is restricted as to use.

### (b) Company

| | Note | Share premium account RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve fund RMB'000 | Statutory welfare fund RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2006 | | 1,523,080 | (225,407) | 150,185 | 75,094 | 782,801 | 2,305,753 |
| Loss for the year | 11 | — | — | — | — | (39,691) | (39,691) |
| Final 2006 dividend declared | | — | — | — | — | (215,800) | (215,800) |
| | | 1,523,080 | (225,407) | 150,185 | 75,094 | 527,310 | 2,050,262 |
| Profit for the year | 11 | **—** | **—** | **—** | **—** | **915,355** | **915,355** |
| Proposed interim 2007 dividend | | **—** | **—** | **—** | **—** | **(701,350)** | **(701,350)** |
| At 31 December 2007 | | **1,523,080** | **(225,407)** | **150,185** | **75,094** | **741,315** | **2,264,267** |

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

## 34. CONTINGENT LIABILITIES

In June 2007, a Hong Kong High Court (the "Court") action (the "June 2007 Action") was commenced by a subsidiary and an affiliate of Foxconn International Holdings Limited (the "Plaintiffs") against the Company and certain subsidiaries of the Group (the "Defendants") for allegations in connection with the use of confidential information alleged to have been obtained improperly from the Plaintiffs. The Plaintiffs alleged that the Defendants have directly or indirectly through the assistance of certain employees of the Plaintiffs, 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 Plaintiffs' handset production system and using the Plaintiffs' confidential information with respect to their suppliers and customers. The Plaintiffs discontinued the June 2007 Action on 5 October 2007 with the effect that the June 2007 Action has been wholly discontinued against all the Defendants named in the action and that this finally disposed of the June 2007 action without any liability to the Defendants. On the same day, the Plaintiffs initiated a new set of legal proceedings in the Hong Kong High Court (the "October 2007 Action"). The Defendants named in the October 2007 Action are the same as the Defendants in the June 2007 Action, and the claims made by the Plaintiffs in the October 2007 Action are based on the same facts and the same allegations arising of the June 2007 Action. In essence, the Plaintiffs allege that the Defendants have misappropriated and misused confidential information belonging to the Plaintiffs. The remedies sought by the Plaintiffs in the October 2007 Action include an injunction restraining the Defendants from using the alleged confidential information, an order for the disgorgement of profit made by the Defendants through the use of the confidential information, damages based on the loss suffered by the Plaintiffs and exemplary damages. The Plaintiffs have quantified part of their claim for damages, consisting of the estimated cost of producing the alleged confidential information of RMB2,907,000 and an amount of RMB3,600,000 which allegedly represents compensation paid by the Plaintiffs to other parties to whom they owed a duty to keep the alleged confidential information confidential. The damages otherwise sought by the Plaintiffs in the October 2007 Action have not been quantified.

Regarding the October 2007 Action, the Company has given an indemnity in favour of other defendants for all liabilities, losses, damages, costs and expenses (if any) incurred arising out of or in connection with the October 2007 Action. The indemnity given by the Company to the indemnified parties will not cover loss of future profit and revenue as well as any obligation, such as ceasing to use certain information, on the part of the indemnified parties to comply with any injunction order or any court order to deliver up documents.

As at the date of these financial statements, only the Company and the BYD HK had been served with the writ; the other parties named as Defendants in the writ had not yet been served. As at the date of these financial statements, no judgement has been made in respect of the court proceedings. The Company and BYD HK's application for a stay of the legal proceedings have been set to be heard on 11 June 2008 over a two-day hearing.

Based on legal advice of the litigation legal counsels to the Group, the ultimate outcome of the litigation is not yet determinable given the early stage of the proceedings. Accordingly, no liability accrual has been recorded by the Company.

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 35. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 15) 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 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Within one year | **756** | 657 |
| In the second to fifth years, inclusive | **1,558** | 2,191 |
| | **2,314** | 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 five years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Within one year | **5,576** | 1,954 |
| In the second to fifth years, inclusive | **2,656** | 3,623 |
| | **8,232** | 5,577 |

## 36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35(b) above, the Group had the following capital commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Contracted, but not provided for: | | |
| Land and buildings | **702,227** | 555,772 |
| Plant and machinery | **1,254,223** | 649,080 |
| | **1,956,450** | 1,204,852 |
| Authorised, but not contracted for: | | |
| Land and buildings | **129,372** | 300,000 |
| | **2,085,822** | 1,504,852 |

## 37. SHARE AWARD PLAN

During the year, the Company launched a staff 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 once-off basis, a 9% interest (the "Awarded Shares") of BE Int'l, which was the Company's wholly owned subsidiary, to the Participants at the grant date.

The participants shall be restricted from disposing of any of the Awarded Shares for a period no shorter than five 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 award shares was estimated at approximately RMB150,000,000 .

The fair value of shares awarded was estimated as at the date of grant, valued by an independent professional valuer, and assessed by management of the Company, taking into account the Business Enterprise Value Ratio, the Earning Before Interest, Depreciation, Tax and Amortisation (the "EBIDTA") of BE Int'l at the date of grant, and other terms and conditions upon which the shares were awarded.

## 38. 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 Group did not carry out any material related party transactions during the year.

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

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short term employees benefits | **32,341** | 5,068 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

| Group | 2007 | | |
|---|---|---|---|
| Financial assets | Financial assets at fair value through profit or loss – held for trading RMB'000 | Loans and receivables RMB'000 | Total RMB'000 |
| Trade receivables | — | 4,031,652 | 4,031,652 |
| Bills receivable | — | 1,400,925 | 1,400,925 |
| Financial assets included in prepayments, deposits and other receivables | — | 326,577 | 326,577 |
| Derivative financial instruments | 60,913 | — | 60,913 |
| Pledged deposits | — | 43,446 | 43,446 |
| Cash and cash equivalents | — | 5,539,501 | 5,539,501 |
| | 60,913 | 11,342,101 | 11,403,014 |

| Financial liabilities | Financial assets at fair value through profit or loss – held for trading RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|
| Trade and bills payables | — | 5,715,394 | 5,715,394 |
| Financial liabilities included in other payables and accruals | — | 1,277,202 | 1,277,202 |
| Interest-bearing bank borrowings | — | 8,123,686 | 8,123,686 |
| Derivative financial instruments | 42,725 | — | 42,725 |
| | 42,725 | 15,116,282 | 15,159,007 |

| Group | 2006 | | |
|---|---|---|---|
| Financial assets | Financial assets at fair value through profit or loss – held for trading RMB'000 | Loans and receivables RMB'000 | Total RMB'000 |
| Trade receivables | — | 1,550,925 | 1,550,925 |
| Bank advance on factored trade receivables | — | 787,018 | 787,018 |
| Bills receivable | — | 656,456 | 656,456 |
| Financial assets included in prepayments, deposits and other receivables | — | 125,388 | 125,388 |
| Derivative financial instruments | 5,181 | — | 5,181 |
| Pledged deposits | — | 83,765 | 83,765 |
| Cash and cash equivalents | — | 1,617,312 | 1,617,312 |
| | 5,181 | 4,820,864 | 4,826,045 |

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

| Group | 2006 | | |
|---|---|---|---|
| **Financial liabilities** | Financial assets at fair value through profit or loss – held for trading RMB'000 | Financial liabilities at amortised cost RMB'000 | Financial liabilities at amortised cost RMB'000 |
| Trade and bills payables | — | 3,322,022 | 3,322,022 |
| Financial liabilities included in other payables and accruals | — | 617,557 | 617,557 |
| Interest-bearing bank borrowings | — | 5,736,859 | 5,736,859 |
| Bank advance on factored trade receivables | — | 787,018 | 787,018 |
| Derivative financial instruments | 7,408 | — | 7,408 |
| | 7,408 | 10,463,456 | 10,470,864 |

| | **Company** | | | | | |
|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | |
| **Financial assets** | **Financial assets at fair value through profit or loss - held for trading RMB'000** | **Loans and receivables RMB'000** | **Total RMB'000** | Financial assets at fair value through profit or loss - held for trading RMB'000 | Loans and receivables RMB'000 | Total RMB'000 |
| Trade receivables | — | 1,072,928 | 1,072,928 | — | 282,543 | 282,543 |
| Bank advance on factored trade receivables | — | — | — | — | 239,800 | 239,800 |
| Bills receivable | — | 202,653 | 202,653 | — | 117,810 | 117,810 |
| Financial assets included in prepayments, deposits and other receivables | — | 124,773 | 124,773 | — | 16,032 | 16,032 |
| Due from subsidiaries | — | 5,291,117 | 5,291,117 | — | 4,726,684 | 4,726,684 |
| Derivative financial instruments | 21,925 | — | 21,925 | 2,702 | — | 2,702 |
| Restricted bank deposits | — | 2 | 2 | — | 43,663 | 43,663 |
| Cash and cash equivalents | — | 330,853 | 330,853 | — | 330,631 | 330,631 |
| | 21,925 | 7,022,326 | 7,044,251 | 2,702 | 5,757,163 | 5,759,865 |

## NOTES TO FINANCIAL STATEMENTS

31 December 2007

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

| Financial liabilities | 2007 Financial assets at fair value through profit or loss - held for trading RMB'000 | 2007 Financial liabilities at amortised cost RMB'000 | 2007 Total RMB'000 | 2006 Financial assets at fair value through profit or loss - held for trading RMB'000 | 2006 Financial liabilities at amortised cost RMB'000 | 2006 Total RMB'000 |
|---|---|---|---|---|---|---|
| Trade and bills payables | — | 1,318,398 | 1,318,398 | — | 712,374 | 712,374 |
| Financial liabilities included in other payables and accruals | — | 200,816 | 200,816 | — | 126,787 | 126,787 |
| Interest-bearing bank borrowings | — | 5,787,305 | 5,787,305 | — | 4,495,469 | 4,495,469 |
| Due to subsidiaries | — | 1,497,132 | 1,497,132 | — | 1,541,815 | 1,541,815 |
| Bank advance on factored trade receivables | — | — | — | — | 239,800 | 239,800 |
| Derivative financial instruments | 1,544 | — | 1,544 | 3,991 | — | 3,991 |
| | 1,544 | 8,803,651 | 8,805,195 | 3,991 | 7,116,245 | 7,120,236 |

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

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors 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.

### Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2007, approximately 15% (2006: 18%) of the Group's interest-bearing borrowings bore interest at fixed rates.

All of the interest-bearing borrowings with floating interest rate are in US$ and RMB. If there would be a general increase/ decrease in the interest rate of bank borrowings with floating interest rates by 25 basis points, with all other variable held constant, the profit before tax and owners' equity for the Group would have been decreased/increased by approximately RMB16,648,000 and RMB10,672,000 for the year ended 31 December 2007 and 2006 respectively.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is predominately in US$ and RMB and certain portion of the bank loans is denominated in US$. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sales contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the US$ and Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's and the Company's owner's equity.

| | Increase/ (decrease) in RMB rate % | Increase/ (decrease) in profit before tax RMB'000 | Increase/ (decrease) in owner's equity RMB'000 |
|---|---|---|---|
| **2007** | | | |
| If RMB weakens against USD | **5%** | **141,709** | **141,709** |
| If RMB strengthens against USD | **(5%)** | **(141,709)** | **(141,709 )** |
| If RMB weakens against HKD | **5%** | **73,120** | **73,120** |
| If RMB stregthens against HKD | **(5%)** | **(73,120)** | **(73,120 )** |
| 2006 | | | |
| If RMB weakens against USD | 5% | 9,711 | 9,711 |
| If RMB strengthens against USD | (5%) | (9,711) | (9,711 ) |
| If RMB weakens against HKD | 5% | 330 | 330 |
| If RMB stregthens against HKD | (5%) | (330) | (330 ) |

### 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, other receivables 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. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

## 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk

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

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

### Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank loans, bank advances on factored trade receivables, trade, bills and other payables, accruals, less cash and cash equivalents. Capital includes equity attributable to equity holders of the Campany. The gearing ratios as at the balance sheet dates were as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| Interest-bearing bank loans | **8,123,686** | 5,736,859 |
| Bank advance on factored trade receivable | **—** | 787,018 |
| Trade and bills payables | **5,715,394** | 3,322,022 |
| Other payables and accruals | **1,374,210** | 688,432 |
| Less: Cash and cash equivalents | **(5,539,501)** | (1,617,312) |
| Net debt | **9,673,789** | 8,917,019 |
| Total capital | **10,708,118** | 5,292,464 |
| Capital and net debt | **20,381,907** | 14,209,483 |
| Gearing ratio | **47%** | 63% |

## 40. POST BALANCE SHEET EVENTS

(a) On 20 March 2008 ("the Record Date"), the board of directors has approved that the Company will increase the registered capital of the Company on the basis of 28 Bonus Shares for every 10 shares held by the Shareholders by capitalising the capital reserve fund of the Company. The registered capital of the Company will increase from RMB539,500,000 to RMB2,050,100,000 upon completion of the Bonus Issue. Based on a total of 539,500,000 Shares in issue on the Record Date, 1,510,600,000 Bonus Shares will be issued by the Company, of which 418,600,000 Shares are Bonus H Shares and 1,092,000,000 are Bonus Domestic Shares.

(b) Subject to the approvals of competent authorities in the PRC (the "Relevant Authorities"), the Company is proposes that the Company shall allot and issue not more than 58,500,000 A Shares (taking no account of any Bonus Shares which may be issued under the Bonus Issue) or not more than 222,300,000 A Shares (on the basis that the Bonus Issue is completed and that an aggregate of 1,510,600,000 Bonus Shares are issued) to natural persons, legal persons or other investors, who maintain A share accounts with the Shenzhen Stock Exchange but excluding those who are prohibited under the PRC laws, regulations or other regulatory requirements applicable to the Company, by way of public offering of new shares and/or such other manner as shall be approved by the Relevant Authorities, which are proposed to be listed on the Shenzhen Stock Exchange. On 20 March 2008, the A Share Issue has been approved by the Shareholders at the extraordinary general meeting and by the H Shareholders and Domestic Shareholders at the respective Class Meetings. However, the A Share Issue is subject to approval by the Relevant Authorities. For details of the A Share Issue, please refer to the Company's announcement dated 28 January 2008 and the Company's circular dated 4 February 2008.

(c) In connection with the BYD Electronic (International) Company Limited, an over-allotment of 72,246,000 additional shares (the "Over-allotment Shares"), representing 13.14% of the issued shares, was exercised. The Over-alloted Shares were issued at HK$10.75 per share. Net proceeds of HK$757 million were received on 16 January 2008.

(d) On 1 February 2008, BYD Hungary entered into a sale and purchase agreement (the"Sale and Purchase Agreement") with Mirae Industry Co. Ltd. ("Mirae Industry") for the acquisition of the equity interest of Mirae Hungary, a wholly owned subsidiary of the Mirae Industry, at a consideration of EUR2,960,000(equivalent to approximately RMB32million). In addition, BYD Hungary has agreed to pay certain sum for the settlement of the liabilities of Mirae Hungary as at 31 October 2007. According to the Sales and Purchase Agreement, the total amount payable by BYD Hungary, including the consideration of EUR2,960,000 for the acquisition, will not exceed EUR15,500,000 (equivalent to approximately RMB167 million).

(e) Mr. Xia Zuo-quan has tendered his resignation as vice president of the Company on 25 December 2006 as he wishes to pursue his own business, such resignation was approved by the Board on 20 March 2008; and Mr. Xia was re-designated from executive director of the Company to non-executive director of the Company with effect from 20 March 2008.

## 41. COMPARATIVE AMOUNTS

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

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2008.

# FIVE YEAR FINANCIAL SUMMARY

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

| | 2007<br>RMB'000 | 2006<br>RMB'000 | 2005<br>RMB'000<br>(Restated) | 2004<br>RMB'000<br>(Restated) | 2003<br>RMB'000<br>(Restated) |
|---|---|---|---|---|---|
| **REVENUE** | **21,211,213** | 12,938,917 | 6,498,330 | 6,425,753 | 4,063,270 |
| Cost of sales | **(16,963,526)** | (10,200,734) | (5,043,785) | (4,720,863) | (2,740,224) |
| Gross profit | **4,247,687** | 2,738,183 | 1,454,545 | 1,704,890 | 1,323,046 |
| Other revenue | **188,796** | 20,278 | 34,412 | 33,322 | 68,778 |
| Selling and distribution costs | **(648,187)** | (480,177) | (170,089) | (160,341) | (102,392) |
| Administrative expenses | **(1,656,995)** | (850,197) | (583,512) | (449,678) | (338,875) |
| Finance costs | **(388,421)** | (246,942) | (142,508) | (60,991) | (19,961) |
| **PROFIT BEFORE TAX** | **1,742,880** | 1,181,145 | 592,848 | 1,067,202 | 930,596 |
| Tax | **(40,551)** | (53,075) | (90,041) | (64,426) | (61,567) |
| **PROFIT FOR THE YEAR** | **1,702,329** | 1,128,070 | 502,807 | 1,002,776 | 869,029 |
| Attributable to: | | | | | |
| Equity holders of the parent | **1,611,711** | 1,117,334 | 503,013 | 994,190 | 840,489 |
| Minority interests | **90,618** | 10,736 | (206) | 8,586 | 28,540 |
| | **1,702,329** | 1,128,070 | 502,807 | 1,002,776 | 869,029 |
| **TOTAL ASSETS** | **29,288,491** | 16,386,781 | 11,213,354 | 8,737,676 | 5,554,522 |
| **TOTAL LIABILITIES** | **(16,878,232)** | (11,019,140) | (6,973,604) | (4,700,168) | (2,144,131) |
| **MINORITY INTERESTS** | **(1,702,141)** | (75,177) | (64,441) | (59,198) | (153,529) |
| | **10,708,118** | 5,292,464 | 4,175,309 | 3,978,310 | 3,256,862 |

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