# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 1. GENERAL INFORMATION

BYD Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 11 June 2002 as a joint stock limited company. The Company's H shares have been listed on The Stock Exchange of Hong Kong Limited since 31 July 2002.

The current principal activity of the Company is research, development, manufacture and sales of rechargeable batteries, LCD and other electronic products. The activities of the Company's subsidiaries are set out in Note 9. The legal address of the Company is Yan An Road, Kuichong, Longgang District, Shenzhen, Guangdong Province, the PRC.

These consolidated financial statements are presented in thousands of units of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2006.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments at fair value through income.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

*The adoption of new / revised HKFRS*

In 2005, the Group adopted the new / revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 11 | Construction Contracts |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS-Int 12 | Scope of HKAS-Int 12 Consolidation – Special Purpose Entities |
| HKAS-Int 15 | Operating Leases – Incentives |
| HKFRS 3 | Business Combinations |

The adoption of new / revised HKASs 1, 2, 7, 8, 10, 11, 16, 21, 23, 24, 27, 33 and HKAS-Int 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest and other disclosures.

— HKASs 2, 7, 8, 10, 11, 16, 23, 27 and 33 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight line basis over a period of 20 years; and

- Assessed for an indication of impairment at each balance sheet date.

Negative goodwill was:

- Recognised in the consolidated income statement over the remaining weighted average useful life of the non-monetary assets acquired.

In accordance with the provisions of HKFRS 3 (Note 2.7):

For positive goodwill,

- The Group ceased amortisation of goodwill from 1 January 2005;

- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

- From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

For negative goodwill,

- The carrying amount of previously recognised negative goodwill at 1 January 2005 is derecognised with a corresponding adjustment to the opening balance of retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005;
- HKFRS 3 – prospectively after 1 January 2005.

(a) The adoption of revised HKAS 17 resulted in:

| | 2005 | 2004 |
|---|---|---|
| Decrease in property, plant and equipment | **(206,179)** | (208,423) |
| Increase in land use rights | **206,179** | 208,423 |

(b) The adoption of HKFRS 3 and HKAS 38 resulted in:

| | 2005 |
|---|---|
| Increase in intangible assets due to the derecognition of negative goodwill | **5,173** |
| Increase in retained earnings | **5,173** |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Leasehold improvement is amortised on a straight-line basis over the expected beneficial periods. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

| | Estimated useful lives | Estimated residual values (% of cost) |
|---|---|---|
| - Buildings | 10-50 years | 4% to 5% |
| - Machinery and equipment | 5-10 years | 4% to 5% |
| - Motor vehicles | 5 years | 4% to 5% |
| - Office equipment and fixtures | 5 years | 4% to 5% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

### 2.6 Land use rights

Land use rights are up-front payments to acquire a long-term interest in land. These payments are stated at cost and amortised over the period of lease of 50 years on a straight-line basis, net of accumulated impairment charge.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

If the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition exceeds the cost of acquisition, the excess should be recognised immediately in the income statement.

(b) Research and development costs

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

(c) Distribution network

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

(d) Other intangible assets

Industrial proprietary rights and patents are shown at historical cost. They have finite useful lives and are carried at cost less accumulated amortisation.

Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives as follows:

| | |
|---|---|
| Industrial proprietary rights | 10 years |
| Patents | 5 years |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 2.9 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2.11).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Investments (continued)

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. During the year, the Group did not hold any investments in this category.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

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

### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted-average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.15 Employee benefits

(a) Employee leave entitlements

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Employee benefits (continued)

(b) Retirement benefit obligations

As stipulated by the rules and regulations in the PRC, the Company and its subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at rates ranging from 8% to 20% of the basic salary predetermined by local government. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

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

The costs of employee retirement benefits are recognised in the income statement in the year on an accrual basis.

### 2.16 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.17 Revenue recognition

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

Processing income is recognised when processing services are rendered.

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Construction contracts

Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within 'trade and notes receivable'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

### 2.19 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

### 2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

### 2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 Contingent liabilities

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

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

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group exposes to foreign exchange risks as certain portion of sales and purchase transactions and financing activities are denominated in foreign currencies, primarily with respect to the US dollar. The Group has entered into foreign exchange forward contracts to manage such risk. The directors are of the opinion that the Group's exposure to foreign exchange risk is manageable.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group performs ongoing credit evaluations for its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains provision for doubtful receivables and actual losses have been within management's expectation.

(c) Liquidity risk

The Group targeted to maintain sufficient cash and availability of funding through an adequate amount of committed credit facilities. As at 31 December 2005, the Group reported net current assets of RMB 239,983,000 and had undrawn committed banking facilities of RMB 5.29 billion. The directors are of the opinion that the Group had no significant liquidity risk as at 31 December 2005.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rate.

The Group's cash flow interest rate risk arises mainly from long-term borrowings bearing floating interest rates. However, as more than 89% of its borrowings bear fixed interest rates, the directors are of the opinion that the group had no significant cash flow interest rate risk as at 31 December 2005.

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.2 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (continued)

### 3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

(a) Estimated impairment of non-financial assets

The Group tests annually whether non-financial assets, mainly including property, plant and equipment and intangible assets has suffered any impairment in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 4.1 Critical accounting estimates and assumptions (continued)

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 5. SEGMENT INFORMATION

**Primary reporting format – business segments**

At 31 December 2005, the Group is principally engaged in three main business segments:

(a) Battery and other products – manufacture and sales of rechargeable batteries principally for mobile phones, emergency lights and other battery-related products.

(b) Handset components – manufacture and sales of LCD and other handset components.

(c) Automobile and related products – manufacture and sales of automobiles, battery-powered automobiles/ bicycles and auto-related moulds.

The segment results for the year ended 31 December 2005 are as follows:

| | Battery and other products | Handset components | Automobile and related products | Group |
|---|---|---|---|---|
| **Turnover** | 3,963,438 | 1,906,298 | 628,594 | 6,498,330 |
| Operating profit/(loss) | 571,053 | 281,348 | (91,305) | 761,096 |
| Finance costs (Note 25) | | | | (142,508) |
| **Profit before income tax** | | | | 618,588 |
| Income tax expense (Note 21) | | | | (90,041) |
| **Profit for the year** | | | | 528,547 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 5. SEGMENT INFORMATION (continued)

### Primary reporting format – business segments (continued)

The segment results for the year ended 31 December 2004 are as follows:

| | Battery and other products | Handset components | Automobile and related products | Group |
|---|---|---|---|---|
| **Turnover** | 5,097,037 | 939,395 | 389,321 | 6,425,753 |
| Operating profit/(loss) | 1,100,618 | 118,530 | (48,144) | 1,171,004 |
| Finance costs (Note 25) | | | | (60,991) |
| **Profit before income tax** | | | | 1,110,013 |
| Income tax expense (Note 21) | | | | (64,426) |
| **Profit for the year** | | | | 1,045,587 |

Other segment terms included in the income statements are as follows:

| | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | Battery and other products | Handset component | Automobile and related products | Group | Battery and other products | Handset component | Automobile and related products | Group |
| Depreciation (Note 6) | 176,843 | 77,890 | 91,359 | 346,092 | 125,773 | 36,101 | 53,799 | 215,673 |
| Amortisation (Notes 7, 8) | 1,449 | 2,814 | 8,189 | 12,452 | 6,581 | — | 14,966 | 21,547 |
| Impairment of inventories (Note 10) | 58,026 | 7,436 | 2,675 | 68,137 | 8,715 | 12,628 | — | 21,343 |
| Impairment of receivables (Note 12) | 2,715 | 36,313 | (236) | 38,792 | 5,720 | 15,821 | 3,197 | 24,738 |

## 5. SEGMENT INFORMATION (continued)

### Primary reporting format – business segments (continued)

The segment assets and liabilities at 31 December 2005 and capital expenditures for the year then ended are as follows:

| | Battery and other products | Handset components | Automobile and related products | Total |
|---|---|---|---|---|
| Assets | **6,041,243** | **2,273,650** | **2,715,025** | **11,029,918** |
| Liabilities | **2,580,700** | **1,687,578** | **2,429,971** | **6,698,249** |
| Capital expenditures (Notes 6, 7 and 8) | **940,569** | **422,364** | **569,307** | **1,932,240** |

The segment assets and liabilities at 31 December 2004 and capital expenditures for the year then ended are as follows:

| | Battery and other products | Handset components | Automobile and related products | Group |
|---|---|---|---|---|
| Assets | 5,573,003 | 1,243,535 | 1,987,320 | 8,803,858 |
| Liabilities | 2,050,149 | 1,038,469 | 1,611,550 | 4,700,168 |
| Capital expenditures (Notes 6, 7 and 8) | 1,060,975 | 340,942 | 699,180 | 2,101,097 |

### Secondary reporting format – geographical segments

The Group's three business segments operate in three main geographical areas, i.e. the PRC, Europe and U.S.A.

| | 2005 | 2004 |
|---|---|---|
| **Turnover** | | |
| PRC | **4,552,080** | 3,469,907 |
| Europe | **558,856** | 963,863 |
| U.S.A. | **472,429** | 514,060 |
| Others | **914,965** | 1,477,923 |
| | **6,498,330** | 6,425,753 |

Turnover are allocated based on the geographical areas in which customers are located.

No geographical segment assets and liabilities are presented as over 90% of the Group's assets are located in the PRC.

(All amounts in RMB thousands unless otherwise stated)

## 6. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings | Leasehold improvements | Machinery and equipment | Motor vehicles | Office equipment and fixtures | Construction-in-progress | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2004** | | | | | | | |
| Cost | 744,510 | 7,297 | 1,278,440 | 26,451 | 107,512 | 375,259 | 2,539,469 |
| Accumulated depreciation | (49,390) | (3,852) | (262,757) | (6,443) | (27,046) | — | (349,488) |
| Net book amount | 695,120 | 3,445 | 1,015,683 | 20,008 | 80,466 | 375,259 | 2,189,981 |
| **Year ended 31 December 2004** | | | | | | | |
| Opening net book amount | 695,120 | 3,445 | 1,015,683 | 20,008 | 80,466 | 375,259 | 2,189,981 |
| Additions | 54,760 | — | 616,035 | 19,047 | 111,075 | 1,123,679 | 1,924,596 |
| Transfers | 522,616 | — | 204,865 | — | — | (727,481) | — |
| Disposals (Note 29) | — | — | (3,996) | (775) | (2,513) | — | (7,284) |
| Depreciation | (20,059) | (1,360) | (165,189) | (5,255) | (23,810) | — | (215,673) |
| Closing net book amount | 1,252,437 | 2,085 | 1,667,398 | 33,025 | 165,218 | 771,457 | 3,891,620 |
| **At 31 December 2004** | | | | | | | |
| Cost | 1,321,886 | 7,297 | 2,092,508 | 43,584 | 213,290 | 771,457 | 4,450,022 |
| Accumulated depreciation | (69,449) | (5,212) | (425,110) | (10,559) | (48,072) | — | (558,402) |
| Net book amount | 1,252,437 | 2,085 | 1,667,398 | 33,025 | 165,218 | 771,457 | 3,891,620 |
| **Year ended 31 December 2005** | | | | | | | |
| Opening net book amount | 1,252,437 | 2,085 | 1,667,398 | 33,025 | 165,218 | 771,457 | 3,891,620 |
| Additions | 1,639 | — | 679,247 | 8,575 | 47,209 | 995,316 | 1,731,986 |
| Transfers | 576,528 | 10,509 | 440,052 | — | 476 | (1,027,565) | — |
| Disposals (Note 29) | — | — | (8,824) | (4,001) | (1,046) | — | (13,871) |
| Depreciation | (32,720) | (4,911) | (262,513) | (7,029) | (38,919) | — | (346,092) |
| Closing net book amount | 1,797,884 | 7,683 | 2,515,360 | 30,570 | 172,938 | 739,208 | 5,263,643 |
| **At 31 December 2005** | | | | | | | |
| Cost | 1,900,053 | 17,806 | 3,186,964 | 46,565 | 258,201 | 739,207 | 6,148,796 |
| Accumulated depreciation | (102,169) | (10,123) | (671,603) | (15,995) | (85,263) | — | (885,153) |
| Net book amount | 1,797,884 | 7,683 | 2,515,361 | 30,570 | 172,938 | 739,207 | 5,263,643 |

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

### Group (continued)

Depreciation expense of RMB 267,180,000 (2004: RMB 164,114,000) has been expensed in cost of sales, RMB 3,217,000 (2004: RMB 1,962,000) in selling and marketing costs and RMB 75,695,000 (2004: RMB 49,597,000) in administrative expenses.

During the year, the directors of the Company revisited the useful lives of property, plant and equipment with reference to technical assessments made on the durability of the assets and decided to change the useful lives of certain production equipment from 5 years to 7 year. The effect of this change in accounting estimate is to increase operating profit for the year by RMB 25,313,000 approximately.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

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

### Company

| | Buildings | Leasehold improve-ments | Machinery and equipment | Motor vehicles | Office equipment and fixtures | Construction -in-progress | Total |
|---|---|---|---|---|---|---|---|
| **At 1 January 2004** | | | | | | | |
| Cost | 254,883 | 4,480 | 296,188 | 9,847 | 72,991 | 33,906 | 672,295 |
| Accumulated depreciation | (6,899) | (2,081) | (79,728) | (3,512) | (21,831) | — | (114,051) |
| Net book amount | 247,984 | 2,399 | 216,460 | 6,335 | 51,160 | 33,906 | 558,244 |
| **Year ended 31 December 2004** | | | | | | | |
| Opening net book amount | 247,984 | 2,399 | 216,460 | 6,335 | 51,160 | 33,906 | 558,244 |
| Additions | 2,240 | — | 280,086 | 5,011 | 20,989 | 386,693 | 695,019 |
| Transfers | 112,548 | — | 30,954 | — | — | (143,502) | — |
| Disposals | — | — | (7,823) | (31) | (1,460) | — | (9,314) |
| Depreciation | (8,315) | (930) | (48,805) | (1,664) | (12,835) | — | (72,549) |
| Closing net book amount | 354,457 | 1,469 | 470,872 | 9,651 | 57,854 | 277,097 | 1,171,400 |
| **At 31 December 2004** | | | | | | | |
| Cost | 369,671 | 4,480 | 590,966 | 14,247 | 90,062 | 277,097 | 1,346,523 |
| Accumulated depreciation | (15,214) | (3,011) | (120,094) | (4,596) | (32,208) | — | (175,123) |
| Net book amount | 354,457 | 1,469 | 470,872 | 9,651 | 57,854 | 277,097 | 1,171,400 |
| **Year ended 31 December 2005** | | | | | | | |
| Opening net book amount | 354,457 | 1,469 | 470,872 | 9,651 | 57,854 | 277,097 | 1,171,400 |
| Additions | 4,919 | — | 319,105 | 2,501 | 24,904 | 478,079 | 829,508 |
| Transfers | 187,334 | — | 58,167 | — | — | (245,501) | — |
| Disposals | — | — | (20,305) | (621) | (4,639) | — | (25,565) |
| Depreciation | (9,463) | (797) | (89,646) | (2,725) | (17,472) | — | (120,103) |
| Closing net book amount | 537,247 | 672 | 738,193 | 8,806 | 60,647 | 509,675 | 1,855,240 |
| **At 31 December 2005** | | | | | | | |
| Cost | 561,924 | 4,480 | 929,379 | 15,415 | 106,088 | 509,675 | 2,126,961 |
| Accumulated depreciation | (24,677) | (3,808) | (191,186) | (6,609) | (45,441) | — | (271,721) |
| Net book amount | 537,247 | 672 | 738,193 | 8,806 | 60,647 | 509,675 | 1,855,240 |

## 7. LAND USE RIGHTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| In PRC held on: | | | | |
| Leases of 50 years | **206,179** | 208,423 | **31,529** | 32,208 |

Land use rights comprise fees paid for the rights to use the land where the Group's factory buildings are located.

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Opening net book amount | **208,423** | 191,734 | **32,208** | 31,920 |
| Additions | **—** | 23,400 | **—** | 1,080 |
| Amortisation | **(2,244)** | (6,711) | **(679)** | (792) |
| Closing net book amount | **206,179** | 208,423 | **31,529** | 32,208 |

## 8. INTANGIBLE ASSETS

### Group

| | Goodwill | Development costs | Industrial proprietary rights and patents | Distribution network | Total |
|---|---|---|---|---|---|
| **At 1 January 2004** | | | | | |
| Cost | 47,599 | 37,628 | 8,294 | 49,011 | 142,532 |
| Accumulated amortisation | (1,785) | (3,763) | (4,674) | (48,130) | (58,352) |
| Net book amount | 45,814 | 33,865 | 3,620 | 881 | 84,180 |
| **Year ended 31 December 2004** | | | | | |
| Opening net book amount | 45,814 | 33,865 | 3,620 | 881 | 84,180 |
| Goodwill arising from acquisition of additional equity interest in a subsidiary | 8,131 | — | — | — | 8,131 |
| Negative goodwill arising from acquisition of additional equity interest in subsidiaries | (5,238) | — | — | — | (5,238) |
| Additions | — | 152,818 | — | 283 | 153,101 |
| Amortisation | (3,011) | (9,912) | (1,163) | (750) | (14,836) |
| Closing net book amount | 45,696 | 176,771 | 2,457 | 414 | 225,338 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 8. INTANGIBLE ASSETS (continued)

### Group (continued)

| | Goodwill | Development costs | Industrial proprietary rights and patents | Distribution network | Total |
|---|---|---|---|---|---|
| **At 31 December 2004** | | | | | |
| Cost | 50,492 | 190,446 | 8,294 | 49,294 | 298,526 |
| Accumulated amortisation | (4,796) | (13,675) | (5,837) | (48,880) | (73,188) |
| Net book amount | 45,696 | 176,771 | 2,457 | 414 | 225,338 |
| **Year ended 31 December 2005** | | | | | |
| Opening net book amount | 45,696 | 176,771 | 2,457 | 414 | 225,338 |
| Derecognition of negative goodwill (Note 2.1(b)) | 5,173 | — | — | — | 5,173 |
| Goodwill arising from acquisition of additional equity interests in subsidiaries (Note 32) | 7,734 | — | — | — | 7,734 |
| Additions | — | 167,008 | 25,512 | — | 192,520 |
| Amortisation | — | (6,894) | (3,298) | (16) | (10,208) |
| Closing net book amount | 58,603 | 336,885 | 24,671 | 398 | 420,557 |
| **At 31 December 2005** | | | | | |
| Cost | 63,399 | 357,454 | 33,806 | 49,294 | 503,953 |
| Accumulated amortisation | (4,796) | (20,569) | (9,135) | (48,896) | (83,396) |
| Net book amount | 58,603 | 336,885 | 24,671 | 398 | 420,557 |

## 8. INTANGIBLE ASSETS (continued)

### Company

| | Industrial proprietary rights and patents | |
|---|---|---|
| | **2005** | **2004** |
| **At 1 January** | | |
| Cost | **7,952** | 7,952 |
| Accumulated amortisation | **(5,622)** | (4,522) |
| Net book amount | **2,330** | 3,430 |
| Opening net book amount | **2,330** | 3,430 |
| Amortisation | **(700)** | (1,100) |
| Closing net book amount | **1,630** | 2,330 |
| **At 31 December** | | |
| Cost | **7,952** | 7,952 |
| Accumulated amortisation | **(6,322)** | (5,622) |
| Net book amount | **1,630** | 2,330 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 9. INVESTMENTS IN SUBSIDIARIES - COMPANY

| | 2005 | 2004 |
|---|---|---|
| Unlisted investments, at cost | **1,049,265** | 830,791 |

The following is a list of the principal subsidiaries as at 31 December 2005.

| Name | Place of establishment/ incorporation, operation and kind of legal entity | Percentage of equity interest attributable to the Group | | Paid-in/ issued and fully paid share capital | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| BYD Lithium batteries Co., Ltd. ("BYD Li-ion") | The PRC Limited liability company | 90% | 6.52% | RMB 30,000,000 | Research, development, sale and manufacture of Li-ion batteries |
| Shenzhen BYD Electronics Company Limited ("BYD Electronics") | The PRC Limited liability company | 40% | 57.91% | RMB 2,500,000 | Design and manufacture of testing equipment and machinery for the Group's own use and rechargeable battery related products |
| Shanghai BYD Company Limited ("BYD SH") | The PRC Sino-foreign equity joint venture | 75% | 25% | United States dollar ("USD") 31,945,915 | Research, development, sale and manufacture of Li-ion batteries |
| BYD Europe B.V. ("BYD Europe") | Netherlands Limited liability company | 100% | — | EURO 18,151 | Trading of NiCd, NiMH and Li-ion batteries and related products |
| BYD America Corporation ("BYD America") | U.S.A. Limited liability company | 100% | — | USD 30,000 | Trading of NiCd, NiMH and Li-ion batteries and related products |
| BYD (H.K.) Co., Limited ("BYD HK") | Hong Kong Limited liability company | — | 100% | HKD 100 | Trading of NiCd, NiMH and Li-ion batteries and related products |
| BYD Automobile Company Limited ("BYD Auto QC") | The PRC Limited liability company | 99% | — | RMB 487,001,339 | Research, development, sale and manufacture of automobiles |

## 9. INVESTMENTS IN SUBSIDIARIES - COMPANY (continued)

| Name | Place of establishment/ incorporation, operation and kind of legal entity | Percentage of equity interest attributable to the Group | | Paid-in/ issued and fully paid share capital | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| Xian BYD Elec-automobile Company Limited ("BYD Auto Xian") | The PRC Limited liability company | 99% | — | RMB 80,000,000 | Research, development, sale and manufacture of automobiles |
| Shanghai BYD Automobile Company Limited ("BYD Auto SH") | The PRC Limited liability company | 90% | 9.65% | RMB 10,000,000 | Research, development, sale and manufacture of automobiles and battery-powered bicycle |
| Beijing BYD Battery Company Limited ("BYD BJ") | The PRC Limited liability company | 80% | 19.3% | RMB 50,000,000 | Research, development and manufacture of rechargeable batteries and Li-ion batteries |
| Beijing BYD Mould Company Limited ("BYD Mould") | The PRC Limited liability company | 68.33% | 31.45% | RMB 30,000,000 | Design and manufacture of mould |
| OuBi (Shanghai) Automobile Technology Company Limited ("BYD OuBi") | The PRC Wholly-owned foreign enterprise | — | 100% | USD 200,000 | International trading, research and development of automobiles, battery-powered automobiles and their related spare parts |
| BYD Precision Manufacture Company Limited ("BYD Precision") | The PRC Sino-foreign equity joint venture | 75% | 25% | USD 12,000,000 | Sale and manufacture of Li-ion batteries and its related products |
| BYD Auto Sales Company Limited ("BYD Auto Sales") | The PRC Limited liability company | 90% | 9.65% | RMB 50,000,000 | Sale and service manufactured automobiles |

(All amounts in RMB thousands unless otherwise stated)

## 9. INVESTMENTS IN SUBSIDIARIES - COMPANY (continued)

| Name | Place of establishment/ incorporation, operation and kind of legal entity | Percentage of equity interest attributable to the Group | | Paid-in/ issued and fully paid share capital | Principal activities |
|---|---|---|---|---|---|
| | | Direct | Indirect | | |
| BYD Training School ("BYD Training School") | The PRC Limited liability company | 100% | — | RMB 5,000,000 | Secondary vocational education |
| Shenzhen BYD Display Technology Co., Limited ("BYD Display") | The PRC Limited liability company | 90% | 9.65% | RMB 100,000,000 | Design, production and sale of LCD |
| Shenzhen BYD Electronic Parts Co., Limited ("BYD Electronic Parts") | The PRC Limited liability company | 90% | 9.65% | RMB 100,000,000 | Design, production and sale of NiCd, NiMH battery |
| Shenzhen BYD Microelectronics Co., Limited ("BYD Microelectronics") | The PRC Sino-foreign equity joint venture | 70% | — | USD 6,000,000 | Design, production and sale of integrated circuit |
| BYD Japan Corporation ("BYD Japan") | Japan Limited liability company | 100% | — | JPY 7,335,750 | Dormant |
| BYD Denmark Corporation ("BYD Denmark") | Denmark Limited liability company | — | 100% | EUR 125,000 | Dormant |

## 10. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| Raw materials | **955,556** | 676,173 | **361,474** | 289,334 |
| Work-in-progress | **994,567** | 627,018 | **320,529** | 216,959 |
| Finished goods | **281,433** | 191,052 | **138,077** | 70,198 |
| | **2,231,556** | 1,494,243 | **820,080** | 576,491 |

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB 4,017,389,000 (2004: RMB 3,683,189,000).

During the year, the Group has written down inventories to net realisable value of approximately RMB 68,137,000 (2004: RMB 21,343,000). As at 31 December 2005, the carrying amount of inventories carried at net realisable value approximated to RMB 283,967,000 (2004: RMB 269,433,000).

## 11. PREPAYMENTS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Prepayments for purchase of raw materials | **110,105** | 109,884 | **55,468** | 45,722 |
| Prepayments for purchase of property, plant and equipment | **117,446** | 203,750 | **20,933** | 69,960 |
| Value-added tax recoverable | **9,184** | 15,234 | **8,521** | 13,729 |
| Amounts due from employees | **14,249** | 5,969 | **4,742** | 24 |
| Others | **23,504** | 17,693 | **9,126** | 7,182 |
| | **274,488** | 352,530 | 98,790 | 136,617 |

## 12. TRADE AND NOTES RECEIVABLE

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Trade receivables | **1,755,815** | 1,923,437 | **1,103,862** | 833,151 |
| Notes receivable | **257,338** | 113,385 | **101,973** | 80,389 |
| Less: provision for impairment of receivables | **(164,976)** | (126,184) | **(93,846)** | (52,782) |
| Trade and notes receivable – net | **1,848,177** | 1,910,638 | **1,111,989** | 860,758 |

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

The Group would generally grant a credit term from 0 to 120 days to its customers. In addition, a predetermined credit term has been set for each customer. At 31 December 2005 and 2004, the ageing analysis of trade and note receivables are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| 1 to 3 months | **1,537,434** | 1,634,533 | **891,074** | 659,104 |
| 3 to 6 months | **229,284** | 230,934 | **187,831** | 173,569 |
| 6 to 12 months | **78,898** | 45,171 | **33,084** | 28,085 |
| Over 12 months | **2,561** | — | **—** | — |
| | **1,848,177** | 1,910,638 | **1,111,989** | 860,758 |

The Group has provided approximately RMB 38,792,000 (2004: RMB 24,738,000) for the impairment of its trade receivables during the year. The loss has been included in administrative expenses in the income statement.

There is no concentration of credit risk with respect to the trade and notes receivable balances since the Group has a large number of customers which are world-wide dispersed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 12. TRADE AND NOTES RECEIVABLE (continued)

In December 2005, the Group entered into non-recourse factoring agreements with a bank for the factoring of certain accounts receivable of USD 37,935,000 (equivalent to approximately RMB 306,141,000). Under the factoring agreements, the Group received USD 34,120,000 (equivalent to approximately RMB 275,355,000) ("the transfer amount") from the bank upon inception of the factoring agreements which represented approximately 90% of the factored amount and the Group agreed to pass to the bank any portion of the factored accounts receivable upon receipt of settlement from customers for such factored receivables. Further, the Group needs to pay a service charge at 0.2% of the transfer amount and an interest calculated and payable on a monthly basis in respect of the transfer amount outstanding from time to time at a rate of LIBOR+0.5% per annum. The management consider that the risk and rewards of the accounts receivable factored amounting to USD 37,935,000 (equivalent to approximately RMB 306,141,000) has been transferred to the bank and accordingly such accounts receivable were derecognised from the balance sheet as at 31 December 2005. The difference of USD 3,793,000 (equivalent to approximately RMB 30,614,000) between the amount of accounts receivable factored and the transfer amount has been recorded as receivable due from the bank. Up to the date of this report, accounts receivable which were factored as at 31 December 2005 were fully settled.

The Group has taken legal actions against two customers who owed the group totally amounting to RMB 24 million approximately at 31 December 2005. The Group has obtained a court order to freeze the customer's property at value of RMB 17 million approximately as a security for the settlement of the legal cases. Based on the best information currently available, the directors consider that provision against these receivables is not necessary.

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2005 | |
|---|---|---|
| | **Assets** | **Liabilities** |
| Forward foreign exchange contracts - held for trading | **22,898** | 19,172 |

## 14. RESTRICTED BANK DEPOSITS

### Group

Restricted bank deposits as at 31 December 2005 represented bank deposits amounting to RMB 44,235,000(2004: Nil) frozen for a litigation proceeding at year end (Note 30 (b)) and pledged deposits amounting to RMB 3,815,000 (2004: RMB 23,870,000) placed with a bank as security against the issuance of certain letters of credit by that bank on behalf of the Group.

### Company

Restricted bank deposits as at 31 December 2005 represented bank deposits amounting to RMB 44,235,000 frozen for a litigation proceeding at year end (Note 30 (b)). Restricted bank deposits as at 31 December 2004 represented pledged deposits placed with a bank as security against the issuance of certain letters of credit by that bank on behalf of the Company.

## 15. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Cash at bank and in hand | **682,129** | 682,540 | **179,810** | 283,664 |

## 16. SHARE CAPITAL

| | Number of shares (thousands) | Amount |
|---|---|---|
| At 31 December 2005 and 2004 | | |
| Issued and fully paid for RMB 1 each | 539,500 | 539,500 |

## 17. OTHER RESERVES

### Group

| | Capital | Statutory surplus reserve Note (a) | Statutory public welfare fund Note (b) | Cumulative translation adjustments | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2004 | 1,523,080 | 92,065 | 41,174 | (2,089) | 1,654,230 |
| Appropriations | — | 86,182 | 24,957 | — | 111,139 |
| Translation adjustment | — | — | — | 3,481 | 3,481 |
| Balance at 31 December 2004 | 1,523,080 | 178,247 | 66,131 | 1,392 | 1,768,850 |
| Balance at 1 January 2005, as per above | 1,523,080 | 178,247 | 66,131 | 1,392 | 1,768,850 |
| Contribution by minority interest | 362 | — | — | — | 362 |
| Appropriations | — | 39,650 | 19,825 | — | 59,475 |
| Translation adjustment | — | — | — | (260) | (260) |
| Balance at 31 December 2005 | 1,523,442 | 217,897 | 85,956 | 1,132 | 1,828,427 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 17. OTHER RESERVES (continued)

### Company

| | Capital surplus | Capital reserves Note (c) | Statutory surplus reserve Note (a) | Statutory public welfare fund Note (b) | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2004 | 1,523,080 | (225,407) | 75,910 | 37,956 | 1,411,539 |
| Appropriations | — | — | 49,913 | 24,957 | 74,870 |
| Balance at 31 December 2004 | 1,523,080 | (225,407) | 125,823 | 62,913 | 1,486,409 |
| Balance at 1 January 2005, as per above | 1,523,080 | (225,407) | 125,823 | 62,913 | 1,486,409 |
| Appropriations | — | — | 24,362 | 12,181 | 36,543 |
| Balance at 31 December 2005 | 1,523,080 | (225,407) | 150,185 | 75,094 | 1,522,952 |

**(a) Statutory surplus reserve**

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

**(b) Statutory public welfare fund**

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

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

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

## 17. OTHER RESERVES (continued)

### (c) Capital reserve

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

## 18. BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **Non-current** | | | | |
| Long-term bank borrowings | **1,846,457** | 494,570 | **1,610,000** | 240,000 |
| Less: current portion of long-term bank borrowings | **(16,788)** | (257,716) | **—** | (240,000) |
| | **1,829,669** | 236,854 | **1,610,000** | — |
| **Current** | | | | |
| Short-term bank borrowings | **2,178,236** | 2,644,183 | **1,555,919** | 1,268,740 |
| Current portion of long-term bank borrowings | **16,788** | 257,716 | **—** | 240,000 |
| | **2,195,024** | 2,901,899 | **1,555,919** | 1,508,740 |
| **Total borrowings** | **4,024,693** | 3,138,753 | **3,165,919** | 1,508,740 |

Borrowings include secured bank borrowings of approximately RMB 887,779,000 (2004: RMB 102,645,000) which are guaranteed by other companies within the Group.

The maturity of borrowings is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Within 1 year | **2,195,024** | 2,901,899 | **1,555,919** | 1,508,740 |
| Between 1 and 2 years | **669,669** | 165,792 | **600,000** | — |
| Between 2 and 5 years | **500,000** | 39,479 | **350,000** | — |
| Wholly repayable within 5 years | **3,364,693** | 3,107,170 | **2,505,919** | 1,508,740 |
| Over 5 years | **660,000** | 31,583 | **660,000** | — |
| | **4,024,693** | 3,138,753 | **3,165,919** | 1,508,740 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 18. BORROWINGS (continued)

The effective interest rates at the balance sheet date were as follows:

| | 2005 | | | 2004 | |
|---|---|---|---|---|---|
| | RMB | USD | HKD | RMB | USD |
| Bank borrowings | 4.56% | 4.17% | 3.903% | 3.87% | 2.66% |

The carrying amounts and fair values of the non-current borrowings of the Group are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Non-current bank borrowings | 1,829,669 | 236,854 | 1,811,955 | 239,017 |

The fair values are based on cash flows discounted using a rate based on the borrowings rate of 5.72% p.a.(2004: 4.78% p.a.).

The carrying amounts of short-term borrowings approximate their fair values.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| RMB | 3,504,135 | 1,872,000 | 2,864,333 | 780,000 |
| USD | 435,253 | 1,266,753 | 216,281 | 728,740 |
| HKD | 85,305 | — | 85,305 | — |
| | 4,024,693 | 3,138,753 | 3,165,919 | 1,508,740 |

The Group has the following undrawn committed banking facilities:

| | 2005 | 2004 |
|---|---|---|
| Expiring within one year | | |
| - floating rate | 49,398 | 228,250 |
| - fixed rate | 5,244,411 | 2,628,455 |
| | 5,293,809 | 2,856,705 |

The facilities expiring within one year are annual facilities subject to review at various dates during 2006.

## 19. TRADE AND NOTES PAYABLE

At 31 December 2005 and 2004, the ageing analysis of the trade and notes payable were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| 1 to 3 months | **1,644,451** | 796,671 | **651,285** | 520,550 |
| 3 to 6 months | **299,886** | 374,079 | **86,061** | 251,603 |
| 6 to 12 months | **15,735** | 10,703 | **6,826** | 1,880 |
| 12 months to 2 years | **19,989** | 6,946 | **2,869** | 3,916 |
| 2 to 3 years | **5,654** | 5,726 | **—** | 618 |
| | **1,985,715** | 1,194,125 | **747,041** | 778,567 |

## 20. PROVISION FOR WARRANTY - GROUP

| | **2005** | **2004** |
|---|---|---|
| At 1 January | **4,969** | 7,518 |
| Additions | **3,429** | 2,287 |
| Utilisation | **(5,241)** | (4,836) |
| At 31 December | **3,157** | 4,969 |

The Group provides two-year or below 40,000 kilometres (whichever applicable) warranties on automobiles and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RMB 3,157,000 has been recognised at 31 December 2005 (2004: RMB 4,969,000) for expected warranty claims based on past experience of the level of repairs and returns. It is expected that the majority of this expenditure will be incurred within one year.

(All amounts in RMB thousands unless otherwise stated)

## 21. TAXATION

### (a) Income tax

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

No Hong Kong, U.S.A., Netherlands, Japan and Denmark profits tax was provided for as the Group had no assessable profit arising in or derived from there for the year (2004: Nil).

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

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

The amount of taxation charged to the consolidated income statement represents:

| | **2005** | **2004** |
|---|---|---|
| Current taxation | | |
| - Hong Kong profits tax | **—** | — |
| - PRC Enterprise Income Tax | **106,643** | 67,282 |
| Deferred taxation | **(16,602)** | (2,856) |
| | **90,041** | 64,426 |

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

| | **2005** | **2004** |
|---|---|---|
| Profit before income tax | **618,588** | 1,110,013 |
| Calculated at an eligible taxation rate of the company at 15% | **92,788** | 166,502 |
| Expense not deductible for tax purpose | **2,113** | 1,581 |
| Tax losses for which no deferred income tax asset was recognised | **17,373** | 12,425 |
| Effect of tax concession | **(22,233)** | (116,082) |
| | **90,041** | 64,426 |

## 21. TAXATION (continued)

### (b) Deferred taxation

Deferred taxation is calculated in full on temporary differences under liability method using taxation rates in tax jurisdictions the Group companies located.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| At 1 January | **14,374** | 11,518 | **9,161** | 8,116 |
| Deferred taxation credited to the income statement | **16,602** | 2,856 | **8,708** | 1,045 |
| At 31 December | **30,976** | 14,374 | **17,869** | 9,161 |
| Representing deferred tax assets arising from: | | | | |
| Provision from impairment of receivables | **14,356** | 8,003 | **8,962** | 3,959 |
| Provision from impairment of inventories | **12,405** | 6,371 | **5,451** | 5,202 |
| Depreciation of property, plant and equipment | **4,215** | — | **3,456** | — |
| | **30,976** | 14,374 | **17,869** | 9,161 |

The amounts shown in the balance sheet include the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Deferred tax assets to be recovered after more than 12 months | **30,976** | 14,374 | **17,869** | 9,161 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 22. OTHER GAINS – NET

| | 2005 | 2004 |
|---|---|---|
| Sales of materials | 390 | 2,388 |
| Sales of scrapes | 27,511 | 5,467 |
| Processing income | 993 | 958 |
| Interest income | 6,938 | 16,207 |
| Forward contracts: transaction not qualifying as hedges (realised and unrealised) | 10,163 | — |
| Subsidy income | 675 | 5,558 |
| Exchange (losses)/gains, net | (10,037) | 3,504 |
| | 36,633 | 34,082 |

During the year, the Group sold raw materials to some of its suppliers amounting to approximately RMB 17,862,000 (2004: RMB 12,036,000) with a corresponding cost of raw materials of approximately RMB 17,472,000 (2004: RMB 9,648,000), resulting in other gains of approximately RMB 390,000 (2004: RMB 2,388,000).

## 23. EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, administrative expenses and other operating expenses are analysed as follows:

| | 2005 | 2004 |
|---|---|---|
| Depreciation and amortisation (Notes 6, 7 and 8) | 358,544 | 237,220 |
| Impairment of receivables (Note 12) | 38,792 | 24,738 |
| Write-down of inventory to net realisable value (Note 10) | 68,137 | 21,343 |
| Employee benefit expenses (including Directors' emoluments) (Note 24) | 651,325 | 613,103 |
| Changes in inventories of finished goods and work in progress | 820,001 | 350,134 |
| Raw materials and consumables used | 3,197,388 | 3,333,055 |
| Operating lease expenses on buildings | 7,288 | 5,807 |
| Loss on disposal of property, plant and equipment | 10,809 | 475 |
| Provision for warranty (Note 20) | 3,429 | 2,287 |
| Auditors' remuneration | 2,400 | 1,800 |
| Research and development costs | 115,846 | 69,284 |

## 24. EMPLOYEE BENEFIT EXPENSE

| | 2005 | 2004 |
|---|---|---|
| Wages and salaries | **589,262** | 528,085 |
| Employee welfare | **40,308** | 60,715 |
| Pension costs - defined contribution plan | **21,755** | 24,303 |
| | **651,325** | 613,103 |

### (a) Directors' and supervisors' emoluments

The remuneration of every Director and supervisor for the year ended 31 December 2005 is set out below:

| Name of Director/supervisor | Fees | Basic salaries, allowances and other benefits in kind | Pension | Total |
|---|---|---|---|---|
| **Director:** | | | | |
| Wang Chuan-fu | — | 516 | 5 | 521 |
| Xia Zuo-quan | — | 504 | 5 | 509 |
| Lv Xiang-yang | — | 110 | — | 110 |
| **Independent non-executive director:** | | | | |
| Kang Dian | — | 210 | — | 210 |
| Li Guo-xun | — | 110 | — | 110 |
| Lin You-ren | — | 110 | — | 110 |
| **Supervisor:** | | | | |
| Min De | — | 20 | — | 20 |
| Wang Zhen | — | 140 | 5 | 145 |
| Dong Jun-qing | — | 253 | — | 253 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 24. EMPLOYEE BENEFIT EXPENSE (continued)

### (a) Directors' and supervisors' emoluments (continued)

The remuneration of every Director and supervisor for the year ended 31 December 2004 is set out below:

| Name of Director/supervisor | Fees | Basic salaries, allowances and other benefits in kind | Pension | Total |
|---|---|---|---|---|
| **Director:** | | | | |
| Wang Chuan-fu | — | 403 | 4 | 407 |
| Xia Zuo-quan | — | 435 | 2 | 437 |
| Lu Xiang-yang | — | 64 | — | 64 |
| **Independent non-executive director:** | | | | |
| Kang Dian | — | 180 | — | 180 |
| Li Guo-xun | — | 100 | — | 100 |
| Lin You-ren | — | 100 | — | 100 |
| **Supervisor:** | | | | |
| Min De | — | 12 | — | 12 |
| Wang Zhen | — | 100 | 4 | 104 |
| Dong Jun-qing | — | 283 | — | 283 |

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 3 directors and 2 supervisors (2004: 3 directors, 1 supervisor and 1 employee) whose emoluments are reflected in the analysis presented above. In 2004, the emoluments payable to the remaining 1 individual during the year are approximately RMB 1,500,000.

## 25. FINANCE COSTS

| | 2005 | 2004 |
|---|---|---|
| Interest expense for bank borrowings | 137,438 | 62,140 |
| Bank charges for discounted notes | 20,456 | 6,249 |
| Total borrowing costs incurred | 157,894 | 68,389 |
| Less: amount of interest capitalised in properties under construction-in-progress | (15,386) | (7,398) |
| | 142,508 | 60,991 |

## 26. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB 252,334,000 (2004: RMB 617,161,000).

## 27. EARNINGS PER SHARE

### (a) Earnings per share – basic

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the Group's profit attributable to equity holders of the Company for the year ended 31 December 2005 of approximately RMB 528,753,000 (2004: RMB1,037,001,000) and the number of 539,500,000 (2004: 539,500,000) shares in issue during the year.

### (b) Earnings per share – diluted

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

## 28. DIVIDENDS

| | 2005 | 2004 |
|---|---|---|
| Proposed final dividend | — | 311,292 |

At a meeting held on 24 March 2005, the directors proposed a final dividend related to 2004 of RMB 0.577 per ordinary share. This proposed dividend is reflected as an appropriation of retained earnings for the year ended 31 December 2005.

The directors do not recommend to pay a dividend related to 2005 .

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 29. CASH GENERATED FROM OPERATIONS

| | 2005 | 2004 |
|---|---|---|
| Profit for the year | **528,547** | 1,045,587 |
| Adjustment for: | | |
| Income tax expense (Note 21) | **90,041** | 64,426 |
| Depreciation (Note 6) | **346,092** | 215,673 |
| Amortisation of land use rights (Note 7) | **2,244** | 6,711 |
| Amortisation of intangible assets (Note 8) | **10,208** | 14,836 |
| Loss on disposal of property, plant and equipment (see below) | **10,809** | 475 |
| Interest income (Note 22) | **(6,938)** | (16,207) |
| Interest expense (Note 25) | **137,438** | 62,140 |
| Provision for receivables (Note 12) | **38,792** | 24,738 |
| Provision for impairment of inventories (Note 10) | **68,137** | 21,343 |
| Increase in inventories | **(780,104)** | (645,207) |
| Decrease/(increase) in prepayments and other receivables | **78,042** | (135,324) |
| Decrease/(increase) in trade and notes receivable | **23,669** | (442,014) |
| (Increase)/decrease in amounts due from related parties | **(983)** | 761 |
| Increase in derivative financial instruments | **(3,726)** | — |
| Decrease in amounts due to related parties | **(20,330)** | — |
| Increase in trade and notes payable | **791,590** | 443,247 |
| Increase in accruals and other payable | **133,318** | 101,173 |
| Increase in advances from customers | **156,362** | 18,849 |
| Decrease in provision for warranty | **(1,812)** | (2,549) |
| Cash inflow generated from operations | **1,601,396** | 778,658 |

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

| | 2005 | 2004 |
|---|---|---|
| Net book amount (Note 6) | **13,871** | 7,284 |
| Loss on disposal of property, plant and equipment | **(10,809)** | (475) |
| Proceeds from disposal of property, plant and equipment | **3,062** | 6,809 |

## 30. CONTINGENCIES

(a) As at 31 December 2005, the Group had provided guarantee to two independent third parties for their bank loans of RMB 3,684,000 (2004: RMB 3,531,000). On 23 March 2006, one of these independent third parties repaid its bank loan of RMB 1,130,000 to the bank and accordingly the guarantee provided by the Group to this loan was released by the bank.

(b) The Group is currently involved in one litigation with a customer in relation to the dispute of alleged battery quality sold by the Group in Jiangsu Province. The bank deposits of the Company amounting to approximately RMB 44,235,000 were frozen by the court. Due to the fact that there has not been any material development in respect of the proceeding, the directors consider that it is impracticable and premature to assess the impact of such proceeding on the group and its operation.

## 31. COMMITMENTS

### (a) Capital commitments

As at 31 December 2005, the Group had the following capital commitments in relation to:

| | **2005** | **2004** |
|---|---|---|
| Contracted but not provided for | | |
| - Construction of buildings | **155,080** | 282,098 |
| - Purchase of machinery and equipment | **602,765** | 414,591 |
| | **757,845** | 696,689 |

### (b) Operating lease commitments

As at 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases for factories and office premises as follows:

| | **2005** | **2004** |
|---|---|---|
| Within 1 year | **2,595** | 983 |
| After 1 year but within 5 years | **2,651** | 2,264 |
| | **5,246** | 3,247 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 32. BUSINESS COMBINATIONS

On 30 June 2005, the Group acquired additional 7% equity interests in two subsidiaries, BYD Auto QC and BYD Auto Xian respectively. After the completion of the acquisitions, the equity interests of the Company in BYD Auto QC and BYD Auto Xian had increased from 92% to 99% respectively.

Details of net assets acquired and goodwill are as follows:

| | BYD Auto QC | BYD Auto Xian | Total |
|---|---|---|---|
| Purchase consideration: | | | |
| - Cash paid | 21,120 | 6,000 | 27,120 |
| - Direct costs relating to the acquisitions | 89 | 60 | 149 |
| Total purchase consideration | 21,209 | 6,060 | 27,269 |
| Share acquired of the carrying value of net assets | (15,882) | (3,653) | (19,535) |
| Goodwill (Note 8) | 5,327 | 2,407 | 7,734 |

| | BYD Auto QC | BYD Auto Xian |
|---|---|---|
| Cash and cash equivalents | 9,571 | 35,714 |
| Property, plant and equipment | 593,342 | 560,580 |
| Land use rights | 42,259 | 36,216 |
| Development cost (included in intangible assets) | — | 117,339 |
| Inventories | 40,429 | 4,677 |
| Receivables | 31,088 | 18,919 |
| Payables | (242,987) | (721,258) |
| Borrowings | (246,812) | — |
| Net assets | 226,890 | 52,187 |
| Acquired equity interests | 7% | 7% |
| Share acquired of the carrying value of net assets | 15,882 | 3,653 |
| Cash outflow on acquisition | 21,209 | 6,060 |

## 33. RELATED-PARTY TRANSACTIONS AND BALANCES

### (a) Name and relationship with related parties

| 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) Balances with related parties

As at 31 December 2005, the significant balances with related parties were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Due from related parties: | | | | |
| - Mr. Wang Chuan-fu, director | **1,265** | 282 | **1,265** | 275 |
| - BYD SH | **—** | — | **1,309,961** | 882,515 |
| - BYD Auto Xian | **—** | — | **586,493** | 337,640 |
| - BYD Auto QC | **—** | — | **297,078** | 204,898 |
| - BYD Beijing | **—** | — | **86,682** | 76,604 |
| - BYD Mould | **—** | — | **186,576** | 74,845 |
| - BYD Li-ion | **—** | — | **—** | 72,219 |
| - BYD America | **—** | — | **90,475** | 40,546 |
| - BYD Europe | **—** | — | **96,359** | 21,175 |
| - BYD Oubi | **—** | — | **4,911** | 4,243 |
| - BYD Auto SH | **—** | — | **11,019** | 2,673 |
| - BYD Precision | **—** | — | **208,042** | 2,254 |
| - BYD Training School | **—** | — | **33** | — |
| - BYD Japan | **—** | — | **369** | — |
| | **1,265** | 282 | **2,879,263** | 1,719,887 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005
(All amounts in RMB thousands unless otherwise stated)

## 33. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Due to related parties: | | | | |
| - Northwest Electric-power Finance Company Limited ("Electric-power Finance") | — | 20,000 | — | — |
| - Shanxi Province Investment Group (Limited) Company ("Shanxi Group") | — | 330 | — | — |
| - BYD HK | — | — | 69,324 | 178,738 |
| - BYD Auto Sales | — | — | 123,033 | 37,947 |
| - BYD Mould | — | — | — | 720 |
| - BYD Li-ion | — | — | 700,987 | — |
| - BYD Electronics | — | — | 3,847 | — |
| - BYD Microelectronics | — | — | 1,575 | — |
| - BYD Electronic Parts | — | — | 99,999 | — |
| - BYD Display | — | — | 99,999 | — |
| | — | 20,330 | 1,098,764 | 217,405 |

Shannxi Group is a minority interest of two subsidiaries of the Group and Electric-power Finance is a subsidiary of Shanxi Group. Shanix Group and Electric-power Finance were presented as related parties for the year ended 31 December 2004. With disposal of their equity interests in the subsidiaries of the Group, they are not qualified as related parties for the year ended 31 December 2005.

Balances with Directors and related parties are unsecured and interest free, and have no fixed repayment terms.

Additional information on amounts due from a director:

| | Maximum balance of amount due from a director | |
|---|---|---|
| | **2005** | **2004** |
| Mr. Wang Chuan-fu | 1,265 | 1,100 |

## 34. COMPARATIVE FIGURES

The Group has adopted new HKFRS which are effective for accounting periods commencing on or after 1 January 2005. As mentioned in Note 2.1, this has resulted in changes to the presentation of certain items and comparative financial information has been restated accordingly. In addition, certain comparative figures have been reclassified to conform to the current period presentation.