

NOTES TO THE CONDENSED ACCOUNTS

30 June 2002

(Expressed in RMB unless otherwise stated)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These Condensed Accounts of the Group are prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

These Condensed Accounts should be read in conjunction with the accountants' report as contained in appendix I of the Prospectus.

These Condensed Accounts include the accounts of the companies now comprising the Group as a result of a reorganisation as described in the paragraphs headed "Corporate reorganisation" in appendix VI of the Prospectus (the "Reorganisation") as if the current structure of the Group had been in existence throughout the periods covered in these Condensed Accounts.

The accounting policies and methods of computation used in the preparation of the Condensed Accounts are consistent with those used in the accountants' report as contained in the Prospectus.

2. SEGMENT INFORMATION

The Group has only one business segment, which is the manufacture of rechargeable batteries and related products. The Group conducts the majority of its business activities in four geographical areas, namely the People's Republic of China ("PRC"), Hong Kong, Europe and the United States of America ("U.S.A."). As over 90% of the Group's assets are located in the PRC, no segment assets by geographical location is presented.

An analysis of the Group's turnover and results for the Period by geographical segments in which the Group's service delivery operations are based (i.e., by locations of the Group's operations) is as follows:

	Unaudited				Total
	Six months ended 30 June 2002				
	PRC	Hong Kong	Europe	U.S.A.	
	RMB'000	RMB'000	MB'000	RMB'000	RMB'000
Turnover	884,129	—	44,115	22,204	950,448
Cost of sales	(520,031)	—	(23,591)	(11,073)	(554,695)
Gross profit	<u>364,098</u>	<u>—</u>	<u>20,524</u>	<u>11,131</u>	<u>395,753</u>

	Unaudited				Total
	Six months ended 30 June 2001				
	PRC	Hong Kong	Europe	U.S.A.	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	521,381	4,450	26,829	38,507	591,167
Cost of sales	(406,971)	(2,885)	(12,837)	(19,560)	(442,253)
Gross profit	<u>114,410</u>	<u>1,565</u>	<u>13,992</u>	<u>18,947</u>	<u>148,914</u>

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3. TURNOVER

An analysis of the Group's turnover by products is as follows:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Li-ion batteries	453,929	221,770
NiCd batteries	394,593	315,101
NiMH batteries	101,926	48,264
Others	—	6,032
	<u>950,448</u>	<u>591,167</u>

An analysis of the Group's turnover by locations of the Group's customers is as follows:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
PRC	347,199	239,423
Hong Kong	257,001	169,488
Europe	117,856	47,943
U.S.A.	135,153	67,925
Others	93,239	66,388
	<u>950,448</u>	<u>591,167</u>

4. OPERATING PROFIT

Operating profit was stated after charging and crediting the followings:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
After charging		
Cost of inventories (excluding staff costs, provision for employees' welfare and depreciation on property, plant and equipment)	455,068	353,812
Staff costs (exclude directors' emoluments)	90,333	63,871
Provision for employees' welfare	12,713	9,580
Directors' emoluments	663	494
Depreciation on property, plant and equipment	24,077	15,256
Amortisation of intangible assets	576	605
Interest expenses	12,159	8,173
Provision for doubtful receivables	9,633	7,890
(Reversal of provision)/provision for inventories obsolescence	(3,926)	6,879
Operating lease expenses	1,458	4,953
Loss on disposal of property, plant and equipment	8,914	1,110
Exchange losses, net	414	—
Auditors' remuneration	326	537
Research and development costs	22,401	14,349
After crediting		
Exchange gains, net	—	79
Interest income on bank deposits	385	250

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5. TAXATION

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong. Taxation on overseas profit has been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the combined condensed profit and loss account represents:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
PRC taxation	24,030	4,984

6. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Pre-IPO dividends	90,648	—

At meetings held on 30 April 2002, the respective shareholders of Shenzhen BYD Battery Company Limited ("BYD Industries"), the name adopted by the Company prior to the completion of the Reorganisation, and Shenzhen BYD Lithium Battery Company Limited ("BYD Li-ion"), a subsidiary of the Company, passed ordinary resolutions to declare pre-IPO dividends in aggregate amounting to RMB90,648,000 to the then shareholders of BYD Industries and BYD Li-ion before the listing of the Company's H shares on the main board of the Stock Exchange. These dividends have been reflected as an appropriation of retained profit for the Period. Certain amount of these dividends was offset against amounts due from some of the then shareholders of BYD Industries and BYD Li-ion.

7. EARNINGS PER SHARE

No earnings per share information is presented as this would be hypothetical due to the Reorganisation and preparation of the results on a combined basis as disclosed in Note 1 to these Condensed Accounts.

8. CAPITAL EXPENDITURE

	Property, plant and equipment	Intangible assets	Deferred assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book amount				
as at 1 January 2002 (Audited)	489,501	5,882	2,354	497,737
Additions	60,727	1,699	4,751	67,177
Disposals	(35,160)	—	—	(35,160)
Depreciation/amortisation	(18,134)	(576)	—	(18,710)
Closing net book amount				
as at 30 June 2002 (Unaudited)	496,934	7,005	7,105	511,044

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9. INVENTORIES

	Unaudited 30 June 2002	Audited 31 December 2001
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	124,511	108,256
Work-in-progress	208,077	152,668
Finished goods	27,346	20,149
	<hr/>	<hr/>
	359,934	281,073
Provision for inventories obsolescence	(37,152)	(41,078)
	<hr/>	<hr/>
	<u>322,782</u>	<u>239,995</u>

10. TRADE AND NOTES RECEIVABLES

The ageing analysis of trade and notes receivables is as follows:

	Unaudited 30 June 2002	Audited 31 December 2001
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months	448,662	350,733
4 to 6 months	40,419	8,237
7 to 12 months	12,796	5,993
1 to 2 years	2,625	543
2 to 3 years	774	1,447
Above 3 years	7,486	15,854
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	512,762	382,807
Provision for doubtful receivables	(40,733)	(31,100)
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	<u>472,029</u>	<u>351,707</u>

Credit policy

The Group adopted a prudent approach in granting credit to its customers. No credit term was granted to PRC customers except for those with sound financial background and good repayment histories, for which the Group would generally grant credit terms of 90 days. For overseas customers, the Group would grant credit terms of 90 days. In addition, a predetermined maximum credit term has been set for each customer.

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11. TRADE AND NOTES PAYABLES

The ageing analysis of trade and notes payables is as follows:

	Unaudited 30 June 2002	Audited 31 December 2001
	<i>RMB'000</i>	<i>RMB'000</i>
1 to 3 months	275,208	231,111
4 to 6 months	80,624	47,336
7 to 12 months	2,095	1,007
1 to 2 years	160	990
2 to 3 years	816	209
	<u>358,903</u>	<u>280,653</u>

12. BORROWINGS

(a) Short-term bank loans

	Unaudited 30 June 2002	Audited 31 December 2001
	<i>RMB'000</i>	<i>RMB'000</i>
Secured	338,000	208,000
Unsecured	—	40,000
	<u>338,000</u>	<u>248,000</u>

As at 30 June 2002, the Group's short-term bank loans were denominated in RMB, bore interest at rates ranging from 4.78% to 6.44% per annum and were guaranteed by Group companies.

(b) Long-term bank loans

	Unaudited 30 June 2002	Audited 31 December 2001
	<i>RMB'000</i>	<i>RMB'000</i>
Secured	70,000	170,000
Less: amount repayable within one year (included in current liabilities)	—	(100,000)
	<u>70,000</u>	<u>70,000</u>

As at 30 June 2002, the Group's long-term bank loans were denominated in RMB, bore interest at 6.53% per annum and were secured by the Group's certain buildings with an aggregate net book value of approximately RMB69,948,000.

As at 30 June 2002, the Group's long-term bank loans were repayable as follows:

	Unaudited 30 June 2002	Audited 31 December 2001
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	—	100,000
Between 1 to 2 years	70,000	70,000
	<u>70,000</u>	<u>170,000</u>

Subsequent to 30 June 2002, the Group has repaid all of the above short-term and long-term bank loans.

NOTES TO THE CONDENSED ACCOUNTS (cont'd)

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13. SHARE/PAID-IN CAPITAL AND CAPITALISATION OF RETAINED PROFIT

- (a) Pursuant to a board resolution, retained profit amounting to RMB70,000,000 were capitalised as paid-up capital and as a consequence, the registered capital of the Company was increased from RMB30,000,000 to RMB100,000,000.
- (b) As part of the Reorganisation, the Company was established as a joint stock limited company by way of the conversion of BYD Industries pursuant to which the registered capital of the Company was increased from RMB100,000,000 to RMB390,000,000 divided into 390,000,000 shares of RMB1 each. Such shares were issued, allotted and credited as paid up pursuant to a capitalisation of the total net assets of the Company in an amount of RMB390,868,003 (including reserve balances of RMB290,868,003) as at 30 April, 2002 on a dollar to dollar basis and as a result of which the remaining amount of RMB868,003 was treated as capital surplus of the Company.

14. CAPITAL RESERVE

Capital reserve of the Group represents the difference between the nominal value of the equity of the subsidiary acquired pursuant to the Reorganisation over the nominal value of the Company's consideration in exchange therefore.

15. RELATED PARTY TRANSACTIONS

Parties are considered to be related if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

(a) Name and relationship with related parties

Name	Relationship
Mr. Wang	Director and shareholder of the Company (27.835% shareholding)
Mr. Xia	Director and shareholder of the Company (6.096% shareholding)
Ms. Li Shao-hua	Mr. Wang Chuan-fu's spouse and director of BYD Li-ion
BYD Battery (USA) Corporation	Company controlled by Mr. Xia, Director and shareholder of the Company
Xin Ya Di Co., Ltd.	Company controlled by Mr. Wang, Director and shareholder of the Company
Guangzhou Rongjie	Shareholder of the Company (8.304% shareholding)

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15. RELATED PARTY TRANSACTIONS (cont'd)

(b) Transactions with related parties

For the six months ended 30 June 2002, the Group had the following significant transactions with its related parties:

	Unaudited	
	Six months ended 30 June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
BYD Battery (USA) Corporation		
– Sales of finished goods	141	—
Xin Ya Di Co., Ltd.		
– Sale of land use right	20,000	—

In the opinion of the Directors, the above related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

(c) Balance with related parties

As at 30 June 2002, the Group had no significant balance with its related party.

16. COMMITMENTS

(a) Capital commitments

	Unaudited	Audited
	30 June	31 December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised and contracted for		
– Acquisition of property, plant and equipment	114,476	18,552
– Acquisition of software and hardware for enterprise resources planning system	660	8,081
	<u>115,136</u>	<u>26,633</u>

(b) Operating lease commitments

As at 30 June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	Unaudited	Audited
	30 June	31 December
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	1,048	1,288
After 1 year but within 5 years	297	712
	<u>1,345</u>	<u>2,000</u>

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17. CONTINGENT LIABILITIES

The Group had the following significant contingent liabilities:

	Unaudited 30 June 2002 <i>RMB'000</i>	Audited 31 December 2001 <i>RMB'000</i>
Discounted notes	—	23,015
Guarantee of bank loans for other companies	2,670	25,470
Letters of credit issued (denominated in U.S. dollars)	49,803	48,738
Guarantee of letters of credit for other company (denominated in U.S. dollars)	—	4,980
	<u>52,473</u>	<u>102,203</u>

18. SUBSEQUENT EVENTS

- (a) The Company completed the Reorganisation in preparation for the listing of its H shares on the Stock Exchange.
- (b) On 31 July 2002, the Company listed its H shares on the Stock Exchange.
- (c) Pursuant to a resolution passed by the Directors on 14 August 2002, 19,500,000 H shares with par value of RMB1 were issued at HK\$10.95 per H share pursuant to the exercise of the over-allotment option in full and were fully paid up for cash. These newly issued H shares rank pari passu in all respects with the then existing H shares.