



BYD COMPANY LIMITED
比亞迪股份有限公司

STOCK CODE 股份編號 : 1211



INTERIM REPORT 2006 年中期報告

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Turnover	+117%	To RMB5,683 million
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Gross Profit	+72%	To RMB1,114 million
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Operating Profit	+76%	To RMB587 million
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Profit attributable to equity holders of the Parent	+85%	To RMB460 million
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Basic earnings per share	+85%	To RMB0.85
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HIGHLIGHTS

- Maintained its leading position in rechargeable battery industry
- Recorded 320% growth in revenue of handset component business
- Recorded 1,290% growth in revenue and successfully achieved turnaround in automobile business

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENT REVIEW

In the first half of 2006, the overall demand in the global handset market continued to experience sustained growth. According to the survey released by Gartner, a market research institution, the global market recorded sales of 453 million handsets in the first half of 2006, up 22% from the same period last year. Major global handset suppliers continued to launch products with multi-functions, at more competitive prices and within short product cycles so as to increase their share in the global market and further restricted the growth space for small handset suppliers. On the other hand, major global handset suppliers have made efforts to explore the emerging markets with a growing demand for handsets such as Brazil, Russia, India and China by launching low-to-medium-end handsets in order to maintain their leading position in the world market.

Sustained and fast growth of the industry has led to increasingly competitive market conditions. Major global handset suppliers faced even greater cost pressures as compared with in the past. In order to maintain profitability and competitiveness, they all focused on seeking component suppliers with better price competitiveness in Asia (other than Japan). This offered excellent development opportunities for outstanding handset battery and component suppliers including BYD. In addition, there has also been a growing demand for 3G handsets in the global market. It is expected that the market of handsets with 3G features will become a new battlefield for handset suppliers.

As for the domestic handset market, as global handset suppliers continued to expand their market share and affected by unoriginal handsets available for sale everywhere in the market, domestic handset suppliers were faced with even more difficult operating conditions. Therefore, some domestic handset manufacturers made an active effort to explore the emerging markets by launching low-end elementary handsets so as to maintain their existing market share.

During the period under review, prices of international crude oil and some metals continued to soar. In particular, the rapid increase in nickel prices increased the cost for nickel battery production and created significant pressure on the gross profit of the product.

In the first half of 2006, the automobile industry in the PRC was still affected by unfavourable factors such as an increase in the sales tax levied on automobiles, rising fuel prices and import tariffs imposed on automobiles and automobile component, while the consumers' spending sentiment on automobiles continued to increase. As the demand for automobiles in the market pursued a steady upward trend, overall production and sales rebounded. For the first half of the year, the automobile market in the PRC recorded production and sales of 3.5 million vehicles, representing a year-on-year growth of more than 20% whilst sales of sedan grew by more than 40%. In particular, the sales growth of automobiles with self-developed domestic brands exceeded that of automobiles under joint venture brands. This reflected that domestic brands had established a position in the market.

BUSINESS REVIEW

The two principal businesses of BYD comprise the IT component business and the automobile business. The IT component business mainly comprises the rechargeable battery business and the handset component business. During the period under review, the Group's IT component business rebounded and recorded satisfactory growth as compared with the same period last year. The automobile business also successfully achieved turnaround.

IT parts - rechargeable batteries

In 2005, because of a decrease in the market share of domestic handset manufacturers, the number of orders received dropped. Accordingly, the number of lithium-ion batteries sold by the Group in 2005 declined substantially. In the first half of 2006, the Group adjusted its operating strategy in a timely manner and managed to revive the rechargeable battery business by leveraging on its excellent product quality and cost-effective competitive strengths. This enabled the Group to consolidate its leading position in the industry. For the first half of 2006, sales of rechargeable battery products amounted to RMB1,898,029,000.

As for lithium-ion batteries, the Group further strengthened its partnership with global handset suppliers in the first half of the year and successfully secured various new orders. The Group also managed to expand the number of orders from leading global handset manufacturers, which led the lithium-ion battery business back to normal with steadily growth. Meanwhile, the Group has consistently allocated resources to research and development and made advancement in innovative technologies. During the period under review, the Group made a breakthrough in developing power batteries, which offered greater potential for the Group to develop multi-applications in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Being one of the global leading nickel battery suppliers, the Group is among few manufacturers which are able to provide high-quality nickel battery products. As the global supply of nickel batteries is concentrated in a number of major manufacturers, the Group continued to occupy a leading market position in the sales volume of nickel batteries by leveraging its competitive edges and pricing capability. However, sustained high prices of raw materials has led to a shrinking nickel batteries market, which inevitably had a negative impact on the Group's gross profit derived from nickel batteries during the period under review.

IT parts - handset components

During the period under review, BYD, as a one-stop handset component supplier, continued to offer diversified product portfolios to customers, including plastic case, keypad, camera module, LCD display and flexible printed circuit board.

Currently, more and more global handset suppliers outsource one-stop handset component suppliers with better price competitiveness. By capitalizing on its established and long-term partnership with global handset suppliers, the Group has succeeded in capturing emerging market opportunities and become one of the handset component suppliers well-received by global handset manufacturers. During the period under review, the Group not only successfully secured new orders from various global handset suppliers in respect of handset component but also further increased the number of orders from existing customers, making the handset component business one of the major driving forces for the Group during the period. For the first half of 2006, the Group's handset component business recorded satisfactory growth with sales exceeding RMB2,104,363,000, up 320% from the same period last year.

Automobile business

As for the automobile business, following the official launch of BYD's first self-developed vehicle model F3 in September last year, the development of the Group's automobile business continued to be positive in the first half of 2006. During the period under review, the turnover from the automobile business was RMB1,656,264,000, representing a significant year-on-year increase of 1,290%. The number of automobiles sold reached 30,700 vehicles, representing a year-on-year growth of 585%. Encouraging sales performance was achieved with a total of 23,900 F3 vehicles sold. BYD's F3 has excellent quality that meets international standards as well as a competitive edge of value for money. It has been well-received by consumers since its launch and became one of the best-selling automobile products under domestic brands for months in a row in the first half of 2006. During the period under review, the Group's F3 gained various industry recognitions, including awards such as "New Automobile with the Highest Value for Money (最具性價比新車)", "CCTV Self-innovation Award (CCTV 自主創新獎)", "New Automobile Award at Auto Shanghai (上海國際汽車展新車大獎)".

During the period, the Group made efforts to expand its sales and marketing network and the number of distributors continued to grow, resulting in increasing market coverage of the Group's automobile products. This in turn effectively drove and ensured a continued increase in the sales of the Group's automobile products.

At present, the Group has formed a complete operating system spanning from research and development, manufacturing to sales. Given its wholly independent research and development capability, the Group has enjoyed significant cost advantages in the aspects of vehicle model development, mould manufacturing, technology transfer and brand utilization as well as materials and labour, enabling it to launch new products and respond to the market at a faster pace. Meanwhile, strong manufacturing capability has enabled the Group's automobile products to enjoy more cost advantages with guaranteed quality. With optimized production lines, improving sales networks as well as effective sales strategies, the Group maintained outstanding performance in the sales of automobiles during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

FUTURE PROSPECTS AND STRATEGIES

IT parts - rechargeable batteries

The growth of the global handset market will remain strong in the future. Global handset manufacturers will continue to actively explore the emerging markets in order to strive for a greater market share. In view of this, the Group will further strengthen its cooperation with international customers. It is anticipated that the rechargeable battery business will experience steady growth in the second half of 2006. Looking ahead, the Group's development strategy for the rechargeable battery business will focus more on developing global handset supplier customers and increasing the supply. Through securing stable supply from leading domestic manufacturers, its determination in increasing its battery product applications and its focus on enhancing cost control, the Group will consolidate and strengthen its leading market position in the rechargeable battery industry.

IT parts - handset components

The Group predicts that the production of elementary handsets and the development of the emerging markets will remain the development direction for major global handset suppliers. Handset manufacturers will further seek for handset component suppliers with greater cost effectiveness. Being a one-stop handset component supplier, BYD has maintained close cooperation with global and leading domestic handset manufacturers. In the second half of 2006, the Group will continue to increase the supply of handset component to global and leading domestic handset manufacturers, and further develop new customers for the handset component business on the existing customer basis. In addition, as 3G handsets become increasingly popular, the Group will closely cooperate with customers by leveraging its extensive industry experience and strong research and development capability and jointly develop component products targeting 3G handsets to capture the opportunities brought by 3G handsets in the future. The long-term objective of the Group is to strive to become a leading one-stop component supplier of global and domestic handset manufacturers with a view to making the handset component business a major driving force for the future growth of the Group.

Automobile business

The success of F3 marks the recognition of the Group's automobile business by the market. Looking ahead, the Group will take advantage of its established sales and marketing network to provide vertical integration ancillary services for customers. Meanwhile, it will step up its efforts in improving the supply flow and reduce costs through mass production and focus on driving technological improvement and innovation so as to launch new models of automobile products in a timely manner. As such, the automobile business will become a new momentum for driving the future growth of the Group.

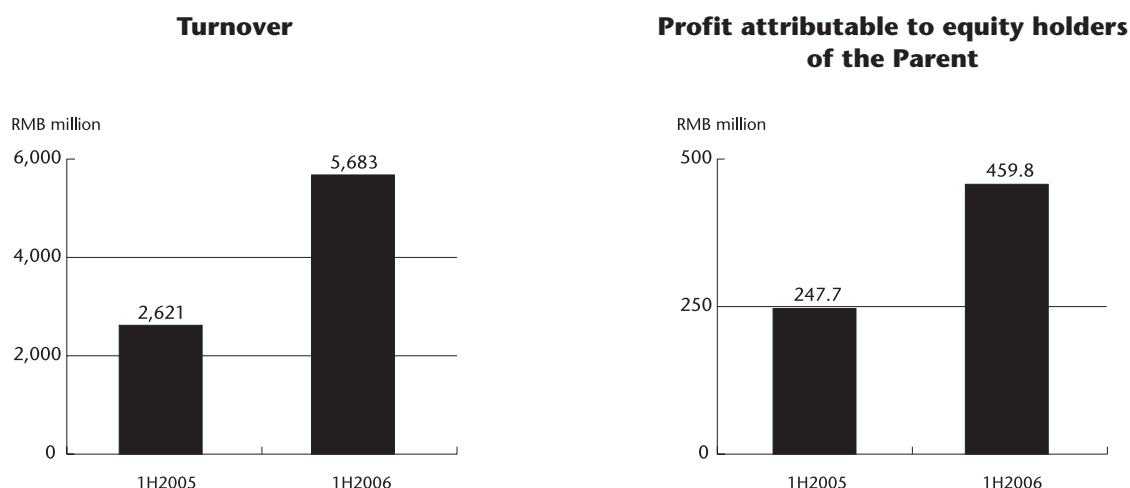
The Group is confident that F3 will achieve even better sales performance in the second half of 2006. In addition, the Group will further expand its sales network. Through expanding after-sales service channels and strengthening software and hardware construction in all aspects, the Group is determined to provide quality services to consumers so as to increase BYD's brand reputation in the industry. On the other hand, by leveraging its leading expertise in electric automobiles, the Group will proceed with its active research and development of hybrid and electric automobiles so as to launch this category of products in the market within the shortest possible time.

The Group will pursue a development path of self-development, self-production and self-owned brands in an effort to produce national civil vehicles with a high value for money and is determined to become one of the leaders in the automobile market of PRC.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

FINANCIAL REVIEW

Turnover and Profit Attributable to Equity Holders of the Parent

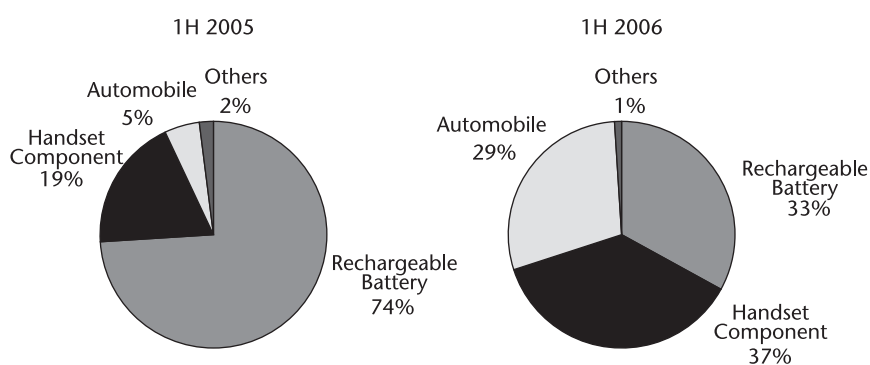


Turnover increased substantially during the period under review mainly due to the strong growth brought by the handset component business and automobile business. Strong growth in handset component business and turnaround in automobile business contributed to the substantial increase in profit attributable to the equity holders of the Parent.

Segmental Information

Set out below are the Group's turnovers in terms of product categories for the six months ended 30 June 2006 and 2005:

A breakdown of turnover in terms of product categories and their proportion

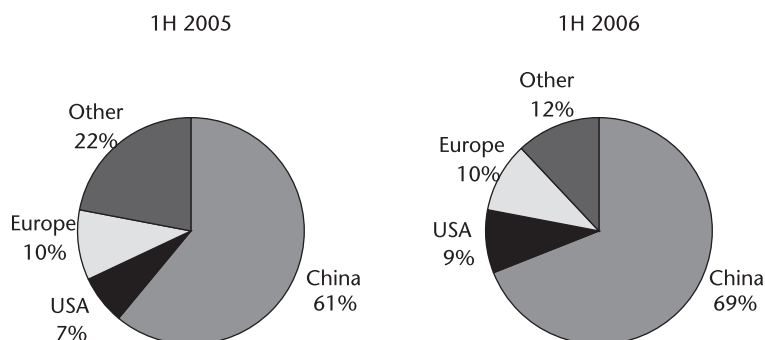


During the period under review, the proportion of revenue from handset component business increased due to substantial increase in sales of handset component products. Regarding the automobile business, after new model F3 was launched in the second half of last year, the automobile business recorded a strong growth in sales, creating a growth driver to the Group's turnover. Despite the more or less the same level of turnover contribution from the rechargeable battery business, the proportion of revenue from the rechargeable battery business decreased due to the substantial growth in the handset component business and the automobile business.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Set out below are the Group's turnovers in terms of geographical segments, as determined by location of its operations for the six months ended 30 June 2006 and 2005:

A breakdown of turnover in terms of geographical locations of customers and their proportion



Gross Profit and Margin

The Group's gross profit increased by approximately 72% to approximately RMB1,113,932,000 for the six months ended 30 June 2006. Gross profit margin dropped from 24.7% in 1H 2005 to 19.6% in 1H 2006. Decrease in gross profit margin was mainly brought about by (1) decrease in proportion of revenue from higher margined lithium-ion battery products, (2) sharp increase in cost of nickel battery production due to soaring of raw material prices, (3) production of one-stop handset component production and (4) increase in proportion of automobile sales.

Liquidity and financial resources

BYD generated net operating cash inflow of approximately RMB489,596,000 for the Period, compared with RMB800,268,000 for the six months ended 30 June 2005. Total borrowings as at 30 June 2006, including all bank loans were approximately RMB4,627,858,000, compared with approximately RMB4,024,693,000 as at 31 December 2005. The maturity profile spreaded over a period of eight years, with RMB3,057,318,000 repayable within one year, RMB450,000,000 in the second year, RMB400,000,000 within three to five years and RMB720,540,000 after five years. The increase in total borrowings was to fund numerous projects, R&D investment volume and enhance production capacity. The Group maintains adequate daily liquidity management and capital funding expenditure requirements to regulate internal operating cashflow.

Accounts receivable turnover days were about 65 days for the six months ended 30 June 2006 as compared to approximately 109 days for the six months ended 30 June 2005. Inventory turnover days decreased from 150 day for the six months ended 30 June 2005 to 98 days for the Period.

Capital Structure

The Group's treasury function is responsible for the Group's financial risk management which operates according to policies implemented and approved by top management. As at 30 June 2006, borrowings were primarily denominated in RMB and USD, while cash and cash equivalents were mainly denominated in RMB and USD. The Group's intentions to maintain an appropriate mix of financial equity and debt are to ensure an efficient capital structure during the Period. The loans outstanding as at 30 June 2006 are set out in Note 15 to the unaudited consolidated financial statements. The loans remaining outstanding as at 30 June 2006 were at fixed interest rates or floating interest rates for RMB loans and floating interest rates for foreign currency loans.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

USE OF IPO PROCEEDS

According to the Prospectus dated 22 July 2002, apart from the HK\$85,000,000 planned for product R&D and manufacturing of fuel cells and solar cells (HK\$870,000 utilised) and the HK\$189,000,000 planned for potential acquisition(s) not utilised, the rest of the proceeds of HK\$1,075,000,000 has been fully utilised.

EXPOSURE TO FOREIGN EXCHANGE RISK

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

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 30 June 2006, the Group had over 80,000 employees, representing an increase of 25,000 employees as compared with 31 December 2005. During the Period, total staff cost accounted for approximately 11% of the Group's turnover. Employee remuneration was determined based on performance, experience and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission were also awarded to employees, based on their annual performance evaluation. In addition, incentives and encouragement were offered for personal and career development.

SHARE CAPITAL

As at 30 June 2006, the share capital of the Company was as follows:

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

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares since the listing on 31 July 2002 and up to 30 June 2006. During the Period, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

CAPITAL COMMITMENT

Please refer to Note 20 to the unaudited consolidated financial statements for capital commitment.

CONTINGENT LIABILITIES

Please refer to Note 18 to the unaudited consolidated financial statements for contingent liabilities as at 30 June 2006.

SUPPLEMENTARY INFORMATION

Audit committee

The audit committee consists of three independent non-executive Directors and a non-executive Director. A meeting was convened by the Company's audit committee on 13 September 2006 to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control and risk management and financial reporting matters (including the financial statements for the six months ended 30 June 2006 before recommending them to the Board for approval).

Code for Securities Transactions by Directors

The Company has not adopted a code for securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiry made with Directors, the Company has confirmed that each of the Directors complied with the Model Code.

Compliance with the Code on Corporate Governance Practices under the Listing Rules

The Board is pleased to confirm that the Company has complied with the Code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules applicable during the Period, except for the following deviation:

Code A.2.1

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

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

Save as disclosed above, the Board is not aware of any other information indicating that the Company did not comply with the said Code on Corporate Governance Practices at anytime during the Period.

Disclosure of Information on the Stock Exchange's Website

This interim report is published on the website of the Stock Exchange (<http://www.hkex.com.hk>).

SUPPLEMENTARY INFORMATION

Directors', Supervisors' and Chief Executives' Interests

As at 30 June 2006, the interests and short positions of each of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange to be notified to the Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the supervisors) are as follows:-

Name	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued domestic shares %
<i>Domestic shares</i>			
Mr. Wang Chuan-fu	150,169,100 (L)	27.83	38.50
Mr. Lu Xiang-yang	107,755,600 (L)(note 1)	19.97	27.63
Mr. Xia Zuo-quan	32,888,700 (L)	6.10	8.43

(L) – Long Position

Note 1: This includes personal interest of 62,954,900 domestic shares representing approximately 16.14% of the Company's total issued domestic shares held by Mr. Lu and corporate interest held through Guangzhou Rongjie Investment Company Limited. Under the SFO, Mr. Lu is deemed to be interested in 44,800,700 domestic shares representing approximately 11.49% of the Company's total issued domestic shares which are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 84% by Mr. Lu.

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

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

Saved as disclosed above, as at 30 June 2006, none of the Directors, supervisors or the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUPPLEMENTARY INFORMATION

Shareholders with Notifiable Interests

As at 30 June 2006, so far as is known to the Directors of the Company, the following persons (other than the Directors, supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO (Cap.571 of the Laws of Hong Kong), or were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:-

Domestic shares of RMB1 each

Name	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued domestic share %
Guangzhou Rongjie Investment Company Limited (<i>note 1</i>)	44,800,700 (L)	8.30	11.49
Yang Long-zhong (<i>note 2</i>)	20,717,300 (L)	3.84	5.31

Notes:

1. Mr. Lu Xiang-yang, a director of the Company, is also deemed to be interested in 44,800,700 domestic shares representing approximately 11.49% of the Company's total issued domestic shares which are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 84% by Mr. Lu.
2. Mr. Yang Long-zhong is a senior management personnel responsible for sales function of the Group.

SUPPLEMENTARY INFORMATION

H shares of RMB1 each

Name	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued H shares %
The Capital Group Companies, Inc. (note 1)	8,570,600 (L)	1.59	5.73
JPMorgan Chase & Co. (note 2)	7,208,300 (L)	1.34	4.82
	5,478,300 (P)	1.02	3.66
FMR Corp (note 3)	12,000,000 (L)	2.22	8.03
Li Lu (note 4)	8,997,500 (L)	1.67	6.02
Franklin Templeton Investments Corp.	9,153,000 (L)	1.70	6.12
Sansar Capital Master Fund, LP	10,678,500 (L)	1.98	7.14
Fidelity International Limited	9,170,000 (L)	1.70	6.13
Templeton Global Advisors Ltd.	9,004,500 (L)	1.67	6.02

Notes:

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

The total issued share capital of the Company as at 30 June 2006 was RMB539,500,000, divided into 390,000,000 domestic shares of RMB1 each and 149,500,000 H shares of RMB1 each, all fully paid up.

(L) – Long Position, (S) – Short Position, (P) – Lending Pool

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period ended 30 June 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Notes	For the six months ended	
		30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
REVENUE	5	5,683,158	2,620,949
Cost of sales		<u>(4,569,226)</u>	<u>(1,972,454)</u>
Gross profit		1,113,932	648,495
Other income and gains	5	11,472	14,884
Research and development costs		(98,655)	(53,774)
Selling and distribution costs		(170,713)	(67,822)
Administrative expenses		(247,730)	(212,681)
Other operating (expense)/income, net		(21,721)	4,639
Finance costs	6	<u>(100,615)</u>	<u>(59,582)</u>
PROFIT BEFORE TAX	7	485,970	274,159
Tax	8	<u>(21,677)</u>	<u>(27,938)</u>
PROFIT FOR THE PERIOD		<u>464,293</u>	<u>246,221</u>
Attributable to:			
Equity holders of the parent		459,764	247,737
Minority interest		4,529	(1,516)
		<u>464,293</u>	<u>246,221</u>
Dividends		<u>—</u>	<u>—</u>
Earnings per share attributable to ordinary equity holders of the parent during the period (expressed in RMB)			
- basic	9	<u>0.85</u>	<u>0.46</u>
- diluted	9	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2006

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,815,679	5,263,643
Prepaid land lease payments		241,549	206,179
Goodwill		58,603	58,603
Other intangible assets		417,155	361,954
Deferred tax assets		40,708	30,976
Total non-current assets		<u>6,573,694</u>	<u>5,921,355</u>
CURRENT ASSETS			
Inventories	10	2,713,439	2,231,556
Prepayments, deposits and other receivables		642,891	274,488
Amount due from a related party	21	2,030	1,265
Trade and bills receivables	11	2,282,700	1,848,177
Derivative financial instruments	12	1,288	22,898
Restricted bank deposits	13	60,702	48,050
Cash and cash equivalents		768,629	682,129
Total current assets		<u>6,471,679</u>	<u>5,108,563</u>
CURRENT LIABILITIES			
Trade and bills payables	14	2,663,409	1,985,715
Accruals and other payables		704,702	407,764
Advances from customers		190,408	181,889
Tax payable		58,535	75,859
Interest-bearing bank borrowings	15	3,057,318	2,195,024
Derivative financial instruments	12	371	19,172
Provision for warranties	16	4,177	3,157
Total current liabilities		<u>6,678,920</u>	<u>4,868,580</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(207,241)</u>	<u>239,983</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,366,453</u>	<u>6,161,338</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	15	1,570,540	1,829,669
Net Assets		<u>4,795,913</u>	<u>4,331,669</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	17	539,500	539,500
Reserves		4,187,443	3,727,728
Minority interest		4,726,943	4,267,228
Total equity		<u>68,970</u>	<u>64,441</u>
		<u>4,795,913</u>	<u>4,331,669</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the parent									
	Issued capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Exchange fluctuation reserve	Proposed final dividend	Retained earnings	Total	Minority interest	Total equity
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
At 1 January 2005, as previously reported	539,500	1,523,080	178,247	66,131	1,392	311,292	1,424,850	4,044,492	59,198	4,103,690
Opening adjustment for adoption of HKFRS 3 - derecognition of negative goodwill	—	—	—	—	—	—	5,173	5,173	—	5,173
At 1 January 2005, as restated	539,500	1,523,080	178,247	66,131	1,392	311,292	1,430,023	4,049,665	59,198	4,108,863
Profit for the period	—	—	—	—	—	—	247,737	247,737	(1,516)	246,221
Acquisitions of equity interest in subsidiaries	—	—	—	—	—	—	—	—	(19,535)	(19,535)
Contribution by minority interest	—	—	—	—	—	—	—	—	25,681	25,681
Final 2004 dividends	—	—	—	—	—	(311,292)	—	(311,292)	—	(311,292)
Exchange realignment	—	—	—	—	55	—	—	55	—	55
At 30 June 2005	<u>539,500</u>	<u>1,523,080</u>	<u>178,247</u>	<u>66,131</u>	<u>1,447</u>	<u>—</u>	<u>1,677,760</u>	<u>3,986,165</u>	<u>63,828</u>	<u>4,049,993</u>
At 1 January 2006	539,500	1,523,080	217,897	85,956	1,494	—	1,899,301	4,267,228	64,441	4,331,669
Profit for the period	—	—	—	—	—	—	459,764	459,764	4,529	464,293
Exchange realignment	—	—	—	—	(49)	—	—	(49)	—	(49)
At 30 June 2006	<u>539,500</u>	<u>1,523,080</u>	<u>217,897</u>	<u>85,956</u>	<u>1,445</u>	<u>—</u>	<u>2,359,065</u>	<u>4,726,943</u>	<u>68,970</u>	<u>4,795,913</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	For the six months ended 30 June	
	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	489,596	800,268
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(897,826)	(1,072,761)
NET CASH INFLOW FROM FINANCING ACTIVITIES	494,779	429,267
NET INCREASE IN CASH AND CASH EQUIVALENTS	86,549	156,774
Cash and cash equivalents at beginning of period	682,129	682,540
Effect of foreign exchange rate changes, net	(49)	55
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	768,629	839,369
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	768,629	839,369

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 JUNE 2006

1. CORPORATE INFORMATION

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

The principal activity of the Company is research, development, manufacture and sales of rechargeable batteries, battery chargers, LCD and other electronic products. The Company's H shares have been listed on The Stock Exchange of Hong Kong Limited since 31 July 2002.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the six months ended 30 June 2006 of the Group have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These financial statements have been prepared under the going concern basis notwithstanding the net current liabilities of the Group as at the balance sheet date because the directors, having considered the current operation and business plan of the Group as well as the available banking facilities, are of the opinion that the Group will have sufficient working capital to enable it to operate as a going concern.

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except for the adoption of the amendments to Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) as disclosed in note 3 below.

3. IMPACT OF REVISED HKFRSs

HKICPA has issued a number of new and revised HKFRSs, which are generally effective for accounting period beginning on or after 1 January 2006. The Group has adopted the following revised HKFRSs which are pertinent to its operations and relevant to these unaudited condensed consolidated interim financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The adoption of these amendments has had no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements.

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

30 JUNE 2006

4. SEGMENT INFORMATION

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

(a) Business segments

The Group is principally engaged in three main business segments:

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

The following tables present revenue and profit for the Group's business segments for the six months ended 30 June 2006 and 2005:

For the six months ended 30 June 2006

	Battery and other products <i>(Unaudited)</i> <i>RMB'000</i>	Handset components <i>(Unaudited)</i> <i>RMB'000</i>	Automobile and related products <i>(Unaudited)</i> <i>RMB'000</i>	Total <i>(Unaudited)</i> <i>RMB'000</i>
Revenue	1,922,531	2,104,363	1,656,264	5,683,158
Segment results	192,102	281,831	112,652	586,585
Finance costs				(100,615)
Profit before tax				485,970
Tax				(21,677)
Profit for the period				464,293

For the six months ended 30 June 2005

	Battery and other products <i>(Unaudited)</i> <i>RMB'000</i>	Handset components <i>(Unaudited)</i> <i>RMB'000</i>	Automobile and related products <i>(Unaudited)</i> <i>RMB'000</i>	Total <i>(Unaudited)</i> <i>RMB'000</i>
Revenue	2,000,892	500,893	119,164	2,620,949
Segment results	382,858	25,327	(71,713)	336,472
Finance costs				(62,313)
Profit before tax				274,159
Tax				(27,938)
Profit for the period				246,221

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

30 JUNE 2006

4. SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The following table present revenue for the Group's geographical segments for the six months ended 30 June 2006 and 2005:

	For the six months ended	
	30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Revenue		
PRC	3,949,722	1,593,811
Europe	559,357	264,162
US	511,913	176,484
Others	662,166	586,492
	<u>5,683,158</u>	<u>2,620,949</u>

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue

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

Other income and gains

	For the six months ended	
	30 June 2006 (Unaudited) RMB'000	30 June 2005 (Unaudited) RMB'000
Sales of materials	—	6,529
Processing income	3,244	1,886
Bank interest income	5,711	3,186
Derivative instruments:		
- forward contracts: transactions not qualifying as hedges	917	3,208
Government grants	1,600	75
	<u>11,472</u>	<u>14,884</u>

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

30 JUNE 2006

6. FINANCE COSTS

	For the six months ended	
	30 June 2006	30 June 2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest expense on bank loans	93,942	46,739
Finance cost on bills discounted	3,916	7,896
Finance cost on trade receivables factored and other bank charges	2,757	4,947
	<u>100,615</u>	<u>59,582</u>

7. PROFIT BEFORE TAX

Profit before tax was determined after Charging /(Crediting) the following:

	Note	For the six months ended	
		30 June 2006	30 June 2005
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Cost of inventories sold		3,931,743	1,705,523
Sales of materials		3,692	—
Depreciation, amortisation and impairment expenses		278,521	179,754
Provision for/(reversal of) doubtful debts*		42,853	(6,431)
Provision against inventory obsolescence and net realisable value**		47,095	27,386
Directors' (including supervisors') emoluments		960	889
(Gain)/loss on disposal of items of property, plant and equipment*		(3,432)	8,862
Provision for warranties**	16	<u>5,929</u>	<u>3,027</u>

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

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

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

30 JUNE 2006

8. TAX

	For the six months ended	
	30 June 2006	30 June 2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation - Mainland China (note (a))	31,408	27,496
Deferred tax	(9,731)	442
	<u>21,677</u>	<u>27,938</u>

(a) 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.

9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2006 and 2005 are based on:

	For the six months ended	
	30 June 2006	30 June 2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings:		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	<u>459,764</u>	<u>247,737</u>

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

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

30 JUNE 2006

10. INVENTORIES

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,116,238	955,556
Work-in-progress	1,285,605	994,567
Finished goods	311,596	281,433
	<u>2,713,439</u>	<u>2,231,556</u>

11. TRADE AND BILLS RECEIVABLES

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	2,016,628	1,755,815
Bills receivables	467,540	257,338
Less: provision for impairment of receivables	<u>(201,468)</u>	<u>(164,976)</u>
Trade and bills receivables, net	<u>2,282,700</u>	<u>1,848,177</u>

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

The Group would generally grant a credit term from 0 to 120 days to its customers. At 30 June 2006 and 31 December 2005, the ageing analysis of the trade and bills receivables were as follows:

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months	1,963,760	1,537,434
4 to 6 months	291,556	229,284
7 to 12 months	27,220	78,898
Over 12 months	164	2,561
	<u>2,282,700</u>	<u>1,848,177</u>

The Group has provided RMB42,853,000 for the impairment of its trade receivables during the six months ended 30 June 2006 (2005: reversal of RMB6,431,000). This has been included in other operating expenses in the income statement.

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

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

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

30 JUNE 2006

12. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2006 <i>(Unaudited)</i> RMB'000	31 December 2005 <i>(Audited)</i> RMB'000
Forward foreign exchange contracts - held for trading		
Assets	1,288	22,898
Liabilities	371	19,172

13. RESTRICTED BANK DEPOSITS

Restricted bank deposits as at 30 June 2006 represented bank deposits amounting to RMB44 million (2005: RMB44 million) frozen for a litigation proceeding at period end (note 18(b)) and pledged deposit amounting to RMB17 million (2005: RMB4 million) placed with a bank as security against the issuance of certain letters of credit by that bank on behalf of the Group.

14. TRADE AND BILLS PAYABLE

At 30 June 2006 and 31 December 2005, the ageing analysis of the trade and bills payables were as follows:

	30 June 2006 <i>(Unaudited)</i> RMB'000	31 December 2005 <i>(Audited)</i> RMB'000
1 to 3 months	2,188,659	1,644,451
4 to 6 months	401,668	299,886
7 to 12 months	41,136	15,735
1 to 2 years	15,927	19,989
2 to 3 years	10,365	5,654
Over 3 years	5,654	—
	<u>2,663,409</u>	<u>1,985,715</u>

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

30 JUNE 2006

15. INTEREST-BEARING BANK BORROWINGS

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current:		
Long-term bank borrowings	2,086,810	1,846,457
Less: current portion of long-term borrowings	<u>(516,270)</u>	<u>(16,788)</u>
	<u>1,570,540</u>	<u>1,829,669</u>
Current:		
Short-term bank borrowings	2,541,048	2,178,236
Current portion of long-term borrowings	<u>516,270</u>	<u>16,788</u>
	<u>3,057,318</u>	<u>2,195,024</u>
Total borrowings	<u><u>4,627,858</u></u>	<u><u>4,024,693</u></u>
Within one year	3,057,318	2,195,024
In the second year	450,000	669,669
In the third to fifth years, inclusive	400,000	500,000
Beyond five years	<u>720,540</u>	<u>660,000</u>
	<u><u>4,627,858</u></u>	<u><u>4,024,693</u></u>

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

	30 June 2006	31 December 2005
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	4,103,746	3,504,135
US dollar	524,112	435,253
HK dollar	<u>—</u>	<u>85,305</u>
	<u><u>4,627,858</u></u>	<u><u>4,024,693</u></u>

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

30 JUNE 2006

16. PROVISION FOR WARRANTIES

	30 June 2006 <i>(Unaudited)</i> RMB'000	31 December 2005 <i>(Audited)</i> RMB'000
At beginning of period/year	3,157	4,969
Additional provisions	5,929	3,429
Amount utilised during the period/year	<u>(4,909)</u>	<u>(5,241)</u>
At end of period/year	<u>4,177</u>	<u>3,157</u>

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 RMB4,177,000 has been recognised at 30 June 2006 (31 December 2005: RMB3,157,000) 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 a year.

17. ISSUED CAPITAL

	30 June 2006 <i>(Unaudited)</i> RMB'000	31 December 2005 <i>(Audited)</i> RMB'000
Authorised: 539,500,000 (2005: 539,500,000) ordinary shares of RMB1 each	<u>539,500</u>	<u>539,500</u>
Issued and fully paid: 539,500,000 (2005: 539,500,000) ordinary shares of RMB1 each	<u>539,500</u>	<u>539,500</u>

18. CONTINGENT LIABILITIES

- (a) As at 31 December 2005, the Group had outstanding guarantee of bank loans for third parties with amount of RMB3,684,000. No balance was noted as at 30 June 2006.
- (b) The Group is involved in one litigation proceeding in Japan 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 RMB43,903,000 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.

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

30 JUNE 2006

19. OPERATING LEASE ARRANGEMENTS

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 <i>(Unaudited)</i> <i>RMB'000</i>	31 December 2005 <i>(Audited)</i> <i>RMB'000</i>
Within one year	1,597	2,595
In the second to fifth years, inclusive	67	2,651
	<u>1,664</u>	<u>5,246</u>

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital commitments:

	30 June 2006 <i>(Unaudited)</i> <i>RMB'000</i>	31 December 2005 <i>(Audited)</i> <i>RMB'000</i>
Contracted but not provided for		
Buildings	67,912	155,080
Machinery and equipment	309,883	602,765
	<u>377,795</u>	<u>757,845</u>

21. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties:

	30 June 2006 <i>(Unaudited)</i> <i>RMB'000</i>	31 December 2005 <i>(Audited)</i> <i>RMB'000</i>
Due from a director	<u>2,030</u>	<u>1,265</u>

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

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

30 JUNE 2006

21. RELATED PARTY TRANSACTIONS (cont'd)

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

	For the six months ended	
	30 June 2006	30 June 2005
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short term employee benefits	958	884
Post-employment benefits	2	5
	<u>960</u>	<u>889</u>

22. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current period's presentation.

23. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 13 September 2006.



BYD COMPANY LIMITED
比亞迪股份有限公司