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

Green Tech
for Tomorrow

ANNUAL REPORT 2008 年年報

Company Profile

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

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

As a one-stop handset component supplier, the Group produces quality handset components, such as plastic cases, key-pads, LCD screens, flexible printed circuit boards as well as camera modules and provides handset assembly service. The Group successfully spun off BYD Electronic (International) Company Limited ("BYD Electronic") for a separate listing on the Main Board of Hong Kong Stock Exchange on 20 December 2007.

Since tapping into the automobile business in 2003, BYD achieved remarkable growth. Leveraging on its international quality and superior value for money products, the Group's F3 series model became one of the best selling national brand automobiles in China.

The Group launched F3DM by the end of 2008 which is the first dual mode vehicle with no reliance of specialized charging stations. Besides, in September of the same year, MidAmerican Energy Holdings Company, a subsidiary of Berkshire Hathaway entered into an agreement with the Company, pursuant to which MidAmerican Energy Holdings Company agreed to acquire approximately 10% of BYD's equity interest, equivalent to approximately HK$1.8 billion, in order to become the Group's long term strategic partner and further propel the Group to develop new energy vehicles and other environmentally friendly products. Such subscription is subject to the approval of relevant government or regulatory organisation.

公司簡介

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

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

作為一站式手機部件供應商,本集團生產各種優質的手機零部件,包括塑膠外殼、手機鍵盤、液晶顯示屏、柔性線路板及相機攝像頭等,並提供手機組裝服務。於二零零七年十二月二十日,集團成功分拆比亞迪電子(國際)有限公司(「比亞迪電子」)於香港聯交所主板獨立上市。

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

集團於二零零八年末推出F3DM,是全球第一款不依賴專業充電站的雙模汽車。此外,同年九月,Berkshire Hathaway(巴郡-哈撤韋公司)旗下附屬公司MidAmerican Energy Holdings Company(中美能源控股公司)與本公司簽訂協議,同意認購本公司一成股權,相等於約港幣18億元,意欲成為集團的長期投資戰略夥伴,以推動旗下的新能源汽車及環保產品。該認購尚待相關政府或監管機構批准。

Contents

Financial Highlights

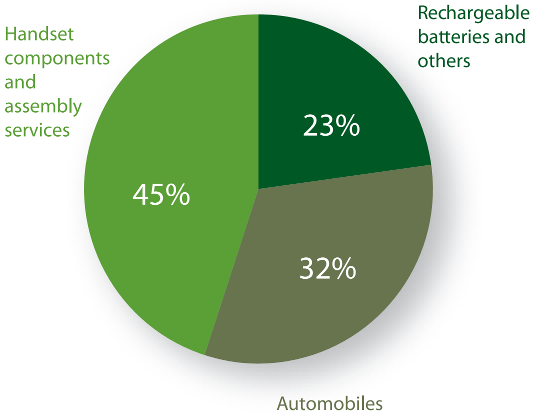
Five-year Comparison of Key Financial Figures

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**26,788,253**	21,211,213	12,938,917	6,498,330	6,425,753
Gross profit	**5,218,836**	4,247,687	2,738,183	1,454,545	1,704,890
Gross profit margin (%)	**19**	20	21	22	27
Profit attributable to equity holders of the parent	**1,021,249**	1,611,711	1,117,334	503,013	994,190
Net profit margin (%)	**4**	8	9	8	15

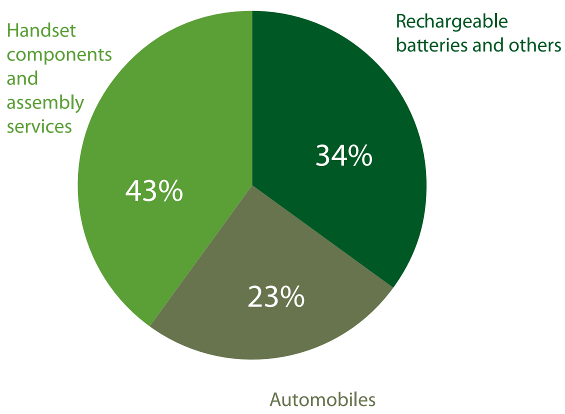
	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net assets (less minority interests)	**11,285,568**	10,708,118	5,292,464	4,175,309	3,978,310
Total assets	**32,891,145**	29,288,491	16,386,781	11,213,354	8,737,676
Gearing ratio (%) (Note)	**66**	24	77	79	60
Current ratio (times)	**1.04**	1.05	0.85	1.05	1.00
Trade and bills receivables turnover (days)	**75**	73	72	106	97
Inventory turnover (days)	**97**	83	96	135	91

Note: Gearing ratio = Total borrowings net of cash and cash equivalents/net assets (less minority interests)

Turnover Breakdown by Product Categories

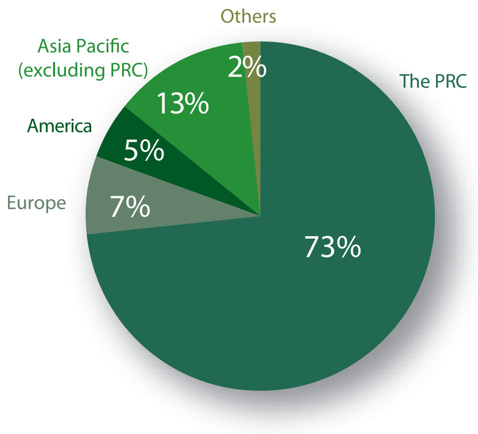


2008

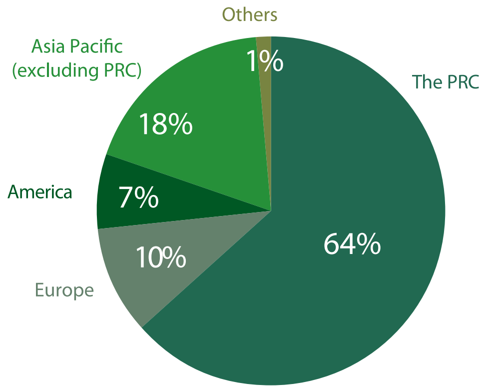


2007

Turnover Breakdown by Location of Customers



2008



2007

Corporate Information

Executive Director

Wang Chuan-fu

Non-executive Directors

Lu Xiang-yang
Xia Zuo-quan (Re-designated from executive director to non-executive director on 20 March 2008)

Independent Non-executive Directors

Kang Dian (resigned on 10 June 2008)
Li Dong (appointed on 20 March 2008)
Li Guo-xun (resigned on 20 March 2008)
Lin You-ren
Wu Chang-qi (appointed on 10 June 2008)

Supervisors

Dong Jun-qing
Li Yong Zhao (appointed on 10 June 2008)
Min De (resigned on 10 June 2008)
Wang Zhen
Yan Chen (appointed on 20 March 2008)
Zhang Hui-bin (appointed on 20 March 2008)

Company Secretary

Wu Jing-sheng

Audit Committee

Lu Xiang-yang
Li Dong (Chairman)
Lin You-ren
Wu Chang-qi

Remuneration Committee

Wang Chuan-fu
Xia Zuo-quan
Li Dong
Lin You-ren
Wu Chang-qi (Chairman)

Nomination Committee

Wang Chuan-fu
Lu Xiang-yang
Li Dong
Lin You-ren (Chairman)
Wu Chang-qi

Strategy Committee

Wang Chuan-fu (Chairman)
Lu Xiang-yang
Xia Zuo-quan
Wu Chang-qi

Authorized Representatives

Wang Chuan-fu
Wu Jing-sheng

Legal Address

Yan An Road
Kuichong
Longgang District
Shenzhen
Guangdong Province
The PRC

Independent International Auditors

Ernst & Young

Place of Business in Hong Kong

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

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Investor and Media Relations Consultant

iPR Ogilvy Ltd.
Tel: (852) 2136 6185
Fax: (852) 3170 6606

Website

www.byd.com.cn

Stock Code

1211

Chairman's Statement

Dear shareholders,

On behalf of the Board of Directors (the "Board") of BYD Company Limited ("BYD" or the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the annual report of the Group for the year ended 31 December 2008 (the "Year").

2008 was a year of extreme turbulence around the globe. The United Stated sub-prime loan crisis triggered an unprecedented financial tsunami across the world. Global economic growth experienced an instant decline, together with the impact from severe natural disasters and the post-Olympics effect, the pace of economic growth in China was slackened. During the Year under review, despite facing sudden changes in the operating environment, the overall business performance of the Group remained satisfactory. Although the rechargeable battery business was affected by market conditions and recorded a slight decline, the handset component business and assembly services recorded significant growth, while the automobile business continued to achieve outstanding performance under the slow down of market growth. For the year of 2008, turnover of the Group was approximately RMB26,788 million, representing a year-on-year increase of 26%. Profit attributable to equity holders decreased by 37% to RMB1,021 million. The Board of Directors did not recommend paying any dividend for the Year ended 31 December 2008.

Although the overall performance of the rechargeable battery business slightly declined as compared with 2007, BYD continued to maintain its global leading position in rechargeable batteries. During the Year, facing a slowing growth of the global handset market, performance of the lithium-ion battery business was worsened significantly in the fourth quarter and the overall business performance of lithium-ion batteries for the full year was affected. Nevertheless, the Group remained firm in its global leading position, continued to capture major market shares and actively explored new business areas. The business of nickel batteries was affected by the economic downturn in the United States. The overall market for power tools was trimmed, creating pressure on sales volume. Nonetheless, being the top global supplier of nickel batteries, BYD maintained leading market shares and high gross profit margin amid the declining sales.

For handset components, facing the adverse market condition during the Year, all handset manufacturers strived to boost sales and to capture market shares of other players by cutting price, creating pressure directly on the upstream manufacturers of handset components. Nevertheless, for one-stop handset component suppliers who are equipped with high capability of vertical integration and ownership of global manufacturing and service platforms, such adversity of market condition gave rise to good opportunities to foster closer cooperation with international leading handset brands. During the Year, the Group implemented the operational strategy of providing one-stop vertically integrated supply services of handset components to customers. In addition to the provision of diversified handset components, operation of assembly services and ODM services were further expanded, driving growth of the handset component business against the adverse environment.

In 2008, the growth in production and sales volume of automobiles in the domestic market slowed down notably. Nevertheless, the automobile business of the Group outshined others and achieved breakthrough development. The primary model of F3 series continued to be one of the best selling automobiles, while the medium to high end commercial sedan F6 model and the economy car model of F0 series were launched in the market one after the other during the Year, enriching the product lines of the Group. Moreover, the long waited world's premiere epochal new energy Dual Mode (DM) electric car F3DM was officially launched on 15 December 2008 and further reinforced the position of the Group as a technology-innovative domestic automobile enterprise. The launching of F3DM automobiles fully addressed the highly concerned global warming environmental issues of the world, new energy and environmental friendly electric automobiles will also be the global trend in future. During the Year, MidAmerican Energy Holdings Company, a subsidiary of Berkshire Hathaway entered into an agreement with the Company, pursuant to which MidAmerican Energy Holdings Company agreed to inject capital to the Company. The subscription is subject to the approval of the relevant government or regulatory organisation. This would be favourable in driving global sales of the environmental friendly and energy saving automobiles of BYD and its other environmental products, further enhancing the confidence of investors in BYD.

2009 would be a year full of challenges. The impact of the financial tsunami on the global economy will persist, global handset and consumer industries are facing the severe challenge of market contraction. Facing such an unfavourable market environment, BYD will continue to implement its development strategies by enhancing the research and development capabilities of products, focusing on cost reduction and enhancing competitiveness, in order to strengthen its global leading position of the rechargeable batteries and to become the global leading supplier of handset components and assembly services. Facing the existing tough condition in the domestic automobile market, capitalising on the competitive advantages in the automobile industry, high value for money of its products, advanced production technology and the Group's strong research and development capabilities in batteries and automobiles, as well as taking advantage of the proposal to support the automobile industry by the Chinese government and the downward adjustment of raw material costs due to the contraction of macro economy, the Group expects to maintain the good prospect for growth in 2009 and to establish a solid foundation for BYD to become an automobile leader in China and around the world in 2015 and 2025 respectively.

BYD strongly believes we are part of the local community and should make contribution to the sustained development of the place no matter where we operate our business. This social responsibility has been deeply rooted in the corporate culture of the Group. During the year, the Group proactively participated in community events such as disaster relief and salvage, offering subsidies for education, social construction and supporting cultural and sport activities.

BYD is proud of being able to contribute to the society by leveraging on its strengths. Following the occurrence of the strong earthquake in Wenchuan, Sichuan that shocked the world, the Company took immediate action to donate cash amounting to RMB10 million and provided 1,000 screw jacks urgently required by the disaster areas. After that, the Company organized various donations of funds and materials by its staff to show their care and paid close attention to changes in the situation of the disaster and living conditions of people in the disaster areas and assisted in disaster relief. The Company also made an arrangement for some children who were unable to go to school in the disaster areas to join classes at the Shenzhen Yadi School and offered jobs for some people in the disaster areas to work in BYD. With its outstanding contribution in the earthquake relief work, BYD was awarded "First Pengcheng Charity Prize – Charitable Enterprise Prize" ("首屆鵬程慈善獎－慈善企業獎") of Shenzhen City and 及 "Earthquake Relief Donation Special Prize" ("抗震救災捐贈特別獎") of Shenzhen City and won extensive recognition from the society.

Undertaking the responsibility of a good corporate citizen is a corporate culture upheld by all staff of BYD. Such spirit required strong support from the management and efforts of our colleagues to implement it. BYD will carry out its social responsibility as an important content of its corporate spirit and persist in the mission of making contribution to the society and being enthusiastic in commonweal, thereby contributing efforts it shall make to the social development of the PRC.

Finally, on behalf of BYD, I would like to thank our loyal customers, business partners, investors and shareholders for their support and trust in our Group. And I would also like to thank all the staff members for their unity in supporting the Group during tough times and their diligent contributions during the Year. BYD is determined to overcome all the challenges ahead, achieve remarkable accomplishments in all business areas over its counterparts, thereby creating maximum returns for our shareholders.

Wang Chuan-fu
Chairman

Shenzhen, the PRC, 27 March 2009

Gaining Momentum

Operating Environment Review

The year ended 31 December 2008 ("the Year") was a tough year for the handset industry. Unprecedented global financial crisis and significant economic downturn which weakened consumers' confidence and consumption power has taken a heavy toll on the handset industry. According to estimated data from leading manufacturers in the industry, market demand for handsets declined substantially starting from the second half of 2008, especially in the fourth quarter, when the industry recorded negative growth. During the Year, the output of handsets was approximately 1,213 million units, up approximately 8.3% from approximately 1,120 million units in 2007. Intensive market competition and sustained operating pressure fueled the industry consolidation, in which only manufacturers with strong cost competitiveness and sound customer relationship could win. In the face of rapid product obsolescence and increasingly prominent price sensitivity, coupled with pressure of raw materials, labour costs and financing costs, international leading handset brands implemented more stringent production cost control and prudent selection of suppliers, with an aim to enhance the competitiveness of product price and increase their market shares. Therefore, for "one stop" suppliers with highly vertically integrated capabilities and global production and service platforms, the current market environment represents a good opportunity for further cooperation with international leading handset brands.

In the automobile market, due to global financial crisis which tightened the economy, domestic macro economic environment also experienced a certain degree of change. Influenced by a series of factors such as natural disasters, generally depressed global stock markets and domestic implementation of exhaust discharge standards, growth in annual production and sales volumes in China's automobile market slowed down significantly, while growth potential of export was also inhibited. According to the China Association of Automobile Manufactures, in 2008, aggregate production and sales volumes of the automobile market in China were approximately 9.345 million vehicles and approximately 9.38 million vehicles respectively, representing a year-on-year increase of approximately 5.2% and 6.7% respectively, a significant slowdown in growth rate. Of these, sales of sedans exceeded approximately 5.047 million units, representing a year-on-year increase of approximately 6.8%. Domestic brands accounted for approximately 26% of the total sales volume of sedans and continued to occupy a major position in the market.

Business Review

The two principal businesses of BYD Company Limited ("BYD" or the "Group") comprise the IT parts business and the automobile business. The IT parts business mainly consists of the rechargeable battery business and the handset components and assembly services. During the Year, with the slackening global handset market, the rechargeable battery business of the Group showed a slight decline, while its handset components and assembly services recorded a strong growth. During the Year, despite a slowdown in automobile market growth, the automobile business continued to achieve outstanding performance and brought encouraging income and profit contributions to the Group.

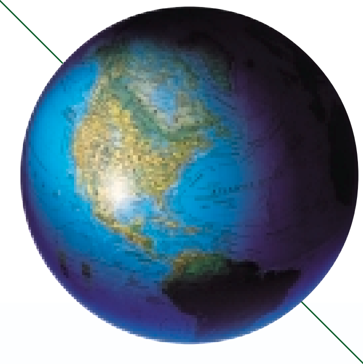
IT Parts — Rechargeable Batteries

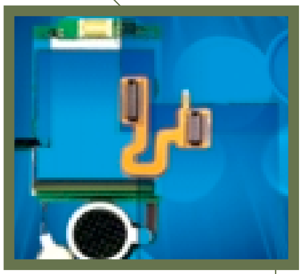
During the Year, although BYD recorded a slight decline in the sales of rechargeable batteries due to the global economic crisis, the Group continued to maintain its leading position in the rechargeable battery market. During the Year, sales of rechargeable batteries and other related products was approximately RMB6,208 million, representing a year-on-year decrease of approximately 13%. Rechargeable batteries consist of lithium-ion batteries and nickel batteries. Sales of lithium-ion batteries amounted to approximately RMB3,937 million, basically in line with the previous year. Affected by the US economy and the sluggish power tool market, the sales of nickel batteries went down to approximately RMB2,204 million, representing a year-on-year decrease of approximately 26%.

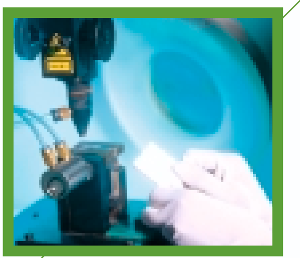
During the Year, the Group strengthened its strategic partnership with leading global handset manufacturers. For the first three quarters, the Group's lithium-ion battery business continued to achieve satisfactory growth. However, in the fourth quarter, due to a dramatic decline in global demand for handsets, coupled with the inventory reduction of handset manufacturers, the Group's lithium-ion battery business declined significantly. Leveraging on its consistent supply of quality products and cost-effectiveness, the Group managed to maintain its leading position and market shares in the slackening market. Meanwhile, the Group also actively expanded to new business areas by gradually making inroads to the development and application of notebook batteries, network energy and solar energy batteries.

The weak US economy which squeezed the size of the power tool market, sales volume of nickel batteries recorded a decline during the Year. Nevertheless, being a top global manufacturer of high-quality nickel batteries with considerable pricing power, the Group managed to maintain its leading position and market shares. The Group was able to retain the gross profit margin despite of decreasing sales. On the other hand, the Group also strived to enhance its market competitiveness during the year through measures such as continuous optimization of cost structure to partially offset the adverse effect of high raw material prices on profits.

Empower
Globally







IT Parts – Handset Components and Assembly Services

During the Year, the Group continued to provide customers with one-stop vertically integrated supply services. The Group's handset components and assembly services recorded sales of approximately RMB11,933 million, representing a year-on-year increase of approximately 30%. In which, the sales from BYD Electronic (International) Company Limited ("BYD Electronic") amounted to approximately RMB8,555 million (including its sales to the Group), representing an increase of approximately 48% as compared to 2007. The primary business of BYD Electronic includes the manufacture and sales of handset components (including handset casings and keypads) and modules incorporated with mechanical components such as handset casing, microphones, connectors and other handset assembly parts, and the provision of two types of assembly services, including high-level assembly service and PCB assembly service. As BYD Electronic expanded its assembly services, the sales of the assembly services surged more than double during the Year as compared with 2007.

Apart from the handset components and assembly services undertaken by BYD Electronic, the Group's handset component business also includes production of LCD screens, flexible printed circuit boards, handset camera modules and chargers. During the Year, sales of non-BYD Electronic handset components amounted to approximately RMB3,423 million, basically in line with 2007. During the Year, there was a substantial change in the Group customer profile after an active exploration of new customers. As a result, many handset components had entered the supply chain of famous international handset brands, gaining larger proportion to the total income.

Automobile Business

Despite the weakened consumption market, the Group continued to strengthen product research and development riding on its cost effective production system and refining product lines, thereby further enhanced its market image and position in the industry. During the Year, the turnover of the automobile business was approximately RMB8,646 million, representing a year-on-year increase of approximately 77%.

Striving Excellence

The output of automobile amounted to approximately 170,000 units, doubling year-on-year. In which, the F3 model continued to maintain outstanding sales performance in the market and recorded an annual output of 140,000 vehicles, a year-on-year increase of over 60%. It was one of the top ten models of sedan for several consecutive months in terms of monthly sales and the best selling model of self-owned brand of sedan. At the end of March 2008, the F6 model, BYD's first model of mid- to high- end sedan, was officially launched throughout the nation. Targeting at mid to high-end markets, the new F6 model with its high quality and value for money better fulfills the requirements of consumers for mid to high-end sedan no matter in details, operation and comfort. Furthermore, the Group launched the F0 series economy model in September targeting the low displacement vehicle market. Offering an option of higher value for money vehicle to customers under the current market condition, the F0 model was well-received after launching, and has once been ranked among the top ten brands of sedan in terms of monthly sales. Apart from traditional vehicles, the long-awaited dual mode F3DM, the world's first new energy vehicle with no reliance of specialized electric charging stations, was officially launched on 15 December 2008. This dual mode vehicle has incorporated the most sophisticated technologies in automobile manufacturing, batteries application, engineering system and the technology of vehicle containing batteries, symbolizing a paradigm of energy saving, environmental protection, fashion and high technology.

Share Subscription from a Strategic Investment Partner

In September 2008, MidAmerican Energy Holdings Company, a subsidiary of Berkshire Hathaway, entered into a strategic investment and subscription agreement with BYD. Pursuant to the agreement, MidAmerican Energy Holdings Company subscribed for 225 million shares (representing 9.89% of the enlarged share capital) in BYD at HK$8 per share with a total consideration of HK$1.8 billion. Moreover, MidAmerican Energy Holdings Company has nominated Mr. David Sokol, chairman of MidAmerican, as non-executive director of BYD. The subscription is subject to the approval of the relevant government or regulatory organisation. This long-term investment from strategic partner helps promote global sales of BYD's new energy vehicles and other environmental protection products, and further strengthen the confidence of investors in BYD. For details, please refer to the announcements issued by the Company on 29 September 2008 and 26 March 2009 respectively.

Future Prospects and Strategies

IT Parts — Rechargeable Batteries

Looking forward, the global financial tsunami will continue to affect the world's economy and the global handset industry will face unprecedented challenges. Moreover, the demand for power tools in the US market will be further weakened. These factors are going to affect the Group's rechargeable battery business to a certain extent. Nevertheless, capitalizing on its leading position in the global rechargeable battery market for years, its strong research and development capabilities and competitive pricing strategies, the Group aims to maintain a steady development in the challenging market conditions. The Group will adhere to its policy of supplying quality products further diversify applications of battery products, explore new business areas and strengthen cost control, so as to capture a greater market share and consolidate its leading position in the rechargeable battery market.

IT Parts – Handset Components and Assembly Services

The tightened macro economy brought by the global financial crisis has intensified the market consolidation, the handset manufacturers of various brands will therefore reduce the production volume which driving the decline in demand for handset components and assembly services. The Group believes that the adjustment of the handset industry will provide more business opportunities and room for development. The Group's cost and price advantages, effective quality control and well-established relationship with customers will assist the Group to stand out from the others amid the keen competition in the future. Capitalising on the Group's sophisticated equipment research and development capabilities, mould tooling capabilities and workflow design capabilities as well as advanced factory management capabilities, the Group is able to decrease its production costs effectively and improve its product quality. The strategy of vertical integration enables us to provide one-stop services, which greatly satisfies customer needs and ensures the increase in customer orders as well as market shares. Furthermore, the cost pressure on the Group will be released in the future as the price of raw materials declines and the appreciation of Renminbi slows down. As a consistent development strategy and objective, the Group strives to develop an integrated global platform for production and services, so as to further enhance its market position and become a leading global supplier of handset components and assembly services.

Automobile Business

Being a driving force of the national economy, the development of automobile industry has been included as an important measure to stimulate the economy in the PRC in 2009. Therefore, a series of measures to stimulate the automobile industry development have been promulgated accordingly. Confronting the domestic and foreign economic conditions together with the supporting measures by the PRC government, the growth of domestically manufactured automobiles of self-owned brand, small displacement vehicles and new energy vehicles maybe significantly exceed the average level of the industry. Relying on the high performance-price ratio automobile products and the existing enhanced branding position, it is anticipated that the Group will continue to maintain a rapid growth rate in 2009, further enhancing its competitiveness and position in the industry. The tightened macro economy will provide room for downward pricing adjustment of raw materials, in particular the price of steel. In addition, the completion of the new R&D and production bases for automobiles in Pingshan, Shenzhen, will enable the Group to benefit from economies of scale, thereby enhancing the Group's profitability.

As a leading manufacturer of automobiles of self owned brand powered by new energy, the Group launched the first dual mode vehicle with no reliance of specialized charging stations by the end of 2008, and received extensive honors and expectations from the industry. The Group will actively engage in various cooperation projects of the commercial use of DM vehicles, expand the production capacity of new energy automobile and actively explore overseas markets. National plans for promoting the automobile industry will provide a large amount of subsidies, which could be used to improve the relevant infrastructure and fuel the rapid growth of Group's new energy automobiles. BYD will continue to follow the development path of "self research and development, self production and self owned brand", launch diversified quality products with competitiveness and focus on enhancing brand awareness and reputation. The Group aims to become a leading manufacturer of traditional and new energy automobilies in the world.

Proposed Issue of A Shares

The Company issued an announcement on 28 January 2008, proposing the issue and allotment of not more than 58,500,000 A Shares (taking into no account of the bonus issue ("Bonus Issue")) or not more than 222,300,000 A Shares (on the basis that the Bonus Issue is completed and a total of 1,510,600,000 Bonus Shares are issued), subject to the approval from the relevant regulatory authorities. The proposed issue of A shares has been approved by the shareholders of the Company at the SGM, domestic class meeting and the H shares class meeting held on 20 March 2008. The Group considers that the issue of A Shares will provide a new financing platform for BYD, thereby strengthening its business development and further enhancing its competitiveness. However, due to poor performance of the A Share market during the Year, the Group has not yet completed the plan for issuing A Shares. The approval granted at the SGM has expired on 19 March 2009. The Group will identify appropriate opportunities in future and seek approval from Shareholders for A Share issue.

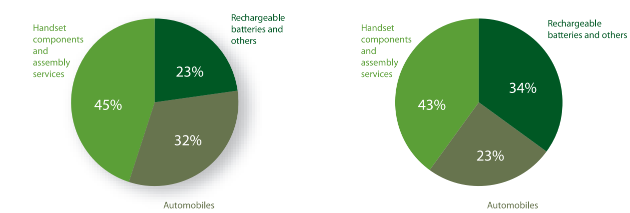
Financial Review

Turnover and Profit attributable to Equity Holders

During the Year, turnover remained increase as compared with 2007. Turnover brought by the rechargeable battery business was basically in line with the previous year, while handset components and assembly business and automobile business recorded satisfactory growth during the Year. And profit attributable to equity holders of the parent decreased year-on-year, which was mainly attributable to the decrease in the gross profit margin of the Group, an increase in research costs and administrative expenses, and the appreciation in Renminbi, etc.

Segmental Information

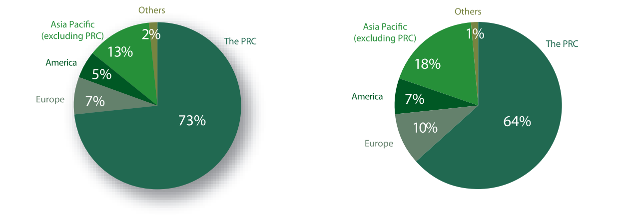
The table below sets out comparisons of the Group's turnover by product category for the years ended 31 December 2007 and 2008:



2008 2007

During the Year, the proportion of the three major businesses to the overall turnover changed when compared with the corresponding period of 2007. The change was mainly due to the substantial growth in the handset components and assembly services and the automobile business, which contributed to the slight increase in proportion of the two businesses to the overall turnover.

The table below sets out comparisons of the Group's geographical segments by customer location for years ended 31 December 2007 and 2008:



2008 2007

Gross Profit and Margin

During the Year, the Group's gross profit increased by approximately 23% to approximately RMB5,219 million. Gross profit margin decreased slightly from approximately 20% in 2007 to approximately 19% in 2008. The decrease in gross profit margin was mainly due to: (1) income from the handset components and assembly services which had lower gross profit margin, the proportion of which to the overall income increased significantly during the year; (2) decreased gross profit margin of handset component business as a result of unfavorable factors such as high price of raw materials, volatile exchange rates and Renminbi appreciation, which offset the increase in gross profit from the lithium-ion battery business and the automobile business.

Liquidity and Financial Resources

During the Year, BYD generated operating cash inflow of approximately RMB1,816 million, compared with RMB1,747 million for 2007. Total borrowings as at 31 December 2008, including all bank loans and bank advances, were approximately RMB9,162 million, compared with approximately RMB8,124 million as at 31 December 2007. The maturity profile spread over a period of ten years, with approximately RMB4,371 million repayable within one year and approximately RMB1,720 million in the second year, approximately RMB2,207 millon within three to five years and approximately RMB864 million over five years. The increase in total borrowings was due to the increase in the number of new projects, research and development expenses and production capacity. The Group maintained adequate daily liquidity management and capital funding expenditure requirements to regulate internal operating cashflow.

The turnover days of trade and bills receivables were about 75 days for the year ended 31 December 2008 as compared to approximately 73 days for the year ended 31 December 2007. The slight increase in the turnover days of trade and bills receivables was mainly attributable to the increase in automobile business resulting in higher growth of year end bills receivables as compared to the same period of the previous year. Inventory turnover days increased from 83 days for the year ended 31 December 2007 to 97 days for the year ended 31 December 2008. The increase in inventory turnover days was mainly attributable to the increase in the inventory reserves at the end of the year to meet the demand from markets and customers.

Capital Structure

The Group's treasury department is responsible for the Group's financial risk management which operates according to policies implemented and approved by top management. As at 31 December 2008, borrowings were primarily denominated in Renminbi and US dollar, while cash and cash equivalents were primarily denominated in Renminbi and US dollar. The Group intended to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure during the Year. The loans remaining outstanding as at 31 December 2008 were set out in the face of the consolidated accounts. The loans remaining outstanding as at 31 December 2008 were at fixed interest rates or floating interest rates for Renminbi loans and foreign currency loans.

Exposure to Foreign Exchange Risk

Most of the Group's income and expenditure are denominated in Renminbi and US dollar. During the Year, the Group has not experienced any significant difficulties in its operations or liquidity due to fluctuations in currency exchange rates. The directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt applicable measures to prevent exposure to exchange rate risk.

Employment, Training and Development

In 2008, the Group had over 130,000 employees, an increase of approximately 10,000 employees compared with that in 2007. During the Year, total staff cost accounted for approximately 14% of the Group's turnover. Employees remuneration was determined based on performance, experience and prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commission were also awarded to employees, based on their annual performance evaluation. Incentives were offered to encourage personal and career development.

Share Capital

As at 31 December 2008, the share capital of the Company was as follows:

	Number of shares issued	Percentage (%)
Domestic shares	1,482,000,000	72.29
H shares	568,100,000	27.71
Total	2,050,100,000	100.00

Purchase, Sale or Redemption of Shares

The Company has not redeemed any of its shares during the period from 1 January 2008 to 31 December 2008. During the Year, neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares.

In July 2008, BYD Electronic, a subsidiary of the company, purchased and canceled 18,237,000 shares of its ordinary shares on the Stock Exchange of Hong Kong Company Limited.

Capital Commitment

Please refer to note 38 to the financial statement for details of capital commitments.

Contingent Liabilities

Please refer to note 36 to the financial statement for details of contingent liabilities.

Post Balance Sheet Events

Please refer to note 42 to the financial statement for details of post balance sheet events.

Litigation

The Group was involved in a legal action commenced by certain affiliates of Foxconn International Holdings Limited as plaintiffs in the Intermediate People's Court of Shenzhen regarding alleged unauthorized use of confidential information. Such legal action has been withdrawn by the plaintiffs and is now discontinued. The direct investigation on the Company conducted by Shenzhen Public Security Bureau, Baoan Branch ("Shenzhen Public Security Bureau") on request by the affiliates of Foxconn International Holdings Limited has also been withdrawn by the Shenzhen Public Security Bureau since there have been material changes in the evidence concerning the case. Please refer to the announcements dated 14 March, 11 April and 2 December 2008 of the Company for details.

The legal action against the Company and its subsidiaries commenced by the same parties at the High Court of Hong Kong Special Administrative Region ("High Court") in October 2007 relating to the same allegations ("October 2007 legal action") is still ongoing. The Group will continue to defend the case vigorously. For details please refer to the announcement dated 30 June 2008 of the Company.

Directors, Supervisors and Senior Management

Executive Director

Wang Chuan-fu

Mr. Wang, aged 43, president of the Company, is a senior engineer. Mr. Wang was appointed as an Executive Director and Chairman of the board of directors with effect from 11 June 2002. He is responsible for overseeing the general operation of the Group and determining the business strategies for the Group. He graduated from 中南工業大學 (Central South Industrial University of Technology) (currently Central South Industrial University) in the PRC in 1987, with a bachelor degree major in metallurgy physical chemistry, and from 北京有色金屬研究總院 (Beijing Non-Ferrous Research Institute) in the PRC in 1990 with a master degree major in metallurgy physical chemistry. He held the position of vice supervisor in 北京有色金屬研究總院 (Beijing Non-Ferrous Research Institute) from 1990 to 1995. From June 1993 to November 1994, he held the position of general manager in 深圳市比格電池有限公司 (Shenzhen Bi Ge Battery Co. Limited). In February 1995, he founded 深圳市比亞迪實業有限公司 (Shenzhen BYD Battery Company Limited) ("BYD Industries") with Mr. Lu Xiang-yang and Mr. Xia Zuo-quan and took the position of chairman. Due to the prominent operating results of BYD Industries and 深圳市比亞迪鋰電池有限公司 (Shenzhen BYD Lithium Battery Company Limited), he was awarded with — 深圳市青年科技專家－中銀集團獎 (Bank of China Group Award of Young Technology Expert in Shenzhen), the first prize of 彭年科技獎 (Pengnian Technology Medal), 鵬城青年創造勳章 (Pengcheng Young Creative Medal). Mr. Wang, being a technology expert, enjoyed special allowances from the State Council, and was elected the Deputy of the Shenzhen Municipal People's Congress in March 2000. In 2002, he was awarded with 紫荊花傑出企業家獎 (Bauhinia Cup Outstanding Entrepreneur Award) in Hong Kong. In June 2003, he was awarded Star of Asia by BusinessWeek. On 4 November 2004, he was awarded with 二零零四年深圳市市長獎 (Mayor award of Shenzhen in 2004) by the Shenzhen Municipal Government. In May 2005, he was elected member of the Standing Committee of the Shenzhen Municipal People's Congress. Mr. Wang was awarded "The 2008 CCTV Man of the Year China Economy Innovation Award" in January 2009. He is a non-executive director and the chairman of BYD Electronic (International) Company Limited (Stock Code: 285).

Non-executive Directors

Lu Xiang-yang

Mr. Lu, cousin of Mr. Wang, aged 47, was appointed as a Non-executive Director and the Vice Chairman with effect from 11 June 2002. Mr. Lu worked at 中國人民銀行巢湖中心分行 (Chaohu Centre Branch of the People's Bank of China) from 1978 to 1992. In 1993, he founded 廣州新科學實業有限公司 (Guangzhou New Science Industrial Company Limited) and held the position of Chairman and General Manager respectively. In 1995, he established 廣州融捷投資管理集團有限公司 (Guangzhou Rongjie Investment Company Limited) and took the position of Chairman till now. In 1995, he founded BYD Industries and took the position of Vice Chairman since then. In 1998, he was also a co-founder of BYD Lithium-ion.

Xia Zuo-quan

Mr. Xia, aged 46, was appointed as an Executive Director on 11 June 2002 and re-designated as a Non-executive Director on 20 March 2008. Mr. Xia is the co-founder of BYD Industries. He joined the Group as deputy general manager since September 2001, and has been a Vice President of the Company from 11 June 2002 to 20 March 2008, responsible for overseeing the general operation of the Group. He studied computer science in 北京鋼鐵學院 (Beijing Institute of Iron and Steel Engineering) (now known as 北京科技大學 University of Science & Technology of Beijing) in the PRC from 1985 to 1987. In 2007, he graduated from 光華管理學院 (Guanghua School of Management) of the Beijing University with a master degree in advanced business administration. From 1983 to 1985 and from 1987 to 1991, he worked at 湖北省保險公司 (Hubei Province Insurance Company) and participated in financial management work. In 1992, he engaged in securities investment business and founded 武漢晨鳴信息有限公司 (Wuhan Chen Ming Information Co. Limited) and 武漢創景科技有限公司 (Wuhan Chuang Jing Technology Co. Limited) successively, and took the position of Chairman. Currently, Mr. Xia has founded the 深圳市正軒投資有限公司 and acts as the chairman.

Independent Non-executive Directors

Li Dong

Madam Li Dong, aged 44, was appointed as an Independent Non-executive Director with effect from 20 March 2008. She is a registered accountant and registered assets appraiser in the PRC. Madam Li is the deputy chief accountant of Beijing Xinghua Accounting Firm Co., Ltd. (北京興華會計師事務所有限責任公司). Madam Li graduated from the Faculty of Finance and Politics 財政系 of Beijing Finance and Trade Academy (北京財貿學院) (now known as Capital University of Economics and Business (首都經濟貿易大學)) with a bachelor degree of Economy. She worked in the Joint Venture Department (合資處) of Beijing Finance Bureau (北京市財政局) for the period between July 1986 and December 1992. Madam Li acted as the manager of the Appraisal Department of Beijing Xinghua Accounting Firm Co., Ltd. when she joined the firm in December 1992. She then acted as the manager of the audit department of the firm since 1996, and then deputy chief accountant of the firm from October 2000 until she took on the current position.

Lin You-ren

Mr. Lin, aged 71, researcher level senior engineer, was appointed as an Independent Non Executive Director since 10 November 2004. Mr. Lin graduated from the Automobile Engineering Department of 北京工業學院 (Beijing University of Technology)(the current Beijing Institute of Terchnology) in 1962, started in 1981 a training course of Industrial Management in Nanjing University of Science and Technoloy which is completed in 1982. Mr. Lin first worked with 五機部 (the 5th Machinery Department) of 第五設計院 the PRC Government from 1962 to 1991 as a technician and department head. From 1991 to 2004, Mr. Lin worked for China Ordnance Industry Group successively as head of the Planning Bureau and Automobile Bureau, bureau level deputy inspector, as well as project leader of automobile projects and advisor of International Corporation Department of the company. Mr. Lin is very experienced in the PRC automobile industry and has been involved in many important industrial development projects as well as automobile research and development projects in the PRC. Mr. Lin was a committee member of the Automobile Encyclopedia Publishing Committee of the China Automobile Engineering Society, a committee member of the Jilin University Automobile Simulation State-Selected Laboratory and a member of the first expert committee of the National Development Bank.

Wu Chang-qi

Mr. Wu, 53, was appointed as an Independent Non-executive Director with effect from 10 June 2008. He is the president and professor of the Guanghua School of Management of Peking University. Mr. Wu graduated in 1982 from Shandong University with a bachelor degree in economics. He obtained an MBA degree and a doctoral degree in applied economics from Katholieke Universiteit Leuven in Belgium in 1986 and 1990 respectively. Mr. Wu has successively held position such as the assistant professor and associate professor of Economics Faculty in School of Business and Management under The Hong Kong University of Science and Technology, deputy director of Shui On Center for China Business and Management, the professor and the president of the Faculty of Strategic Management of the Guanghua School of Management of Peking University, the president of the EMBA Centre of the Guanghua School of Management of Peking University, and the associate dean of the Guanghua School of Management of Peking University.

Supervisors

Dong Jun-qing

Professor Dong, aged 75, is a Senior Engineer of professor level. He was appointed as a Supervisor with effect from 12 June 2002. In 1959, he graduated from Non-Ferrous Metal and Gold Faculty in Moscow, USSR, with a bachelor degree majoring in aluminium and magnesium metallurgy, and obtained the title of USSR engineer. From 1959 to 1962, he lectured at 東北大學有色冶金系 (Non-Ferrous Metallurgy Faculty of the Northeast University) in the PRC, and was transferred to work at 北京有色金屬研究總院 (Beijing Non-Ferrous Research Institute) in October 1962, engaging in task research. He was honored with 國家發明獎 (National Invention Medal) technology advancement prizes of provincial and ministerial levels and outstanding patent prizes. He published over 40 articles in both domestic and overseas professional meetings and public magazines. From October 1998 to December 2007, Professor Dong worked for the Company and was engaged in research and development.

Wang Zhen

Ms. Wang, aged 33, was appointed as a Supervisor with effect from 11 June 2002. She was then a sales personnel of the Company's marketing division. She graduated from 廣州外國語學院 (Guangzhou Institute of Foreign Languages) in the PRC in 1998, major in Spanish language and obtained a Bachelor Degree of Arts. She joined BYD Industries since 1998 until 2005. She is responsible for the collection of information of overseas markets, mainly responsible for daily contacts with strategic large customers of the Group, the daily management of business secretarial duties and teamwork of the division. From October 2005 until now, she has served as the officer of the president's office.

Yan Chen

Madam Yan Chen, aged 32, was appointed as a Supervisor with effect from 20 March 2008. She graduated from Beijing University of Aeronautics & Astronautics in July 2000 with a bachelor degree. Madam Yan was a system engineer of Division One Quality Assurance Department of the Company from October 2000 to March 2001, system engineer of the System Office of the Company and secretary to the president for Quality Assurance from March 2001 to December 2002, secretary to the president of BYD Automobile Company Limited from January 2003 to October 2003, chief office director of the management department of Shanghai BYD Company Limited from October 2003 to October 2005, manager of the regional administration department for Shanghai and Xian and manager of the automobile business office of the Company from October 2005 to May 2007, and thereafter up to present, manager of the automobile business office of the Company for the Shanghai, Shenzhen and Xian regions. She is also in charge of the Pudong branch of Shanghai BYD Company Limited.

Zhang Hui-bin

Mr. Zhang Hui-bin, aged 40, was appointed as a Supervisor with effect from 20 March 2008. He is a holder of master degree in EMBA awarded by Zhongshan University in June 2006. Mr. Zhang worked at Agricultural Machinery Supervisory and Administration Station of He County in Anhui province (安徽省和縣農機監理站) from September 1992 to July 1994. Mr. Zhang joined Guangzhou Rongjie Investment Company Limited (廣州融捷投資管理集團有限公司) as a deputy manager of the Administration Department in August 1994 and since then he has acted as general manager of the planning and investment department, finance department and marketing director of the company at different periods. Mr. Zhang was appointed as vice-president of the company in October 2006. He is also the general manager of Financing & Guarantee of Guangzhou Rongjie Financing Company Limited (廣東融捷融資擔保有限公司) and the general manager of Guangzhou Jianjin Information and Technology Company Limited (廣州漸進信息科技有限公司).

Li Yong-zhao

Mr. Li Yongzhao, aged 48, is a researcher level senior engineer. Mr. Li graduated from Xi'an Institute of Technology in August 1982 with a bachelor degree in Technology and equipment of Mechanical Manufacturing. From August 1982 to October 2001, Mr. Li has been the technician, office head, deputy director and director and other posts in China Ordnance Industry Group, 615 Factory. He has concurrently acted as the general manager of the sino-foreign joint venture 寶雞星寶機電公司 from March 1999 to October 2001 and deputy head of China Ordnance Industry Group, 615 Factory from November 1996 to October 2001. From June 2002 to December 2004, Mr. Li concurrently acted as the head and Vice Secretary of Party Committee of Factory 843, and a director and the general manager of 西安北方秦川集團有限公司. From December 2004 to November 2005, he was a director and the general manager of 西安北方秦川集團有限公司 and the Vice Secretary of Party Committee of Factory 843. From December 2005 till now, he acted as the chairman of 西安北方秦川集團有限公司 and Vice Secretary of Party Committee of Factory 843.

Senior Management

Yang Long-zhong

Mr. Yang, aged 44, engineer, is a Vice President of the Company, responsible for sales function of the Group. He graduated from 中南工業大學 (Central South Industrial University of Technology) (currently Central South Industrial University) in the PRC in 1987, major in metallurgy physical chemistry, and obtained a degree in engineering. He graduated from 中歐國際工商學院 (China Europe International Business School) with a MBA degree in 2008. During 1987 to 1994, he worked at 江西省銅業公司德興銅礦 (Jiangxi Province Copper Corporation De Xing Copper Mine) and 深圳市比格電池有限公司 (Shenzhen Bi Ge Battery Co. Limited) as an engineer and a manager. Mr. Yang has joined the Group since February 1995, responsible for sales and marketing. He has been Vice-president of the Company since June 2002.

Wang Nian-qiang

Mr. Wang, aged 45, engineer, Vice President of the Company, is responsible for the production and operation of the Group's First Business Division. Mr. Wang graduated from 中南工業大學 (Central South Industrial University of Technology) (currently Central South Industrial University) in the PRC in 1987 with a degree in engineering majoring in industrial analysis. During 1987 to 1994, he worked at 安徽銅陵有色金屬研究院 (Anhui Tongling Institute of Non-ferrous Metals) as Engineer. Mr. Wang has joined the Group since February 1995 as the chief engineer of BYD Industries. He has served as Vice-president and general manager of the First Business Division of the Group from June 2002 till now.

Wu Jing-sheng

Mr. Wu, aged 46, is the Vice President, chief financial officer and Company Secretary of the Company, who oversees the Group's supervisory, financial and administration divisions. Mr. Wu took part in 全國律師統考 (National Examination for lawyers) and obtained qualification as a lawyer from 安徽省司法廳 (the Judiciary of Anhui Province) in 1992. Mr. Wu also passed 註冊會計師全國統一考試 (National Examination for Certified Public Accountant) and obtained the qualification as 中國註冊會計師 (the PRC Certified Public Accountant) in 1995. He graduated from 安徽省師範大學 (Normal University of Anhui) in the PRC, major in Chinese language. In July 2006, he graduated from advanced business administration at 光華管理學院 (Guanghua School of Management) at the Peking University with a master degree. From 1994 to 1995, he worked at Guangzhou Rongjie Investment Company Limited and was responsible for finance and related duties. Since September 1995, he has joined the Group as the Financial Manager. Since 2002, Mr. Wu has been the Company's Vice-president, Financial Controller and Company Secretary. He is a non-executive director of BYD Electronic (International) Company Limited (Stock Code: 285).

Mao De-he

Mr. Mao, aged 53, Senior Engineer, is a Vice President of the Company, responsible for research and production of automobile parts, and research and development of equipment. He graduated from 零六一基地「七•二一」大學 (Base 061 No. 7.21 University) (now known as 貴州航天局工業大學 (Industrial University of Guizhou Aeronautics Bureau)) in the PRC majoring in mechanical manufacture and process in 1979. During 1971 to 1992, he was appointed as the head of the process technology institute of 貴州航天局三四零七廠 (Factory 3407 of Guizhou Aeronautics Bureau). Later, Mr. Mao was appointed the Deputy Head and Chief Engineer of 深圳建設集團宏威液壓機械廠 (Shenzhen Construction Group Hong Wei Hydraulic Pressing Machine Factory), and the Deputy Chief Engineer of 深圳比格電池有限公司 (Shenzhen Bi Ge Battery Co. Limited). Mr. Mao joined the Group in 1996 and successively worked as the manager of the design department of the Second Business Division, the general manager of the Second Business Division and the general manager of the Fifteenth Business Division and etc. He has been Vice-president of the Company since June 2002. In May 2004, he became the general manager of the Sixteenth Business Division of the Group.

Lian Yu-bo

Mr. Lian, aged 45, Senior Engineer, is a Vice President of the Company, responsible for research and development of automobile and related products. He graduated from 南京航空航天大學 (Nanjing University of Aeronautics and Astronautics) in July 1986, with a bachelor degree majoring in aircraft manufacturing engineering. In September 2000, he graduated from advanced business administration at 南京大學 (Nanjing University) with a master degree. He has engaged in research and development on automobiles at 中國汽車研究中心 (China Automotive Technology and Research Center) during November 1987 to October 1991. He was a deputy chief engineer of 上汽儀征汽車公司 (SAIC Motor Yizheng Company) during October 1991 to November 2000. In November 2000 to December 2003, he was the deputy general manager of 上海同濟同捷汽車設計公司 (Shanghai Tongji Tongjie Automobile Design Company). Since February 2004, he joined the Group and has been the deputy general manager of the Thirteenth Business Division, he has been the chief engineer of the automobile business since June 2005 and has been Vice-president of the Company since February 2007.

He Long

Mr. He, aged 37, Engineer, is a Vice President of the Company, responsible for the production technology of the Group's Lithium-ion batteries. Mr. He graduated from Peking University in 1999. During his study there he has obtained a bachelor degree of science in applied chemistry, a bachelor degree of law and a master degree of science in radioactive chemistry. Mr. He has been with the Group since July 1999, holding the posts of research team head, the manager of the quality department and etc and has been Vice-president of the Company since February 2007. Currently Mr. He is the general manager of the Second Business Division.

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

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

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

Board of Directors

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

The Directors

As of the date of this report, the Board comprises six Directors. There are one Executive Director who is the President, two Non-Executive Directors and three Independent Non-Executive Directors. Detailed biographies outlining each individual Director's range of specialist experience and suitability of the successful long-term running of the Group are set out on page 15 and page 16 of this annual report.

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

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

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

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

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

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

Board Meetings

To ensure the highest attendance of Directors, written notices are sent to all Directors 14 days before a board meeting. The meeting agenda is set in consultation with members of the Board. The Board held four meetings in 2008. The attendance of individual Director (including the authorisation) at the Board meetings is set out below:

Members of the Board	Number of Board Meetings Attended	Attendance Rate
Executive Director		
WANG Chuan-fu	4	100%
Non-executive Directors		
LU Xiang-yang	4	100%
XIA Zuo-quan	4	100%
Independent Non-executive Directors		
LI Guo-xun	1	25%
LI Dong	3	75%
KANG Dian	2	50%
WU Chang-qi	2	50%
LIN You-ren	4	100%

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

— the Audit Committee;

— the Remuneration Committee;

— the Nomination Committee; and

— the Strategy Committee.

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

Audit Committee

One of the primary duties of the Audit Committee is to review the financial reporting process of the Group. As at 31 December 2008, Audit Committee consists of three independent non-executive Directors, namely Mdm. Li Dong, Mr. Lin You-ren and Mr. Wu Chang-qi, and a non-executive Director, Mr. Lu Xiang-yang, with Mdm. Li Dong as the Chairman. Meetings were convened by the Company's Audit Committee and the Company's auditors to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including the financial statements for the year ended 31 December 2007 and the six months ended 30 June 2008) before recommending them to the Board for approval.

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

The Audit Committee held two meetings in 2008 to review the internal and external audit findings, the accounting principles and practices adopted by the Group, and Listing Rules and statutory compliance, and to discuss auditing, internal controls, risk management and financial reporting matters including the interim and annual accounts, before recommending them to the Board for approval. The external auditors and the finance department of the Company also attended these meetings. The individual attendance of its members of the meetings is set out as follows:

Member of the Audit Committee	Number of Committee Meetings Attended	Attendance Rate
LI Dong	2	100%
KANG Dian	1	50%
WU Chang-qi	1	50%
LIN You-ren	2	100%
LU Xiang-yang	2	100%

Remuneration Committee

Pursuant to code provision B.1.1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), the Board of Directors established a Remuneration Committee on 27 June 2005. The primary role of the Remuneration Committee is to regularly review human resource management policies, make recommendations on the compensation and benefit plans of Directors and senior executives, as well as setting performance goals for senior executives of the Group. As at 31 December 2008, the Remuneration Committee comprises Mr. Wang Chuan-fu, Mr. Xia Zuo-quan, Mdm. Li Dong, Mr. Lin You-ren and Mr. Wu Chang-qi, with Mr. Wu Chang-qi as the Chairman.

The Remuneration Committee has reviewed its terms of reference in 2008 to comply with the Corporate Governance Code.

Remuneration Policy for Directors

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

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

Directors do not participate in decisions on their own remuneration.

The emoluments paid to each Director of the Company for the year ended 31 December 2008 are set out in note 9 to the financial statements.

Nomination Committee

Pursuant to the relevant provision of the Code, the Group established the Nomination Committee. As at 31 December 2008, the Nomination Committee comprises Mr. Wang Chuan-fu, Mr. Lu Xiang-yang, Mdm. Li Dong, Mr. Lin You-ren and Mr. Wu Chang-qi, with Mr. Lin You-ren as the Chairman. The Nomination Committee will perform such duties as set out in the Code, including making recommendations to the Board on selection of individuals nominated for directorship.

Strategy Committee

The Group established the Strategy Committee on 20 March 2008 in accordance with the relevant provisions of the Code of Corporate Governance for Listed Companies (上市公司治理準則). As at 31 December 2008, the Strategy Committee comprised Mr. Wang Chuan-fu, Mr. Lu Xiang-yang, Mr. Xia Zuo-quan and Mr. Wu Chang-qi, with Mr. Wang Chuan-fu as the Chairman. The main duty of the Strategy Committee is to consider and make recommendations on the Company's long-term development strategy and major investment decisions.

Independent International Auditors and Their Remuneration

For the year ended 31 December 2008, the total remuneration paid and payable by the Company to the independent international auditors, Ernst & Young, were RMB2,850,000 for audit services (review of financial statements for the six months ended 30 June 2008 and audit of financial statements for the year ended 31 December 2008). The audit fee was approved by the Audit Committee.

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

Internal Control

Internal Control System

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

Internal Audit

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

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

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

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

Directors' Securities Transactions

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

Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the Model Code. No incident of non-compliance was noted by the Company in 2008.

Shareholders' Rights

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

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

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

Investor Relations

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

Report of the Directors

The directors of the Company ("Directors") submit their report together with the audited consolidated accounts of BYD Company Limited (the "Company") and its subsidiaries (together with the Company hereinafter collectively referred to as the "Group") for the year ended 31 December 2008.

Principal Activities and Geographical Analysis of Operations

The principal activities of the Group are research, development, manufacture and sale of rechargeable batteries, handset components and assembley service as well as automobiles and related products. The activities of the Company's subsidiaries are set out in Note 20 to the accompanying consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2008.

An analysis of the Group's performance for the year ended 31 December 2008 by business and geographical segments is set out in Note 4 to the accompanying consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2008 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements on page 33 to page 99 of this annual report.

The Board did not recommend a final dividend payment for the year ended 31 December 2008.

Closure of Register of Members

The register of members of the Company will be closed from 6 May 2009 (Wednesday) to 5 June 2009 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to attend and vote at such meeting, all documents about transfer of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 5 May 2009 (Tuesday).

Reserves

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity and Note 34 to the financial statements respectively.

Donations

Charitable and other donations made by the Group during the year ended 31 December 2008 amounted to approximately RMB16,087,000 (2007: RMB4,619,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 15 to the accompanying consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in Note 33 to the accompanying consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2008, calculated under the relevant legislation applicable in the PRC, the Company's place of incorporation, amounted to approximately RMB590,514,000 (2007: RMB741,315,000).

Pre-Emptive Rights

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

Five-year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2 and page 100 of this annual report.

Directors

The Directors who held office during the year ended 31 December 2008 and up to the date of this report are:

— Executive director:
Mr. Wang Chuan-fu

— Non-executive directors:
Mr. Lu Xiang-yang
Mr. Xia Zuo-quan (re-designated from executive director to non-executive director on 20 March 2008)

— Independent non-executive directors:
Mr. Li Guo-xun (resigned on 20 March 2008)
Madam Li Dong (appointed on 20 March 2008)
Mr. Kang Dian (resigned on 10 June 2008)
Mr. Wu Chang-qi (appointed on 10 June 2008)
Mr. Lin You-ren

Directors' and Supervisors' Service Contracts

All existing Directors, had signed or renewed their service contracts with the Company for a term of three years commencing on 11 June 2006.

All existing Supervisors, had signed or renewed their service contracts with the Company for a term of three years commencing on 11 June 2006.

Directors' Interests in Contracts

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

Directors Remunerations

The emolument payable to each Executive Director is based on (i) his duties and responsibilities; (ii) prevailing market conditions; and (iii) performance and profitability of the Company. Details of the remuneration of the Directors are set out in note 9 to the consolidated financial statements.

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

Biographical Details of Directors, Supervisors and Senior Management

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

Directors', Supervisors' and Chief Executives' Interests

As at 31 December 2008, the interests and short positions of each of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange to be notified to the Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the supervisors) were as follows:-

Name	**Number of shares in which the interested party is deemed to have interests or short positions**	**Approximate percentage shareholding of total issued share capital** %	**Approximate percentage shareholding of total issued domestic share** %
Domestic shares of RMB1 each			
Mr. Wang Chuan-fu	570,642,580 (L)	27.83	38.50
Mr. Lu Xiang-yang	406,917,680 (L)*(note 1)*	19.85	27.46
Mr. Xia Zuo-quan	124,977,060 (L)	6.10	8.43

(L) – Long Position

Note 1: This includes personal interest of 239,228,620 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 167,689,060 domestic shares representing approximately 11.32% of the Company's total issued domestic shares which are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 89.5% by Mr. Lu.

Name	**Number of shares in which the interested party is deemed to have interests or short positions**	**Approximate percentage shareholding of total issued share capital** %	**Approximate percentage shareholding of total issued H shares** %
H shares of RMB1 each			
Mr. Wang Chuan-fu	11,177,700 (L)*(note 2)*	0.55	1.97

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

Saved as disclosed above, as at 31 December 2008, none of the Directors, supervisors or the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Shareholders with Notifiable Interests

As at 31 December 2008, so far as was known to the Directors of the Company, the following persons (other than the Directors, supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO (Cap.571 of the Laws of Hong Kong), or were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:-

Domestic shares of RMB1 each

Name	Eof shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued domestic share %
Guangzhou Rongjie Investment Company Limited *(note 1)*	167,689,060 (L)	8.18	11.32
Yang Long-zhong *(note 2)*	78,725,740 (L)	3.84	5.31

Notes:

1. Mr. Lu Xiang-yang, a director of the Company, is also deemed to be interested in 167,689,060 domestic shares representing approximately 11.32% of the Company's total issued domestic shares which are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 89.5% by Mr. Lu.

2. Mr. Yang Long-zhong is a senior management personnel responsible for sales function of the Group.

H shares of RMB1.00 each

Name	Number of Shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued H Shares %
Berkshire Hathaway Inc. *(note 1)*	225,000,000 (L)	10.98	39.61
The Capital Group Companies, Inc. *(note 2)*	57,472,100 (L)	2.80	10.12
LL Group, LLC *(note 3)*	52,204,200 (L)	2.55	9.19
Li Lu *(note 3)*	52,204,200 (L)	2.55	9.19
Cheah Cheng Hye *(note 4)*	49,905,000 (L)	2.43	8.78
To Hau Yin *(note 4)*	49,905,000 (L)	2.43	8.78
Hang Seng Bank Trustee International Limited *(note 5)*	49,335,000 (L)	2.41	8.68
Cheah Capital Management Limited *(note 5)*	49,335,000 (L)	2.41	8.68
Cheah Company Limited *(note 5)*	49,335,000 (L)	2.41	8.68
Value Partners Group Limited *(note 5)*	49,335,000 (L)	2.41	8.68
Value Partners Limited *(note 5)*	49,335,000 (L)	2.41	8.68
FMR LLC *(note 6)*	46,978,200 (L)	2.29	8.27
FIL Limited	34,523,600 (L)	1.68	6.08
Baillie Gifford & Co *(note 7)*	29,446,000 (L)	1.44	5.18
JPMorgan Chase & Co. *(note 8)*	28,568,468 (L)	1.39	5.03
	300,000 (S)	0.01	0.05
	27,689,668 (P)	1.35	4.87

Notes:

1. Berkshire Hathaway Inc. is deemed to be interested in 225,000,000 H shares (L) through its controlled corporation, MidAmerican Energy Holdings Company which is directly interested in 225,000,000 H shares.

2. The Capital Group Companies, Inc is deemed to be interested in 57,472,100 H shares (L) through Capital International, Inc. which is deemed to control Captial Guardian Trust Company, Capital International Inc., Capital International Limited and Capital International S.A. which are respectively interested in 4,596,600, 52,341,100, 376,100 and 158,300 H shares directly.

3. LL Group, LLC is deemed to be interested in 52,204,200 H shares (L) through its controlled corporation, LL Investment Partners, L.P. Li Lu, as controlling shareholder of LL Group, LLC is deemed also to be interested in 52,204,200 H shares.

4. This includes personal interest of 570,000 H shares (L) and trust interest of 49,335,000 H shares (L). Cheah Cheng Hye is deemed to be interested in 49,335,000 H shares (L) as founder of the discretionary trust, The C H Cheah Family. To Hau Yin, as spouse of Cheah Cheng Hye, is deemed to be interested in 49,905,000 H shares (L).

5. Hang Seng Bank Trustee International Limited, as trustee of The C H Cheah Family Trust, is deemed to be interested in 49,335,000 H shares (L) through Cheah Company Limited, Cheah Capital Management Limited, Value Partners Group Limited and Value Partners Limited, all of which are controlled corporations of Hang Seng Bank Trustee International Limited. The 49,335,000 H shares held by Value Partners Limited represent the same interest and are therefore duplicated among these corporations.

6. FMR LLC is deemed to be interested as investment manager in 46,978,200 shares (L) through its controlled corporations, Fidelity Management & Research Company and Fidelity Management Trust Company, Pyramis Global Advisors LLC which are interested in 45,764,200 and 1,214,000 H shares respectively.

7. Baillie Gifford & Co is deemed to be interested in 20,949,000 H shares (L) through its controlled corporation, Baillie Gifford Overseas Limited which is directly interested in 20,949,000 H shares. Ballillie Gifford & Co is controlled by Callander Alex, Menzies Robin, Plowden Charles, Telfer Andrew, Warden Alison and Whitley Sarah who are deemed to be interested in such 20,949,000 H shares and also interested in additional 8,497,000 H shares.

8. JP Morgan Chase & Co is deemed to be interested in 28,568,468 H shares (L), 300,000 H shares (S) and 27,689,668 H shares (P) through, as the case may be, JPMorgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc, J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc, JPMorgan Chase Bank, N.A., J.P. Morgan Securities Ltd., J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, Bear, Stearns International Limited, Bear Stearns Holdings Limited, Bear Stearns UK Holdings Limited, The Bear Stearns Companies LLC, all of which are controlled corporations of JP Morgan Chase & Co.

The total issued share capital of the Company as at 31 December 2008 was RMB2,050,100,000, divided into 1,482,000,000 domestic shares of RMB1.00 each and 568,100,000 H shares of RMB1.00 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 year ended 31 December 2008.

Major Customers and Suppliers

The percentage of purchases and sales for the year ended 31 December 2008 attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	8%
— the five largest suppliers combined	25%
Sales	
— the largest customer	9%
— the five largest customers combined	24%

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

Connected Transactions

There was no connected transaction entered into by the Group during the year ended 31 December 2008 which is required to be disclosed under the Listing Rules.

Sufficiency of Public Float

Based on information which is publicly available to the Company and within the knowledge of its directors as at the date of this report, the directors confirm that the Company had sufficient public float as required by the Listing Rules.

Confirmation of Independence

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

Auditors

Ernst & Young, the Company's auditors, will retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company.

On behalf of the Board

Wang Chuan-fu
Chairman

Shenzhen, The PRC, 27 March 2009

Report of the Supervisory Committee

In 2008, in accordance with the principle of being accountable to all shareholders, the Supervisory Committee of the Company fully complied with the duties to supervise and ensure that the resolutions as passed in the Shareholders' General Meetings were consistently implemented, the legal interest of shareholders was protected and the duties conferred under the Articles of Association and in the Shareholders' General Meetings were completed in accordance with the Company Law, the Articles of Association and the relevant provisions, in order to facilitate a disciplined operation and sustainable development of the Company.

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

On 20 March 2008, the Supervisory Committee convened its meeting at the office of the Company, where the annual report of the Company for 2007 was considered and approved accordingly.

On 29 August 2008, the Supervisory Committee convened its meeting at the office of the Company, where the interim report of the Company for 2008 was considered and approved accordingly.

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

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

(1) The operating activities of the Company and its subsidiaries in 2008 did not violate the Company Law, the Articles of Association, financial accounting procedures and the laws and regulations of the PRC.

(2) During the discharge of their duties in 2008, the directors, supervisors and senior management of the Company fulfilled their fiduciary duties by acting lawfully, regularized management, explored for innovation, with discipline to protect the interests of all the shareholders of the Company. None of the parties named above was found in breach of the Company Law, the Articles of Association or the laws and regulations of the PRC.

(3) The auditors presented an unqualified auditors' report. The report indicates the financial statements give a true and fair view of the financial results and operations of the Company.

Dong Jun-qing
Chairman of the Supervisory Committee

27 March 2009

Independent Auditors' Report

To the shareholders of BYD Company Limited

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

We have audited the financial statements of BYD Company Limited set out on pages 33 to 99, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

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

27 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	**26,788,253**	21,211,213
Cost of sales		**(21,569,417)**	(16,963,526)
Gross profit		**5,218,836**	4,247,687
Other income and gains	5	**332,845**	279,160
Government grants and subsidies	7	**359,098**	6,173
Selling and distribution costs		**(935,386)**	(648,187)
Research and development costs	6	**(1,163,091)**	(695,221)
Administrative expenses		**(1,483,547)**	(846,646)
Other expenses		**(472,838)**	(211,665)
Finance costs	8	**(491,945)**	(388,421)
PROFIT BEFORE TAX	6	**1,363,972**	1,742,880
Tax	11	**(88,323)**	(40,551)
PROFIT FOR THE YEAR		**1,275,649**	1,702,329
Attributable to:			
Equity holders of the parent	12	**1,021,249**	1,611,711
Minority interests		**254,400**	90,618
		1,275,649	1,702,329
DIVIDENDS			
Proposed dividends	13	**—**	701,350
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – Basic	14	**RMB0.50**	RMB0.79

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**14,715,754**	10,341,577
Investment properties	16	**1,985**	2,043
Prepaid land lease payments	17	**1,516,113**	1,448,294
Goodwill	18	**58,603**	58,603
Other intangible assets	19	**730,457**	586,181
Prepayment for property, plant and equipment	24	**803,152**	386,587
Deferred tax assets	32	**165,302**	165,221
Total non-current assets		**17,991,366**	12,988,506
CURRENT ASSETS			
Inventories	22	**6,915,535**	4,548,545
Trade and bills receivables	23	**5,566,164**	5,432,577
Prepayments, deposits and other receivables	24	**711,959**	675,003
Derivative financial instruments	29	**—**	60,913
Pledged deposits	25	**4,724**	43,446
Cash and cash equivalents	25	**1,701,397**	5,539,501
Total current assets		**14,899,779**	16,299,985
CURRENT LIABILITIES			
Trade and bills payables	26	**6,848,714**	5,715,394
Other payables and accruals	27	**1,530,035**	1,377,474
Advances from customers		**1,271,930**	969,985
Deferred income	28	**221,076**	422,329
Derivative financial instruments	29	**—**	42,725
Interest-bearing bank borrowings	30	**4,370,850**	6,828,843
Tax payable		**60,342**	178,879
Provision	31	**92,260**	45,545
Total current liabilities		**14,395,207**	15,581,174
NET CURRENT ASSETS		**504,572**	718,811
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,495,938**	13,707,317

Continued/...

Consolidated Balance Sheet (continued)

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**18,495,938**	13,707,317
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**4,791,561**	1,294,843
Deferred income	28	**367,005**	—
Deferred tax liabilities	32	**—**	2,215
Total non-current liabilities		**5,158,566**	1,297,058
Net assets		**13,337,372**	12,410,259
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	33	**2,050,100**	539,500
Reserves	34	**9,235,468**	9,467,268
Proposed dividends	13	**—**	701,350
		11,285,568	10,708,118
Minority interests		**2,051,804**	1,702,141
Total equity		**13,337,372**	12,410,259

Director *Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Attributable to equity holders of the parent										
	Issued capital RMB'000 (note 33)	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory welfare fund RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed dividends RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	539,500	1,523,080*	362*	295,487*	85,956*	957*	2,631,322*	215,800	5,292,464	75,177	5,367,641
Exchange realignment recognised directly in equity	—	—	—	—	—	(161)	—	—	(161)	—	(161)
Total income and expense recognised directly in equity	—	—	—	—	—	(161)	—	—	(161)	—	(161)
Profit for the year	—	—	—	—	—	—	1,611,711	—	1,611,711	90,618	1,702,329
Equity settled share expense	—	—	68,940	—	—	—	—	—	68,940	81,060	150,000
Total income and expenses for the year	—	—	68,940	—	—	(161)	1,611,711	—	1,680,490	171,678	1,852,168
Final 2006 dividends	—	—	—	—	—	—	—	(215,800)	(215,800)	—	(215,800)
Appropriation to statutory surplus reserve fund (note a)	—	—	—	62,260	16,675	—	(78,935)	—	—	—	—
Proposed 2007 interim dividend	—	—	—	—	—	—	(701,350)	701,350	—	—	—
Disposal to minority interests	—	—	1,971,058	—	—	—	—	—	1,971,058	199,898	2,170,956
Gain on deemed disposal of a subsidiary	—	—	1,979,906	—	—	—	—	—	1,979,906	1,259,787	3,239,693
Dividend paid to minority interests	—	—	—	—	—	—	—	—	—	(4,399)	(4,399)
At 31 December 2007 and 1 January 2008	539,500	1,523,080*	4,020,266*	357,747*	102,631*	796*	3,462,748*	701,350	10,708,118	1,702,141	12,410,259
Exchange realignment recognised directly in equity	—	—	—	—	—	(72,476)	—	—	(72,476)	(39,257)	(111,733)
Total income and expense recognised directly in equity	—	—	—	—	—	(72,476)	—	—	(72,476)	(39,257)	(111,733)
Profit for the year	—	—	—	—	—	—	1,021,249	—	1,021,249	254,400	1,275,649
Total income and expenses for the year	—	—	—	—	—	(72,476)	1,021,249	—	948,773	215,143	1,163,916
Issue of bonus shares	1,510,600	(1,510,600)	—	—	—	—	—	—	—	—	—
Gain on deemed disposal of a subsidiary	—	—	341,642	—	—	—	—	—	341,642	296,127	637,769
Acquisition from minority interests	—	—	(11,615)	—	—	—	—	—	(11,615)	(35,025)	(46,640)
2007 interim dividends declared	—	—	—	—	—	—	—	(701,350)	(701,350)	—	(701,350)
Dividends paid to minority interests	—	—	—	—	—	—	—	—	—	(126,582)	(126,582)
Appropriation to statutory surplus reserve fund (note a)	—	—	—	115,967	—	—	(115,967)	—	—	—	—
At 31 December 2008	2,050,100	12,480*	4,350,293*	473,714*	102,631*	(71,680)*	4,368,030*	—	11,285,568	2,051,804	13,337,372

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

* *These reserve accounts comprise the consolidated reserves of RMB9,235,468,000 (2007: RMB9,467,268,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,363,972**	1,742,880
Adjustments for:			
Finance costs	8	**491,945**	388,421
Bank interest income	6	**(91,308)**	(28,483)
Government grants and subsidies	7	**(359,098)**	(6,173)
Loss on disposal of items of property, plant and equipment	6	**28,132**	12,657
Net fair value gains on derivative instruments - transactions not qualifying as hedges	5,6	**(13,796)**	(4,097)
Equity settled share expenses	6	**—**	150,000
Depreciation	6	**1,211,403**	840,021
Write-down of inventories	6	**51,356**	32,752
Impairment of trade receivables	6	**118,913**	31,229
Impairment losses of trade receivables reversed	6	**(4,686)**	(19,099)
Recognition of prepaid land lease payments	6	**30,828**	12,720
Impairment of property, plant and equipment	6	**5,234**	102,998
Impairment of other intangible assets	6	**—**	38,679
Impairment of goodwill	6	**4,875**	—
Amortisation of other intangible assets	19	**119,642**	58,452
		2,957,412	3,352,957
Increase in inventories		**(2,412,364)**	(1,424,379)
Increase in trade and bills receivables		**(243,638)**	(2,450,308)
Increase in prepayments, deposits and other receivables		**(35,072)**	(418,878)
Decrease in amounts due from related parties		**—**	765
Increase in trade and bills payables		**1,133,320**	1,606,354
Increase in other payables and accruals		**185,892**	528,034
Increase in advances from customers		**301,945**	540,975
Increase in provision for warranties		**46,715**	32,352
Cash generated from operations		**1,934,210**	1,767,872
Interest received		**91,308**	28,483
Taxes paid		**(209,156)**	(49,462)
Net cash inflow from operating activities		**1,816,362**	1,746,893

Continued/...

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash inflow from operating activities		**1,816,362**	1,746,893
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(5,639,640)**	(3,895,576)
Increase in non-current prepayment		**(416,565)**	(276,662)
Increase in prepaid land lease payments	17	**(102,089)**	(1,265,148)
Receipt of government grants		**524,849**	425,593
Additions to other intangible assets	19	**(271,655)**	(270,865)
Proceeds from disposal of items of property, plant and equipment and other intangibles assets		**116,769**	246,363
Proceeds from/(payment for) settlement of derivative instruments		**31,984**	(16,318)
Decrease in pledged deposits		**38,722**	40,319
Acquisition of subsidiary	35	**(121,278)**	—
Acquisition of minority interest		**(15,731)**	—
Repurchase of the shares of a subsidiary		**(66,985)**	—
Net cash outflow from investing activities		**(5,921,619)**	(5,012,294)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**15,152,197**	6,980,611
Repayment of bank loans		**(14,113,472)**	(4,593,784)
Interest paid		**(580,547)**	(389,526)
Dividends paid		**(701,350)**	(215,800)
Dividends paid to minority shareholders		**(148,536)**	(4,399)
Proceeds from issue of a subsidiary's shares		**700,756**	5,410,650
Net cash inflow from financing activities		**309,048**	7,187,752
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,796,209)**	3,922,351
Cash and cash equivalents at beginning of year		**5,539,501**	1,617,312
Effect of foreign exchange rate changes, net		**(41,895)**	(162)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,701,397**	5,539,501
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**1,688,175**	5,529,501
Non-pledged time deposits with original maturity of less than three months when acquired	25	**13,222**	10,000
		1,701,397	5,539,501

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,057,825**	2,128,967
Investments in subsidiaries	20	**2,257,082**	1,954,479
Prepaid land lease payments	17	**28,813**	29,492
Other intangible assets	19	**52,162**	25,172
Prepayment for property, plant and equipment	24	**5,201**	13,200
Deferred tax assets	32	**21,192**	10,218
Total non-current assets		**4,422,275**	4,161,528
CURRENT ASSETS			
Inventories	22	**558,636**	1,061,928
Trade and bills receivables	23	**774,156**	1,275,581
Tax recoverable		**4,738**	10,895
Prepayments, deposits and other receivables	24	**100,635**	215,417
Due from subsidiaries	20	**8,078,009**	5,291,117
Derivative financial instruments		**—**	21,925
Pledged deposits	25	**—**	2
Cash and cash equivalents	25	**149,064**	330,853
Total current assets		**9,665,238**	8,207,718
CURRENT LIABILITIES			
Trade and bills payables	26	**1,270,490**	1,318,398
Other payables and accruals	27	**216,582**	227,971
Advanced from customers		**34,562**	31,779
Derivative financial instruments		**—**	1,544
Interest-bearing bank borrowings	30	**2,746,333**	4,727,305
Due to subsidiaries	20	**3,236,580**	1,497,132
Total current liabilities		**7,504,547**	7,804,129
NET CURRENT ASSETS		**2,160,691**	403,589
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,582,966**	4,565,117
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	30	**3,930,000**	1,060,000
Net assets		**2,652,966**	3,505,117
EQUITY			
Issued capital	33	**2,050,100**	539,500
Reserves	34	**602,866**	2,264,267
Proposed dividends	13	**—**	701,350
Total equity		**2,652,966**	3,505,117

Director *Director*

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7 Amendments	*Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new interpretation and amendment to HKFRSs are as follows:

(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions

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

(c) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

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

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [2]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	*Amendment to HKFRS 7 Financial instruments: Disclosure - Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* [2]
HK(IFRIC)-Int 9 and HKAS39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement - Embedded Derivatives* [6]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets for Customer* [5]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, the amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Apply prospectively to transfers of assets from customers received on or after 1 July 2009.
6 Effective for annual periods beginning on or after 30 June 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Group's investment in its jointly-controlled entity is accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity is eliminated to the extent of the Group's interests in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and jointly-controlled entity, after reassessment, is recognised immediately in the income statement.

Financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

	Estimated useful lives	**Residual value**
Freehold land	Not depreciated	—
Buildings	10 to 50 years	5%
Leasehold improvements	Over the shorter of the lease terms and 5 years	—
Machinery and equipment	5 to 10 years	5%
Motor vehicles	5 years	5%
Office equipment and fixtures	5 years	5%

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

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

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Industrial proprietary rights and patents

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

Know-how

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

Software

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Loans and receivables

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

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Cost of moulds is determined at the actual cost incurred in the production process.Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an interest in a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

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

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

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

(f) subcontracting income and assembly service income, when the relevant services have been rendered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Employees' leave entitlements
Employees' 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.

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

Retirement benefit obligations
As stipulated by the rules and regulations of the PRC, the Company's subsidiaries registered in the PRC are required to contribute to a state-sponsored retirement plan for all its PRC employees at rates ranging from 10% to 11% of the basic salary predetermined by the local governments. 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 retirement or 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.

Medical benefits

The Group's contributions to various defined contribution medical benefit plans organised by the relevant municipal and provincial governments in the PRC are expensed as incurred.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating lease commitments - Group as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

Deferred tax on withholding tax arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries levied in the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividends. The Group considered that if the profits will not be probable of being distributed in the foreseeable future, then no deferred tax on such withholding tax should be provided. Further details are included in note 32 to the financial statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was RMB58,603,000 (2007: RMB58,603,000). More details are given in note 18.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from changes in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2008 was RMB165,302,000 (2007: RMB165,221,000). Further details are included in note 32 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2008, the best estimate of the carrying amount of capitalised development costs was RMB622,906,000 (2007: RMB509,216,000). Further details are contained in note 19 to the financial statements.

Warranty provisions

Provisions for product warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

4. SEGMENT INFORMATION

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

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

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

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

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

(d) the "others" segment comprises, principally, non-manufacturing business of the Group.

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

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	Battery and other products RMB'000	Mobile handset components RMB'000	Automobiles and related products RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	6,207,557	11,933,013	8,645,898	1,785	26,788,253
Segment results	644,274	683,053	503,582	188	1,831,097
Interest and unallocated gain					24,820
Finance costs					(491,945)
Profit before tax					1,363,972
Tax					(88,323)
Profit for the year					1,275,649
Assets and liabilities:					
Segment assets	5,355,190	11,397,811	13,916,273	3,361	30,672,635
Corporate and other unallocated assets					2,218,510
Total assets					32,891,145
Segment liabilities	1,637,359	3,129,447	5,368,038	431	10,135,275
Corporate and other unallocated liabilities					9,418,498
Total liabilities					19,553,773
Other segment information:					
Impairment of trade receivables	72,116	42,929	3,868	—	118,913
Write-down of inventories	(3,348)	43,225	11,479	—	51,356
Impairment losses of trade receivables reversed	(2,949)	(1,719)	(18)	—	(4,686)
Impairment of property, plant and equipment	218	217	4,799	—	5,234
Loss on disposal of property, plant and equipment	19,654	3,033	5,445	—	28,132
Depreciation and amortisation	319,951	591,212	450,105	605	1,361,873
Capital expenditure	706,789	2,518,639	2,854,542	—	6,079,970

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Year ended 31 December 2007	Battery and other products RMB'000	Mobile handset components RMB'000	Automobiles and related products RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	7,149,237	9,186,864	4,871,993	3,119	21,211,213
Segment results	755,862	1,072,742	257,348	(883)	2,085,069
Interest and unallocated gain					46,232
Finance costs					(388,421)
Profit before tax					1,742,880
Tax					(40,551)
Profit for the year					1,702,329
Assets and liabilities:					
Segment assets	5,275,423	13,844,254	8,385,042	4,309	27,509,028
Corporate and other unallocated assets					1,779,463
Total assets					29,288,491
Segment liabilities	2,609,628	3,718,079	3,246,944	1,556	9,576,207
Corporate and other unallocated liabilities					7,302,025
Total liabilities					16,878,232
Other segment information:					
Impairment of trade receivables	20,448	10,666	115	—	31,229
Write-down of inventories	(16,028)	47,576	1,204	—	32,752
Impairment losses of trade receivables reversed	(5,099)	(14,000)	—	—	(19,099)
Impairment of property, plant and equipment	—	—	102,998	—	102,998
Impairment of other intangible assets	—	—	38,679	—	38,679
Loss on disposal of property, plant and equipment	7,677	4,708	272	—	12,657
Depreciation and amortisation	276,180	354,602	279,802	609	911,193
Capital expenditure	472,250	2,152,590	2,997,473	43	5,622,356

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	PRC RMB'000	Europe RMB'000	America RMB'000	Asia Pacific (excluding PRC) RMB'000	Others RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	**19,628,313**	**1,987,717**	**1,407,205**	**3,360,653**	**404,365**	**26,788,253**

Year ended 31 December 2007	PRC RMB'000	Europe RMB'000	America RMB'000	Asia Pacific (excluding PRC) RMB'000	Others RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	13,493,285	2,102,664	1,454,385	3,905,587	255,292	21,211,213

5. REVENUE, OTHER INCOME AND GAINS

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

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

		Group	
		2008	2007
	Notes	**RMB'000**	RMB'000
Revenue			
Sale of goods		**22,916,276**	19,300,606
Assembly service income		**3,862,823**	1,898,106
Construction contracts		**9,154**	12,501
		26,788,253	21,211,213
Other income			
Subcontracting income		**4,609**	1,561
Bank interest income	6	**91,308**	28,483
Net rental income	6	**17,763**	9,356
Gain on disposal of scrap		**148,113**	167,860
Others		**57,256**	67,803
		319,049	275,063
Gains			
Net fair value gain on derivative instruments- transactions not qualifying as hedges	6	**13,796**	4,097
		332,845	279,160

6. PROFIT BEFORE TAX

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

		Group	
		2008	2007
	Notes	**RMB'000**	RMB'000
Cost of inventories sold		**17,753,062**	12,630,514
Cost of services provided		**3,764,999**	1,848,001
Depreciation	15,16	**1,211,403**	840,021
Impairment of property, plant and equipment**	15	**5,234**	102,998
Impairment of other intangible assets**	19	**—**	38,679
Recognition of prepaid land lease payments	17	**30,828**	12,720
Amortisation of intangible assets other than development costs****	19	**58,588**	16,494
Research and development costs:			
Deferred expenditure amortised*	19	**61,054**	41,958
Current year expenditure		**1,102,037**	653,263
		1,163,091	695,221
Impairment of goodwill**	18	**4,875**	—
Minimum lease payments under operating leases:			
Land and buildings located in Mainland China		**25,843**	12,954
Auditors' remuneration		**6,354**	4,078
Employee benefit expense (including directors' and supervisors' remuneration (note 9)):			
Wages and salaries		**3,063,307**	2,237,923
Equity-settled share expense		**—**	150,000
Welfare		**39,889**	22,656
Retirement benefit scheme contributions		**280,487**	237,901
		3,383,683	2,648,480
Loss on disposal of items of property, plant and equipment **		**28,132**	12,657
Foreign exchange differences, net **		**279,208**	73,814
Impairment of trade receivables	23	**118,913**	31,229
Impairment losses of trade receivables reversed	23	**(4,686)**	(19,009)
Write-down of inventories ***		**51,356**	32,752
Product warranty provision	31	**119,490**	82,016
Net fair value gains on derivative instruments - transactions not qualifying as hedges	5	**(13,796)**	(4,097)
Net rental income	5	**(17,763)**	(9,356)
Bank interest income	5	**(91,308)**	(28,483)

* The amortisation of deferred development costs for the year is included in "Research and development costs" on the face of the consolidated income statement.

** The net foreign exchange differences, impairment of property, plant and equipment, impairment of other intangible assets, impairment of goodwill and loss on disposal of items of property, plant and equipment for the year are included in "Other expenses" on the face of the consolidated income statement.

*** Write-down of inventories for the year is included in "Cost of sales" on the face of the consolidated income statement.

**** Amortisation of intangible assets other than development costs for the year is included in "Administrative expenses" on the face of the consolidated income statement.

7. GOVERNMENT GRANTS AND SUBSIDIES

	Group 2008 RMB'000	2007 RMB'000
Subsidies on research and development activitives for automobile and related products (Note 28)	**276,566**	—
Interest subsidy (Note(a))	**51,394**	—
VAT refund (Note (b))	**6,841**	—
Others	**24,297**	6,173
	359,098	6,173

(a) Amount represents subsidy received from local government authorities to subsidies the finance costs incurred in 2007 for an aggregate bank loans of RMB 2.3 billion borrowed by the Group for the construction of its automobile facilities in Shenzhen, PRC, There are no unfulfilled conditions attached to the interest subsidy.

(b) According to the current tax regulations in the PRC, the development and sales of moulds products are subject to VAT with an applicable rate of 17%.In December 2006, the Ministry of Finance and the State Administration of Taxation of the PRC jointly issued a Circular (Cai Shui Zi[2006] No.152) regarding the VAT refund taxation policy for moulds industries. Pursuant to the Circular, for the period from 1 January 2006 to 31 December 2008, moulds enterprises which engage in the sales of self-developed moulds in the PRC and listed on the name lists of the Circular are entitled to a 50% VAT refund for the actual payment of VAT. A subsidiary of the Company is included on the name list and received the VAT tax refund accordingly. There are no unfulfilled conditions attached to the VAT refund.

8. FINANCE COSTS

	Group 2008 RMB'000	2007 RMB'000
Interest on bank borrowings and other loans wholly repayable within five years	**520,463**	380,153
Interest on bank borrowings wholly repayable over five years	**17,769**	—
Bank charges for discounted notes	**42,315**	9,373
	580,547	389,526
Less: Interest capitalised	**(88,602)**	(1,105)
	491,945	388,421

The average capitalisation rate for the year used to determine the amount of borrowing costs eligible for capitalisation was 6.16% (2007: 5.33%).

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Group	
	2008	2007
	RMB'000	RMB'000
Fees	**500**	530
Other emoluments:		
Salaries, allowances and benefits in kind	**5,098**	2,877
Pension scheme contributions	**5**	8
	5,103	2,885
	5,603	3,415

(a) Independent non-executive directors

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

	Group	
	2008	2007
	RMB'000	RMB'000
Mr. Kang Dian (resigned on 10 June 2008)	**121**	230
Mr. Li Guo-xun (resigned on 20 March 2008)	**33**	150
Ms. Li Dong (appointed on 20 March 2008)	**117**	—
Mr. Wu Chang-qi (appointed on 10 June 2008)	**79**	—
Mr. Lin You-ren	**150**	150
	500	530

There was no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

2008	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive director:				
Mr. Wang Chuan-fu	—	3,360	—	3,360
Non-executive directors:				
Mr. Lu Xiang-yang	—	150	—	150
Mr. Xia Zuo-quan (Re-designated from executive director to non-executive director on 20 March 2008)	—	150	1	151
Supervisors:				
Ms. Yan Chen (Appointed on 20 March 2008)	—	660	2	662
Mr. Zhang Hui-bin (Appointed on 20 March 2008)	—	39	—	39
Mr. Min De (Resigned on 10 June 2008)	—	14	—	14
Mr. Li Yong-zhao (Appointed on 10 June 2008)	—	28	—	28
Ms. Wang Zhen	—	660	2	662
Mr. Dong Jun-qing	—	37	—	37
	—	5,098	5	5,103

2007	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Wang Chuan-fu	—	1,807	—	1,807
Mr. Xia Zuo-quan	—	150	4	154
Non-executive director:				
Mr. Lu Xiang-yang	—	150	—	150
Supervisors:				
Mr. Min De	—	20	—	20
Ms. Wang Zhen	—	393	4	397
Mr. Dong Jun-qing	—	357	—	357
	—	2,877	8	2,885

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2007: one). Details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2007: Four) non-director, highest paid employees for the year are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**11,840**	8,190
Retirement benefit contributions	**12**	21
Share award plan	**—**	20,715
	11,852	28,926

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2008	2007
RMB2,000,000 to RMB2,500,000	**—**	4
RMB2,500,001 to RMB3,000,000	**2**	—
RMB3,000,001 to RMB3,500,000	**2**	—
	4	4

11. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007:17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. No provision for profits tax in the United States of America, Japan, Denmark, India, Hungary, Romania and Finland has been made for the year as the Group did not generate any assessable profits from these jurisdictions during the year.

The Company and its subsidiaries registered in the PRC are subject to Corporate Income Tax. On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"), which became effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic-invested and foreign-invested enterprises from 1 January 2008 has decreased from 33% to 25%. Pursuant to the transitional arrangement under the New CIT Law, the income tax rate applicable to certain PRC subsidiaries will only be gradually increased from the existing rate of 18% to the unified rate of 25% over a 5-year transitional period.

Certain subsidiaries operating in Mainland China are approved to be high and new technology enterprises and are entitled to enjoy reduced enterprise income tax rates ranging from 9% to 15% of the estimated assessable profits for the year.

11. TAX (continued)

Certain subsidiaries operating in Mainland China are entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation and thereafter, entitled to a 50% relief from income tax for the next three years.

	2008 **RMB'000**	2007 RMB'000
Group:		
Current – Hong Kong		
Charge for the year	**3,986**	—
Current – Mainland China		
Charge for the year	**180,264**	199,527
(Overprovision)/underprovision in prior years	**(93,631)**	1,871
Deferred (note 32)	**(2,296)**	(160,847)
Total tax charge for the year	**88,323**	40,551

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

Group	**2008**		2007	
	RMB'000	**%**	RMB'000	%
Profit before tax	**1,363,972**		1,742,880	
Tax at the statutory tax rate	**340,993**	**25.0**	575,150	33.0
Lower tax rate for specific provinces or local authority	**(335,243)**	**(24.5)**	(583,105)	(33.5)
Income not subject to tax	**(1,606)**	**(0.1)**	(59,992)	(3.4)
Expenses not deductible for tax	**20,719**	**1.5**	92,041	5.3
Tax losses not recognised	**89,327**	**6.5**	55,071	3.2
Tax losses utilised from previous periods	**—**	**—**	(28,456)	(1.6)
Effect on opening deferred tax assets changed tax rate	**6,737**	**0.5**	(5,963)	(0.3)
Adjustments in respect of current tax of previous periods	**—**	**—**	1,871	0.1
Super-deduction of research and development costs	**(32,604)**	**(2.4)**	(6,066)	(0.3)
Tax charge at the Group's effective rate	**88,323**	**6.5**	40,551	2.5

12. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a loss of RMB150,801,000 (2007: profit of RMB915,355,000) which has been dealt with in the financial statements of the Company (note 34(b)).

13. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Interim – Nil (2007: RMB1.3) per ordinary share	—	701,350

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during this year, as adjusted to reflect the bonus issue during the year.

A diluted earnings per share amounts for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during the two years.

The calculation of basic earnings per share is based on:

	2008	2007
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	1,021,249	1,611,711

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year, as adjusted to reflect the bonus issue during the year used in the basic earnings per share calculation	2,050,100,000	2,050,100,000

15. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land and buildings* RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008							
At 31 December 2007 and at 1 January 2008							
Cost	2,982,748	11,336	6,332,940	79,434	655,711	2,438,724	12,500,893
Accumulated depreciation and impairment	(205,071)	(9,493)	(1,739,947)	(29,327)	(175,478)	—	(2,159,316)
Net carrying amount	2,777,677	1,843	4,592,993	50,107	480,233	2,438,724	10,341,577
At 1 January 2008, net of accumulated depreciation and impairment	2,777,677	1,843	4,592,993	50,107	480,233	2,438,724	10,341,577
Additions	76,621	2,630	1,764,008	14,592	331,587	3,465,901	5,655,339
Acquisition of a subsidiary (note 35)	53,341	—	82,401	1,091	3,701	415	140,949
Disposals	(20,680)	—	(32,082)	(3,977)	(4,501)	(75,460)	(136,700)
Impairment	(435)	—	(4,769)	—	(30)	—	(5,234)
Depreciation provided during the year	(83,954)	(1,419)	(992,076)	(12,315)	(121,581)	—	(1,211,345)
Transfers	1,154,885	—	1,455,872	42	39,645	(2,650,444)	—
Exchange realignment	(21,040)	—	(46,127)	(273)	(648)	(744)	(68,832)
At 31 December 2008, net of accumulated depreciation and impairment	3,936,415	3,054	6,820,220	49,267	728,406	3,178,392	14,715,754
At 31 December 2008							
Cost	4,225,553	10,617	9,498,156	86,305	1,015,713	3,178,392	18,014,736
Accumulated depreciation and impairment	(289,138)	(7,563)	(2,677,936)	(37,038)	(287,307)	—	(3,298,982)
Net carrying amount	3,936,415	3,054	6,820,220	49,267	728,406	3,178,392	14,715,754

* The land situated in Hungary with a cost of approximately RMB10,186,000 (2007: Nil) is freehold and not depreciated.

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008						
At 31 December 2007 and at 1 January 2008						
Cost	1,121,696	1,101,641	21,846	317,410	131,473	2,694,066
Accumulated depreciation and impairment	(70,043)	(400,225)	(10,037)	(84,794)	—	(565,099)
Net carrying amount	1,051,653	701,416	11,809	232,616	131,473	2,128,967
At 1 January 2008, net of accumulated depreciation and impairment	1,051,653	701,416	11,809	232,616	131,473	2,128,967
Additions	13	46,004	2,281	88,433	62,637	199,368
Disposals	—	(89,305)	(280)	(420)	(4,279)	(94,284)
Depreciation provided during the year	(23,976)	(97,193)	(5,611)	(49,446)	—	(176,226)
Transfers	34,861	81,141	—	10,466	(126,468)	—
At 31 December 2008, net of accumulated depreciation	1,062,551	642,063	8,199	281,649	63,363	2,057,825
At 31 December 2008						
Cost	1,156,570	1,131,771	22,113	411,682	63,363	2,785,499
Accumulated depreciation and impairment	(94,019)	(489,708)	(13,914)	(130,033)	—	(727,674)
Net carrying amount	1,062,551	642,063	8,199	281,649	63,363	2,057,825

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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

16. INVESTMENT PROPERTIES

	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	**2,043**	2,101
Depreciation provided during the year	**(58)**	(58)
Carrying amount at 31 December	**1,985**	2,043

The Group's investment properties are situated in Mainland China and are held under medium-term lease with third parties, further summary details of which are included in note 37(a) to the financial statements.

17. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**1,478,417**	200,244	**30,171**	30,850
Additions	**102,089**	1,290,893	**—**	—
Recognised during the year	**(30,828)**	(12,720)	**(679)**	(679)
Exchange realignment	**(1,558)**	—	**—**	—
Carrying amount at 31 December	**1,548,120**	1,478,417	**29,492**	30,171
Current portion included in prepayments, deposits and other receivables	**(32,007)**	(30,123)	**(679)**	(679)
Non-current portion	**1,516,113**	1,448,294	**28,813**	29,492

The leasehold lands held under medium-term leases and a long-term lease with amounts of RMB1,481,241,000 and RMB34,872,000 are situated in Mainland China and India, respectively.

As at 31 December 2008, the Group was still in the process of obtaining the land use right certificates for certain leasehold lands with a carrying amount of RMB101,625,000. In the opinion of the directors, there is no major barrier for the Group to obtain the land use certificates.

18. GOODWILL

Group	**RMB'000**
At 31 December 2007 and 1 January 2008	
Cost	**63,399**
Accumulated impairment	**(4,796)**
Net carrying amount	**58,603**
Cost at 1 January 2008, net of accumulated impairment	**58,603**
Acquisition of a subsidiary (note 35)	**4,875**
Impairment during the year	**(4,875)**
At 31 December 2008	**58,603**
At 31 December 2008	
Cost	**68,274**
Accumulated impairment	**(9,671)**
Net carrying amount	**58,603**

18. GOODWILL (continued)

Impairment testing of goodwill

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

The recoverable amount of the automobile and related products cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12% (2007: 10%). The growth rate used to extrapolate the cash flows of the automobile and related products unit beyond the five-year period is 5% (2007: 8%). This growth rate exceeds the average growth rate of the industry in which the industrial products unit operates by one percentage point. Senior management of the industrial products unit believes that this growth rate is justified, given the new technology internally developed by the Group during the year.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Automobiles and related products	
	2008	2007
	RMB'000	RMB'000
Carrying amount of goodwill	**58,603**	58,603

Key assumptions were used in the value in use calculation of the mobile handset components and automobiles and related products cash-generating units for 31 December 2008 and 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

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

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

Raw materials price inflation – The basis used to determine the value assigned to raw materials price inflation is the forecast price index during the budget year.

The values assigned to key assumptions are consistent with external information sources.

19. OTHER INTANGIBLE ASSETS

Group	Development costs RMB'000	Industrial proprietary rights and patents RMB'000	Know-how RMB'000	Software RMB'000	Total RMB'000
31 December 2008					
Cost at 1 January 2008, net of accumulated amortisation and impairment	509,216	19,325	7,359	50,281	586,181
Additions – internal development	182,684	—	—	—	182,684
Additions – acquired	—	44,261	1,942	42,768	88,971
Acquisition of a subsidiary (note 35)	—	—	—	464	464
Write-off	(7,940)	—	—	(261)	(8,201)
Amortisation provided during the year	(61,054)	(35,396)	(2,763)	(20,429)	(119,642)
At 31 December 2008	622,906	28,190	6,538	72,823	730,457
At 31 December 2008:					
Cost	801,715	79,073	59,874	117,483	1,058,145
Accumulated amortisation and impairment	(178,809)	(50,883)	(53,336)	(44,660)	(327,688)
Net carrying amount at 31 December 2008	622,906	28,190	6,538	72,823	730,457
31 December 2007					
Cost at 1 January 2007, net of accumulated amortisation and impairment	352,118	22,410	6,629	31,290	412,447
Additions – internal development	237,735	—	—	—	237,735
Additions – acquired	—	444	1,338	31,348	33,130
Amortisation provided during the year	(41,958)	(3,529)	(608)	(12,357)	(58,452)
Impairment	(38,679)	—	—	—	(38,679)
At 31 December 2007	509,216	19,325	7,359	50,281	586,181
At 31 December 2007:					
Cost	626,971	34,812	57,932	74,512	794,227
Accumulated amortisation and impairment	(117,755)	(15,487)	(50,573)	(24,231)	(208,046)
Net carrying amount at 31 December 2007	509,216	19,325	7,359	50,281	586,181

Development costs represent expenditure to new technique or technology provided to the automobile business. Development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production. The remaining useful lives of the development costs are two to five years.

19. OTHER INTANGIBLE ASSETS (continued)

Company	Industrial proprietary rights and patents RMB'000	Know-how RMB'000	Software RMB'000	Total RMB'000
31 December 2008				
Cost at 1 January 2008, net of accumulated amortisation	**1,521**	**1,951**	**21,700**	**25,172**
Additions – acquired	**7,514**	**3,811**	**31,725**	**43,050**
Amortisation provided during the year	**(4,229)**	**(2,868)**	**(8,963)**	**(16,060)**
At 31 December 2008	**4,806**	**2,894**	**44,462**	**52,162**
At 31 December 2008:				
Cost	**16,598**	**6,053**	**63,988**	**86,639**
Accumulated amortisation	**(11,792)**	**(3,159)**	**(19,526)**	**(34,477)**
Net carrying amount at 31 December 2008	**4,806**	**2,894**	**44,462**	**52,162**
31 December 2007				
Cost at 1 January 2007, net of accumulated amortisation	1,954	880	11,664	14,498
Additions – acquired	604	1,338	14,491	16,433
Amortisation provided during the year	(1,037)	(267)	(4,455)	(5,759)
At 31 December 2007	1,521	1,951	21,700	25,172
At 31 December 2007:				
Cost	9,084	2,242	32,263	43,589
Accumulated amortisation	(7,563)	(291)	(10,563)	(18,417)
Net carrying amount at 31 December 2007	1,521	1,951	21,700	25,172

20. INVESTMENTS IN SUBSIDIARIES

	Company 2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	**2,257,082**	1,954,479

At the balance sheet date, except for the amount of approximately RMB2,895,123,000 of loans to subsidiaries which are unsecured, bear interest at a rate of 5.67%-7.47% per annum and are payable within one year, all amounts due from/to subsidiaries in the Company's current assets and current liabilities are unsecured, interest-free, and are repayable on demand or within one year.

20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BYD Lithium Batteries Co., Ltd. ("BYD Li-ion") ###	PRC/Mainland China	RMB30,000,000	93.48%	6.52%	Research, development, sale and manufacture of Li-ion batteries
Shanghai BYD Company Limited ("BYD SH") ###	PRC/Mainland China	US$63,500,000	75%	25%	Research, development, sale and manufacture of Li-ion batteries
BYD (H.K.) Co., Limited ("BYD HK")	Hong Kong	US$4,002,600	100%	—	Trading of NiCd, NiMH and Li-ion batteries and related products
BYD Automobile Company Limited ("BYD XiAn QC") ###	PRC/Mainland China	RMB580,000,000	99%	—	Research, development, sale and manufacture of automobiles
Shanghai BYD Automobile Company Limited ("BYD Auto SH") ###	PRC/Mainland China	RMB10,000,000	90%	10%	Research, development, sale and manufacture of automobiles and battery-powered bicycles
Beijing BYD Auto Mould Company Limited ("BYD BJ") ##	PRC/Mainland China	RMB50,000,000	80%	20%	Research, development and manufacture of rechargeable batteries and Li-ion batteries
Beijing BYD Mould Company Limited ("BYD Mould") ##	PRC/Mainland China	RMB30,000,000	68.34%	31.66%	Design and manufacture of moulds
BYD Precision Manufacture Company Limited ("BYD Precision") ###	PRC/Mainland China	US$145,000,000	—	65.73%	Manufacture and sale of mobile handset components and modules
Shenzhen BYD Electronic Parts Co., Limited ("BYD Electronic Parts") ##	PRC/Mainland China	RMB400,000,000	96%	4%	Production and sale of NiMH, NiCD and other batteries, hardware products, instruments and flexible printed circuit boards
Shenzhen BYD Microelectronics Co., Limited ("BYD Microelectronics") ###	PRC/Mainland China	US$40,000,000	17.5%	82.5%	Design, production and sale of integrated circuits
BYD Industry and Commerce Co., Limited, Huizhou ("BYD HZ") ###	PRC/Mainland China	US$90,000,000	25%	75%	Manufacture and sale of battery related products, and optoelectronics
Huizhou BYD Battery Company Limited("BYD HZ Battery") ###	PRC/Mainland China	US$50,000,000	75%	25%	Research,development,sale and manufacture of Li-ion batteries and accessories
Shenzhen BYD Auto Company Limited ("BYD Auto SZ") ###	PRC/Mainland China	US$73,000,000	75%	25%	Research and development of automobiles

20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BYD Electronic (International) Company Limited (BYD Int'l) #	Hong Kong	HK$440,000,000	—	65.73%	Investment holding
Golden Link Worldwide Limited ("Golden Link")	British Virgin Islands	US$1	—	100%	Investment holding
Beijing BTC Wireless Limited Company ("BYD BTC") ###	PRC/Mainland China	RMB20,000,000	—	69%	Research, manufacture and sale of battery moulds
BYD Electronic Company Limited ("BYD Electronic")	Cayman Islands	HK$1	—	65.73%	Investment holding
Lead Wealth International Limited ("Lead Wealth")	British Virgin Islands	US$1	—	65.73%	Investment holding
BYD (Tianjin) Company Limited ('BYD Tianjin") ###	PRC/Mainland China	US$40,000,000	—	65.73%	High-level assembly and painted circuit board assembly
BYD (Huizhou) Electronic Company Limited ("BYD Huizhou Electronics") ###	PRC/Mainland China	US$110,000,000	—	65.73%	High-level assembly
BYD Auto Sales Company Limited ("BYD Auto Sales") ##	PRC/Mainland China	RMB50,000,000	90%	10%	Sale and distribute of automobiles; provide related after-sales service
BYD Hungary Guarto, Szolgaltato es Kereskedelmi Korlatolt Felelossegu Tarsasag ("BYD Hungary")	Hungary	HUF3,000,000	—	65.73%	Manufacture, assembly and sale of mobile handset components and modules
BYD Electronic Hungary Kft ("Hungary Electronic")####	Hungary	HUF967,890,000	—	65.73%	Manufacture and sale of mobile handset components
BYD Electronics India Private Limited ("BYD India")	India	RS2,407,193,624	—	65.73%	Manufacture, assembly and sale of mobile handset components and modules

BYD Int'l is a subsidiary with its shares listed on the Hong Kong Stock Exchange.

These subsidiaries are registered as limited companies under the PRC law.

These subsidiaries are registered as Sino-foreign joint ventures under the PRC law.

During the year, the Group acquired BYD Electronic Hungary Kft. from Mirae Industry Co. Ltd. ("Mirae Industry"). Further details of this acquisition are disclosed in note 35 to the financial statement.

All subsidiaries above, except for BYD India, are not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

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

21. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

Particulars of the jointly-controlled entity is as follows:

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

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

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

	2008 RMB'000	2007 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	19,983	15,810
Non-current assets	9,907	8,348
Current liabilities	(3,213)	(6,648)
Net assets	26,677	17,510
Share of the jointly-controlled entity's results:		
Revenue	31,714	23,360
Income	2,047	364
	33,761	23,724
Total expenses	(17,798)	(15,084)
Tax	—	—
Profit after tax	15,963	8,640

22. INVENTORIES

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Raw materials	2,416,564	1,747,683	218,352	481,435
Work in progress	1,184,804	836,495	186,026	374,622
Finished goods	2,893,554	1,714,066	154,258	205,871
Moulds held for production	420,613	250,301	—	—
	6,915,535	4,548,545	558,636	1,061,928

At 31 December 2008, the carrying amount of certain of the Group's inventories was pledged as security for the Group's bank loans amounting to RMB22,056,000 (2007: RMB107,278,000), as further detailed in note 30a(ii) to the financial statements.

23. TRADE AND BILLS RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**2,969,492**	4,233,051	**684,222**	1,160,544
Bills receivable	**2,896,829**	1,400,925	**246,425**	202,653
Impairment	**(300,157)**	(201,399)	**(156,491)**	(87,616)
	5,566,164	5,432,577	**774,156**	1,275,581

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. At the balance sheet date, the Group had certain concentrations of credit risk as 41% (2007: 38%) and 64% (2007: 66%) the Group's trade receivables were due from the Group's largest customer and the five largest customers. Trade receivables are non-interest-bearing.

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**5,023,377**	5,105,216	**618,785**	1,121,450
Three to six months	**528,934**	310,387	**149,457**	153,655
Six months to one year	**9,937**	10,600	**2,215**	476
Over one year	**3,916**	6,374	**3,699**	—
	5,566,164	5,432,577	**774,156**	1,275,581

At 31 December 2008, the Group pledged bills receivable of RMB1,171,466,000 (2007: RMB168,206,000) to secure the Group's bank loans, as further detailed in note 30a(i) to the financial statements.

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**201,399**	209,218	**87,616**	86,276
Impairment of trade receivables (note 6)	**118,913**	31,229	**72,111**	14,896
Impairment losses reversed (note 6)	**(4,686)**	(19,099)	**(3,236)**	(13,556)
Written off as uncollectible	**(14,920)**	(19,949)	**—**	—
Exchange Realignments	**(549)**	—	**—**	—
At 31 December	**300,157**	201,399	**156,491**	87,616

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB300,157,000 (2007: RMB201,399,000) with a carrying amount of RMB681,929,000 (2007: RMB370,699,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. TRADE AND BILLS RECEIVABLES (continued)

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

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	**4,877,245**	4,673,586	545,803	796,349
Less than one year past due	**307,147**	589,691	51,714	186,967
	5,184,392	5,263,277	597,517	983,316

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

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

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current portion				
Prepayment for property, plant and equipment	**803,152**	386,587	**5,201**	13,200
Current-portion				
Prepayments	**228,170**	348,426	**41,046**	90,644
Deposits and other receivables	**455,559**	304,893	**54,689**	118,057
Loans to staff	**28,230**	21,684	**4,900**	6,716
	711,959	675,003	**100,635**	215,417

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

25. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**1,688,175**	5,529,501	**149,064**	330,853
Time deposits		**17,946**	53,446	**—**	2
		1,706,121	5,582,947	**149,064**	330,855
Less: Restricted bank deposits:					
Pledged time deposit	(i)	**(4,724)**	(43,446)	**—**	(2)
Cash and cash equivalents	(ii)	**1,701,397**	5,539,501	**149,064**	330,853

Notes:

(i) At 31 December 2008, the pledged bank deposit of RMB4,724,000 (2007: RMB43,446,000) was pledged for banking facilities of RMB1,726,000 (2007: RMB41,281,000) and for importing materials of RMB2,998,000 (2007: RMB2,165,000)

(ii) At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to RMB1,194,000,000 (2007: RMB660,570,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(iii) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE AND BILLS PAYABLES

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**5,963,428**	5,049,976	**1,203,493**	1,210,912
Three to six months	**646,185**	534,392	**57,371**	97,820
Six months to one year	**163,394**	51,320	**1,339**	5,834
One to two years	**59,125**	40,284	**6,378**	2,157
Two to three years	**6,744**	23,104	**1,909**	415
Over three years	**9,838**	16,318	**—**	1,260
	6,848,714	5,715,394	**1,270,490**	1,318,398

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

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables	**770,681**	848,022	**50,235**	97,251
Accruals	**159,492**	97,008	**28,725**	27,155
Accrued payroll	**599,862**	432,444	**137,622**	103,565
	1,530,035	1,377,474	**216,582**	227,971

Other payables are non-interest-bearing and have an average term of three months.

28. DEFERRED INCOME

During 2008, BYD Auto SZ, a wholly-owned subsidiary of the Company, received RMB422,318,000 (2007: RMB422,329,000) in government grants which were provided by the local government to support automotive research and development activities. The government grants did not specify any repayment terms or other conditions that are required to be met. In 2008, RMB276,566,000 was recognized as government grant income (2007: Nil) as a result of BYD Auto SZ incurring research and development cost which included amounts incurred by the Company and its fellow subsidiaries.

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**422,329**	—
Received during the year	**442,318**	422,329
Released to income statement	**(276,566)**	—
At 31 December	**588,081**	422,329
Less: portion classified as current liabilities	**(221,076)**	(422,329)
Non-current portion	**367,005**	—

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	Assets	**Liabilities**
	RMB'000	**RMB'000**
2008		
Forward currency contracts – current portion	—	—

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

30. INTEREST-BEARING BANK BORROWINGS

Group	2008			2007		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans - Secured	1.28-5.4	2009	1,193,522	5.14-6.19	2008	918,293
Bank loans - Unsecured	4.03-8.08	2009	2,059,316	5.14-6.48	2008	4,745,865
	LIBOR+125 bps -230bps	2009	826,850			
	HIBOR+ 180bps	2009	54,622			
Current portion of long term bank loans – Unsecured	4-7.83	2009	236,540	4.59-6.48	2008	1,164,685
			4,370,850			6,828,843
Non-current						
Bank loans – Secured	—	—	—	—	—	—
Bank loans – Unsecured	3.6-7.56	2010-2018	4,791,561	3.6-7.44	2009-2011	1,294,843
			4,791,561			1,294,843
			9,162,411			8,123,686

Company	2008			2007		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – Secured	3.5-5.4	2009	120,274	5.14-6.19	2008	593,059
Bank loans – Unsecured	4.13-7.27	2009	1,593,843	5.14-6.48	2008	2,984,246
	LIBOR+180 bps -230bps	2009	812,594			
	HIBOR+180bps	2009	54,622			
Current portion of long term bank loans – Unsecured	7.44	2009	165,000	4.59-6.48	2008	1,150,000
			2,746,333			4,727,305
Non-current						
Bank loans – Unsecured	3.6-7.56	2010-2018	3,930,000	3.6-7.44	2009-2011	1,060,000
			6,676,333			5,787,305

30. INTEREST-BEARING BANK BORROWINGS (continued)

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	**4,370,850**	6,828,843	**2,746,333**	4,727,305
In the second year	**1,720,041**	300,000	**1,400,000**	100,000
In the third to fifth years, inclusive	**2,207,520**	994,843	**1,780,000**	960,000
After 5 years	**864,000**	—	**750,000**	—
	9,162,411	8,123,686	**6,676,333**	5,787,305

Notes:

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

(i) the pledged of the Group's bills receivable, which had an aggregate carrying value at the balance sheet date of approximately RMB1,171,466,000 (2007: RMB168,206,000) (note 23), and

(ii) the pledge of certain of the Group's inventories totalling RMB22,056,000 (2007: RMB107,278,000) (note 22).

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

(c) Except for an unsecured bank loans of RMB54,622,000 (2007: RMB60,717,000) and RMB1,706,264,000 (2007:RMB1,451,693,000) which are denominated in Hong Kong dollars and United State dollars, respectively, all borrowings are in RMB.

31. PROVISION

Group	Product warranties	
	RMB'000	RMB'000
	2008	2007
At 1 January	**45,545**	13,193
Additional provision	**119,490**	82,016
Amounts utilised during the year	**(72,775)**	(49,664)
At 31 December	**92,260**	45,545

The Group provides two-year or below 40,000-kilometre (whichever applicable) warranties on automobiles and the undertaking to repair or replace items that fail to perform satisfactorily. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

32. DEFERRED TAX

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

Deferred tax assets

Group	Depreciation in excess of depreciation allowance RMB'000	Impairment of inventories RMB'000	Government grants RMB'000	Unrealised profits from intercompany transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	**55,059**	**8,275**	**93,631**	**—**	**8,256**	**165,221**
Deferred tax credited/(charged) to the income statement during the year (note 11)	**23,154**	**25,372**	**(93,631)**	**32,105**	**13,081**	**81**
At 31 December 2008	**78,213**	**33,647**	**—**	**32,105**	**21,337**	**165,302**
At 1 January 2007	10,414	—	—	—	—	10,414
Deferred tax credited to the income statement during the year (note 11)	44,645	8,275	93,631	—	8,256	154,807
At 31 December 2007	55,059	8,275	93,631	—	8,256	165,221

Company	Depreciation in excess of depreciation allowance RMB'000	Impairment of inventories RMB'000	Total RMB'000
At 1 January 2008	**6,367**	**3,851**	**10,218**
Deferred tax credited to the income statement during the year	**4,256**	**6,718**	**10,974**
At 31 December 2008	**10,623**	**10,569**	**21,192**
At 1 January 2007	6,385	—	6,385
Deferred tax credited/(charged) to the income statement during the year	(18)	3,851	3,833
At 31 December 2007	6,367	3,851	10,218

32. DEFERRED TAX (continued)

Deferred tax liabilities

Group	Construction Contract revenue RMB'000	Development costs RMB'000	Total RMB'000
At 1 January 2008	**714**	**1,501**	**2,215**
Deferred tax credited to the income statement during the year (note 11)	**(714)**	**(1,501)**	**(2,215)**
At 31 December 2008	—	—	—
At 1 January 2007	6,754	1,501	8,255
Deferred tax credited to the income statement during the year (note 11)	(6,040)	—	(6,040)
At 31 December 2007	714	1,501	2,215

The Group has tax losses arising in Mainland China of RMB221,107,000 (2007: RMB176,254,000) that will expire in one to five years for offsetting against future taxable profit, the Group has tax losses arising in Hungary of RMB45,334,000 (2007: Nil) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose, the Group also has tax losses arising in India of RMB83,201,000 (2007: RMB17,751,000) that will expire in one to eight years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2008, no provision has been made to recognize a deferred tax liabilities arising on the future distribution of retained profits from these subsidiaries as the Company controls the dividend policy of these subsidiaries and it is of the opinion that the profits will not be distributed in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB954,661,000 at 31 December 2008 (2007: Nil).

33. SHARE CAPITAL

Shares

	2008 RMB'000	2007 RMB'000
Authorised, issued and fully paid: 2,050,100,000 (2007: 539,500,000) ordinary shares of RMB1 each	**2,050,100**	539,500

In the shareholders meeting held on 20 March 2008, the shareholders of the Company approved the increase of the registered capital of the Company by capitalising the capital reserve, pursuant to which bonus shares were allotted and issued to the shareholders of the Company on the basis of 28 bonus shares for every 10 shares held by the shareholders of the Company on 20 March 2008 and the registered capital was increased from 539,500,000 to 2,050,100,000 of RMB1 per share.

Notes to Financial Statements

31 December 2008

34. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 36 of the financial statement.

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

(b) Company

	Note	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2007		1,523,080	(225,407)	150,185	75,094	527,310	2,050,262
Profit for the year	12	—	—	—	—	915,355	915,355
Proposed interim 2007 dividend		—	—	—	—	(701,350)	(701,350)
At 31 December 2007		1,523,080	(225,407)	150,185	75,094	741,315	2,264,267
Loss for the year	12	—	—	—	—	(150,801)	(150,801)
Capitalisation of reserve		(1,510,600)	—	—	—	—	(1,510,600)
At 31 December 2008		12,480	(225,407)	150,185	75,094	590,514	602,866

35. BUSINESS COMBINATION

On 12 February 2008, BYD Hungary acquired 100% interests in Mirae Hungary Industrial Manufacturer Ltd. ("Mirae Hungary") from Mirae Industry Co. Ltd. ("Mirae Industry"), at a consideration of EUR15,500,000 (equivalent to approximately RMB165 million) and change the name Mirae Hungary as BYD Electronic Hungary Kft ("Hungary Electronic"). Mirae Hungary was engaged in manufacturing handset housing for Nokia Komarom Kft.

The fair value of the identifiable assets and liabilities of Hungary Electronic as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on 12 February 2008 RMB'000	Carrying amount as at 12 February 2008 RMB'000
Property, plant and equipment	15	140,949	145,787
Other intangible asset	19	464	464
Cash and bank balances		9,173	9,173
Inventory		5,982	5,982
Trade receivables		3,627	3,627
		160,195	165,033
Goodwill on acquisition	18	4,875	
Satisfied by cash		165,070	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(165,070)
Payable to seller	34,619
Cash and bank balances acquired	9,173
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(121,278)

Since its acquisition, Hungary Electronic contributed RMB62,743,000 to the Group's turnover while made a loss of RMB45,334,000 to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB26,795,036,000 and RMB1,245,334,000 respectively.

36. CONTINGENT LIABILITIES

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

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

On 2 November 2007, the Company and BYD HK, the Defendants which had been served with the writ at that time, applied for a stay of the legal proceedings. The hearing of the stay took place on 11 and 12 June 2008 and the judgement in respect of the stay application was handed down on 27 June 2008. The stay application was dismissed and an order was also made that cost of the stay application to the Plaintiff, to be assessed by the court, if not agreed. The Group is seeking legal advice in light of the judgement and reserve the right to appeal against the decision of the Court of First Instance. The Group also reserves the right to file counterclaims against the Plaintiffs.

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

(b) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**760,177**	49,528

As at 31 December 2008, the banking facilities guaranteed to subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately RMB1,934,617,000 (2007: RMB 84,617,000).

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	**1,754**	756
In the second to fifth years, inclusive	**234**	1,558
Over five years	**145**	—
	2,133	2,314

(b) As lessee

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

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	**27,359**	5,576
In the second to fifth years, inclusive	**41,389**	2,656
	68,748	8,232

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37(b) above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**434,903**	702,227
Plant and machinery	**939,697**	1,254,223
	1,374,600	1,956,450
Authorised, but not contracted for:		
Land and buildings	**—**	129,372
	1,374,600	2,085,822

39. RELATED PARTY TRANSACTIONS

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

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

	2008	2007
	RMB'000	RMB'000
Short term employee benefits	**17,438**	32,312
Pension scheme contributions	**17**	29
	17,455	32,341

40. FINANCIAL INSTRUMENTS BY CATEGORY

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

2008	Group	
Financial assets	**Loans and receivables RMB'000**	**Total RMB'000**
Trade and bills receivables	5,566,164	5,566,164
Financial assets included in prepayments, deposits and other receivables	483,789	483,789
Pledged deposits	4,724	4,724
Cash and cash equivalents	1,701,397	1,701,397
	7,756,074	7,756,074

Financial liabilities	**Financial liabilities at amortised cost RMB'000**	**Total RMB'000**
Trade and bills payables	6,848,714	6,848,714
Financial liabilities included in other payables and accruals	770,681	770,681
Interest-bearing bank borrowings	9,162,411	9,162,411
	16,781,806	16,781,806

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2007	Group		
Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	—	5,432,577	5,432,577
Financial assets included in prepayments, deposits and other receivables	—	326,577	326,577
Derivative financial instruments	60,913	—	60,913
Pledged deposits	—	43,446	43,446
Cash and cash equivalents	—	5,539,501	5,539,501
	60,913	11,342,101	11,403,014

Financial liabilities	Financial assets at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	5,715,394	5,715,394
Financial liabilities included in other payables and accruals	—	848,022	848,022
Interest-bearing bank borrowings	—	8,123,686	8,123,686
Derivative financial instruments	42,725	—	42,725
	42,725	14,687,102	14,729,827

	Company				
	2008		2007		
Financial assets	**Loans and receivables RMB'000**	**Total RMB'000**	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	**774,156**	**774,156**	—	1,275,581	1,275,581
Financial assets included in prepayments, deposits and other receivables	**59,589**	**59,589**	—	124,773	124,773
Due from subsidiaries	**8,078,009**	**8,078,009**	—	5,291,117	5,291,117
Derivative financial instruments	**—**	**—**	21,925	—	21,925
Restricted bank deposit, and cash and cash equivalents	**149,064**	**149,064**	—	330,855	330,855
	9,060,818	**9,060,818**	21,925	7,022,326	7,044,251

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

	Company				
	2008		2007		
Financial liabilities	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial assets at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	1,270,490	1,270,490	—	1,318,398	1,318,398
Financial liabilities included in other payables and accruals	50,235	50,235	—	97,251	97,251
Interest-bearing bank borrowings	6,676,333	6,676,333	—	5,787,305	5,787,305
Due to subsidiaries	3,236,580	3,236,580	—	1,497,132	1,497,132
Derivative financial instruments	—	—	1,544	—	1,544
	11,233,638	11,233,638	1,544	8,700,086	8,701,630

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2008, approximately 24% (2007: 15%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Group			Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000	Increase/ (decrease) in basis points RMB'000	Increase/ (decrease) in equity* RMB'000
2008					
RMB	**25**	**(12,951)**	**—**	(9,906)	—
USD	**25**	**(4,287)**	**—**	(3,213)	—
HKD	**25**	**(137)**	**—**	(137)	—
RMB	**(25)**	**12,951**	**—**	9,906	—
USD	**(25)**	**4,287**	**—**	3,213	—
HKD	**(25)**	**137**	**—**	137	—
2007					
RMB	25	(12,564)	—	(10,883)	—
USD	25	(3,948)	—	(20,030)	—
HKD	25	(137)	—	(137)	—
RMB	(25)	12,564	—	10,883	—
USD	(25)	3,948	—	2,003	—
HKD	(25)	137	—	137	—

* Excluding retained profits

Foreign currency risk

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

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

		Group	
	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) inowner's equity* RMB'000
2008			
If RMB weakens against USD	**5%**	**(18,371)**	**—**
If RMB strengthens against USD	**(5%)**	**18,371**	**—**
If RMB weakens against HKD	**5%**	**(3,085)**	**—**
If RMB strengthens against HKD	**(5%)**	**3,085**	**—**
2007			
If RMB weakens against USD	5%	141,709	—
If RMB strengthens against USD	(5%)	(141,709)	—
If RMB weakens against HKD	5%	73,120	—
If RMB strengthens against HKD	(5%)	(73,120)	—

* Excluding retained profits.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the balance sheet date, the Group had certain concentrations of credit risk as 41% (2007: 38%) and 64% (2007: 66%) the Group's trade receivables were due from the Group's largest customer and the five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool.

This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group			**2008**			
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**3,981**	**2,352,350**	**2,187,508**	**4,572,058**	**1,009,940**	**10,125,837**
Trade and bills payables	**315,820**	**5,472,456**	**1,060,438**	**—**	**—**	**6,848,714**
Other payables	**329,193**	**391,567**	**49,921**	**—**	**—**	**770,681**
	648,994	**8,216,373**	**3,297,867**	**4,572,058**	**1,009,940**	**17,745,232**

			2007			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	5,687	1,426,425	5,634,445	1,387,293	—	8,453,850
Trade and bills payables	242,595	4,980,753	492,046	—	—	5,715,394
Other payables	204,668	463,227	180,127	—	—	848,022
Derivative financial instruments	—	—	42,725	—	—	42,725
	452,950	6,870,405	6,349,343	1,387,293	—	15,059,991

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company	**2008**					
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**1 to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**—**	**1,504,274**	**1,344,941**	**3,703,964**	**885,783**	**7,438,962**
Trade and bills payables	**63,517**	**796,362**	**410,611**	**—**	**—**	**1,270,490**
Other payables	**39,816**	**2,771**	**7,648**	**—**	**—**	**50,235**
Due to subsidiaries	**3,236,580**	**—**	**—**	**—**	**—**	**3,236,580**
	3,339,913	**2,303,407**	**1,763,200**	**3,703,964**	**885,783**	**11,996,267**

	2007					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	5,687	938,545	3,963,081	1,146,201	—	6,053,514
Trade and bills payables	31,317	1,239,867	47,214	—	—	1,318,398
Other payables	17,188	74,185	5,878	—	—	97,251
Derivative financial instruments	—	—	1,544	—	—	1,544
Due to subsidiaries	1,497,132	—	—	—	—	1,497,132
	1,551,324	2,252,597	4,017,717	1,146,201	—	8,967,839

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by equity. The Group's policy is to maintain the gearing ratio as low as possible. Net debt includes interest-bearing bank borrowings, less cash and cash equivalents. Equity represents equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

Group	2008 RMB'000	2007 RMB'000
Interest-bearing bank borrowings	9,162,411	8,123,686
Less: Cash and cash equivalents	(1,701,397)	(5,539,501)
Net debt	7,461,014	2,584,185
Equity	11,285,568	10,708,118
Gearing ratio	66%	24%

42. POST BALANCE SHEET EVENTS

At an extraordinary general meeting held on 9 March 2009, the shareholders approved and authorised the Company to issue the Medium-Term Notes in the PRC with an aggregate principal amount of not more than RMB4 billion. The Medium-Term Notes will be issued only to the institutional investors in the interbank bond market in the PRC, save for those prohibited by the PRC laws or regulations from subscription (and not the general public). The term of the Medium-Term Notes is 5 years from the date of issue. The interest rate is to be determined according to the prevailing market conditions at the time of issue, but in any event expected to be not higher than the best lending rate quoted by the People's Bank of China for the corresponding period. The proposed issue of the Medium-Term Notes is subject to approval of the National Association of Financial Market Institutional Investors（中國銀行間市場交易商協會）.

43. COMPARATIVE AMOUNTS

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

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2009.

Five Year Financial Summary

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

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
REVENUE	**26,788,253**	21,211,213	12,938,917	6,498,330	6,425,753
Cost of sales	**(21,569,417)**	(16,963,526)	(10,200,734)	(5,043,785)	(4,720,863)
Gross profit	**5,218,836**	4,247,687	2,738,183	1,454,545	1,704,890
Other income and gains	**332,845**	279,160	157,026	46,670	34,082
Government grants and subsidies	**359,098**	6,173	—	—	—
Selling and distribution costs	**(935,386)**	(648,187)	(480,177)	(170,089)	(160,341)
Research and development costs	**(1,163,091)**	(695,221)	(404,335)	(113,643)	(69,284)
Administrative expenses	**(1,483,547)**	(846,646)	(445,862)	(469,869)	(380,394)
Other expenses	**(472,838)**	(211,665)	(136,748)	(12,258)	(760)
Finance costs	**(491,945)**	(388,421)	(246,942)	(142,508)	(60,991)
PROFIT BEFORE TAX	**1,363,972**	1,742,880	1,181,145	592,848	1,067,202
Tax	**(88,323)**	(40,551)	(53,075)	(90,041)	(64,426)
PROFIT FOR THE YEAR	**1,275,649**	1,702,329	1,128,070	502,807	1,002,776
Attributable to:					
Equity holders of the parent	**1,021,249**	1,611,711	1,117,334	503,013	994,190
Minority interests	**254,400**	90,618	10,736	(206)	8,586
	1,275,649	1,702,329	1,128,070	502,807	1,002,776
TOTAL ASSETS	**32,891,145**	29,288,491	16,386,781	11,213,354	8,737,676
TOTAL LIABILITIES	**(19,553,773)**	(16,878,232)	(11,019,140)	(6,973,604)	(4,700,168)
MINORITY INTERESTS	**(2,051,804)**	(1,702,141)	(75,177)	(64,441)	(59,198)
	11,285,568	10,708,118	5,292,464	4,175,309	3,978,310