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## Interim Results for the six months ended 30th June 2004

- Turnover +87% To RMB2,784.5 million

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- Operating Profit +41% To RMB536.7 million

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- Profit attributable to shareholders +46% To RMB475.4 million

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- Basic earnings per share +47% To RMB0.88

## Highlights

- Achieved tremendous increase in turnover and profit attributable to shareholders amid fierce market competition during the six months ended 30th June 2004

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- Recorded a significant increase in sales in Li-ion batteries by over one fold

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- Expanded product portfolio to new mobile phone related products, including precise plastic parts and LCDs as key income sources

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- Secured increasing orders from existing customers

# CHAIRMAN'S STATEMENT

It is my pleasure to present the unaudited results of BYD Company Limited (the "Company" or "BYD") and its subsidiaries (the "Group") for the six months ended 30th June 2004 (the "Period").

## Business Review

Following the recovery of SARS by the second half of 2003, the global economic performance has retrieved to normal after almost a year of adjustment. On one hand, delayed orders due to previous economic uncertainties led to a boom in overall sales in nearly all kinds of key products. On the other hand, extended offering of mobile related products including precise plastic parts and LCDs for mobile phone were exceptionally well received by the Group's domestic clients and created a promising income source for the Group. Despite (1) the increase in price levels of raw materials which has increased the cost of rechargeable batteries; (2) the keen competition in both the rechargeable battery market and the automobile market and (3) the state's macro-economic control measures affecting the overall automobile industry have imposed pressure on overall sales growth and profit margin levels, turnover and gross profit still managed to surge significantly by 87% and 49% to RMB2,785 million and RMB765 million respectively.

## Rechargeable battery business

During the Period, sales of Nickel (NiCd and NiMH) batteries remained a solid and stable growth keeping abreast the pace of global economic growth. The sales of Nickel batteries grew by 11%, compared with the corresponding period of last year. Capturing the booming demand for digital/communications products, the Group received historically high sales orders for Li-ion battery products. The sales of Li-ion battery products grew by 1.26 times over that of the corresponding period of last year. With its unrivaled product quality and cost efficiency, the Group continued to gain increasing market share for all its three core products, excelling in the global rechargeable battery regime.

Taking pride of its worldwide reputation on unrivaled R&D capabilities, diversified product range as well as stringent quality and cost control, BYD continued to receive growing order volume from existing clients (e.g. Motorola and Nokia) during the Period. Due to keen competition in the global mobile handset market which has inevitably imposed pressure on component price and margin, gross profit margin has been reduced by 9% as compared with the corresponding period in 2003. Through tactically increasing the proportion of self-made materials, improving the product composition and enhancing its pricing competitiveness via economies of scale, the Group, however, had successfully minimised such impact towards its gross profit margin.

Boasted by its unrivaled R&D capabilities, BYD has gradually transformed into a one-stop shop for mobile phone components from design to finishing. During the Period, the Group commenced design and development of 300 types of battery products of new handset models for international handset brands. The move not only demonstrates their recognition and confidence over BYD's unrivaled R&D capabilities, but also secures a long-term sales orders from these clients. Apart from mobile handsets, new battery models have also been developed for other electronic products such as notebook PC.

## Battery-related business

Sharing the same customer platform with its battery business, the Group has expanded its plastic and tooling capability from battery casing to precise plastic parts for mobile phone and related moulds in the second half of 2003. During the Period, the Group has developed about 70 models of precise plastic parts for handsets. Leveraging on its strong presence in the battery regime, as well as its extensive and internationally renowned clientele, the Group has also been actively engaged in the development and manufacture of the monochrome and color STN-LCDs for mobile phone since last year. Given the excellent market response, the Group has further enhanced the production scale in Shanghai and thus increased its market share during the Period. The battery-related businesses are expected to generate significant profit contribution for the Group in the near future.

## **CHAIRMAN'S STATEMENT (cont'd)**

### **Automobile business**

With the implementation of macro-economic tightening measures since the second quarter of 2004, local banks have now tightened the lending policies and implemented a more stringent requirement on automobile financing. The policy indeed affected more on the high ranked sedan car instead of the low-to-middle ranked ones which the Group produces. The anticipated price cut to be followed after removal of import quota in 2005, in contrast, has cooled down the consumption atmosphere for automobile, thus inevitably affecting the general sales volume of the Group.

Despite the enormous market potentials brought by growing affluence and consumption power of local people, competition still exists for the PRC automobile industry, leading to a continuous downward price adjustment for various automobile products. Price fluctuations in raw materials have further worsened the margin levels for automobile products. All these have laid down an unfavourable operational environment for the Group's automobile business. However, as the contribution of automobile business to total turnover of the Group was relatively small, the overall impact to the Group was proven to be insignificant.

The Group has made utmost efforts in stressing on R&D to improve quality and cost management as well as executing flexible pricing and marketing strategies to sustain its sales and margin. During the Period, sales volume of its automobile product reached 10,038 units. Turnover and gross profit reached RMB264 million and RMB30 million respectively, representing 9% and 4% contribution of that of the Group.

As to strengthen the sales for its automobile products, BYD believed brand management was an effective channel to stand out itself from other local market players. During the Period, all automobile products have been marketed under the brand name of "BYD". To diversify product range, 6 new models catering for low-to-mid end market have also been launched, and were all well received in the market. It is the Group's objective to fully utilise the competitive advantages of BYD Automobile Company Limited ("BYD Auto QC") in the automobile manufacture regime to develop a comprehensive product range to capture more market share in the future.

While solidifying its automobile business, the Group has also expedited its development and production of rechargeable power batteries for electric motor vehicles, with the aim to generate remarkable synergetic benefits and create new income sources. The first series of electric motor has been launched and is currently under the process of technical fine-tuning.

### **Future Prospects and Strategies**

Having gone through all the uncertainties in rechargeable battery and automobile markets and prepared itself with a series of growth strategies, including enhancing production capacity, strengthening cost control and developing new products, etc., the future for the Group is ever promising than before.

### **Rechargeable batteries and its related business**

For its core battery and its related business, BYD will further enhance the R&D competencies, manufacturing and sales of rechargeable batteries products that enjoy product diversity and high profit. The Group will work closely with its existing customers to seek every opportunity to develop new battery models for their products. Witnessing the rapid market launch of new mobile and PC models, new battery models will also be developed for mobile handset as well as notebook PC so as to capture the immense market potential. The Group will also continue to enhance its product portfolio and further expand its market share, such as increasing the production of packed battery products with a view of catering to the ever-changing market demand.

In addition, BYD will also further strengthen its production capacity, particularly Li-ion battery and precise plastic parts for mobile phone in Shenzhen and Shanghai. The improvement in production capacity will enable the Group to enjoy even greater economies of scale. With further enhancing cost control management to lower production cost, the Group's products will become more competitive, paving the way for the Group to extend its reach to the mobile related products market. While actively promoting mobile related products to domestic clients, the Group also strived to capture sales orders from its overseas customers. In addition, the Group will also explore the product range of mobile related products, including Light Emitting Diode ("LED") display, etc. with the aim to provide a more comprehensive product range to its customers.

## **CHAIRMAN'S STATEMENT (cont'd)**

### **Automobile business**

The continuous economic growth in the PRC keeps stimulating the demand for automobile, creating enormous potential for the automobile industry. With its technical know-how for both automobile and battery regimes, it is believed that BYD will be highly competitive and be able to capture increasing market share in its automobile business in the near future.

Looking forward, the Group will continue to strengthen its business foundation by enhancing its production capacity and developing new models for different capacity so as to capture more market share. In addition, the Group will also further explore the development opportunities on production of electric motor vehicles and its rechargeable power batteries products.

For the years to come, BYD will continue to embrace its operation model and development direction. BYD is dedicated and committed to becoming a distinguished one-stop parts provider for international handset players as well as one of the market leaders in the domestic automobile market.

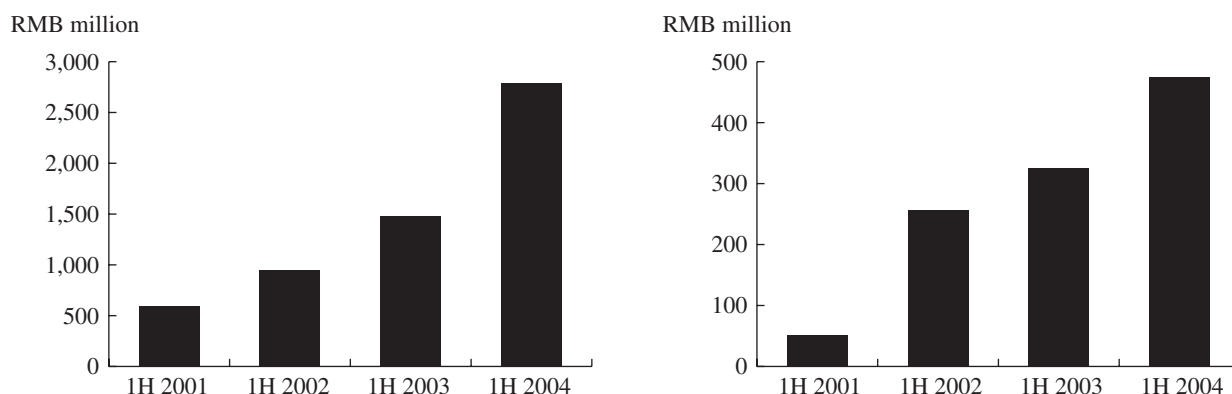
**Wang Chuan-fu**  
*Chairman*

Hong Kong, 26th August 2004

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

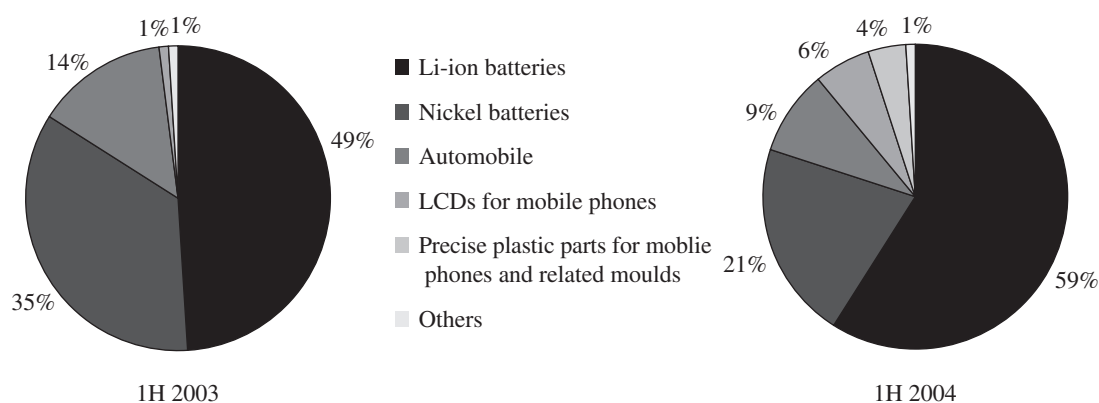
### Turnover and Profit Attributable to Shareholders



The increase in turnover and profit attributable to shareholders were principally resulted from the tremendous increase in sales in Li-ion battery by over one fold. In addition, mobile related products also surged significantly as compared with the corresponding period in 2003. Having commenced its operations since last year, the LCDs for mobile phones division has already recorded significant increase in sales by 11 times during the Period, while precise plastic parts for mobile phone have not been launched in the market in the same period in 2003.

### Segmental information

A comparison of turnover breakdown by products of 1H 2003 and 1H 2004 is as follows:

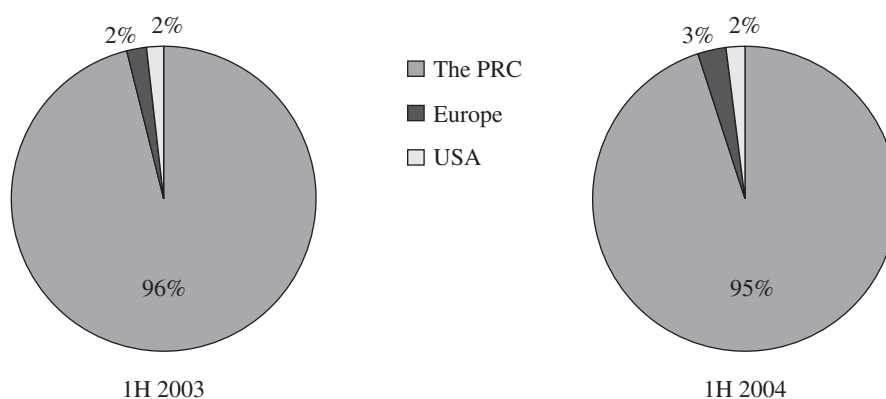


Being the largest income source of the Group, Li-ion battery products recorded an increase in sales proportion by 126% as compared with the same period in previous year, leading to decrease in proportion of automobile business to the total turnover contribution. Such increase was due to the significant increase in sales orders from giant clients including Motorola and Nokia. Sales of mobile related products including LCDs for mobile phones and precise plastic parts for mobile phone have surged rapidly, contributing to 10% of the Group's total turnover during the Period.

# MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

## FINANCIAL REVIEW (cont'd)

A comparison of turnover breakdown by geographical segment, as determined by location of its operations, of 1H 2003 and 1H 2004 is as follows:



### Gross Profit and Margin

The Group's gross profit increased by 49% to RMB764,716,000 as compared with the corresponding period of last year.

Gross profit increased due to increase in sales, in which sales of Li-ion battery has tremendously increased by over one fold as compared with the corresponding period in 2003, while the new mobile related products have brought additional sales to the Group.

Gross profit margin decreased mainly due to (1) price increase in chemical materials of battery products, (2) sustainable growth in sales in packed battery products which have lower gross profit margin, as well as (3) the tightening of export tax refund policy for battery products in the PRC early this year.

### Liquidity and Financial Resources

The Group generated a net operating cash inflow of approximately RMB42,817,000 during the six months ended 30th June 2004 compared with approximately RMB82,792,000 as for the corresponding period of last year.

The Group's total borrowings as at 30th June 2003, which comprised of all bank loans were RMB2,077,873,000, compared with RMB724,324,000 as at 31st December 2003. The maturity profile spread over a period of seven years with RMB1,743,163,000 repayable within one year, RMB255,798,000 in the second year, RMB47,347,000 within three to five years and RMB31,565,000 after five years.

The principal reasons for the increase in total borrowings are the increase in number of battery related new projects, R&D investment volume and enhanced production capacity. For day-to-day liquidity management and funding for capital expenditures, relevant funding requirements are expected to be met by the Group's internal operating cash flow. Also, the Group can access to a significant amount of short-term borrowing facilities from its principal banks. As at 30th June 2004, the gearing ratio of the Group was 39%, calculated on the basis of total borrowing net of cash and cash equivalents over net assets.

The Group's accounts receivable turnover days was about 95 days for the six months ended 30th June 2004 as compared to about 94 days for the year ended 31st December 2003 with the Group's continuous effort's in monitoring and maintaining healthy credit policies and to monitor customers' credit performance, accounts receivable turnover days remained steady during the period under review.

Inventory was required to be kept in the warehouse before delivery and production. The surge in raw material prices and the allowance for customers' bulk orders during the Period have resulted in the increase in total reserve. Also, additional new projects with enhancement in production capability in the Shanghai plant have resulted in the increase in inventory days from 87 days for the year ended 31st December 2003 to 108 days during the period under review.

During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30th June 2004.

# MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

## FINANCIAL REVIEW (cont'd)

### Capital Structure

The Group's treasury function is responsible for the financial risk management of the Group, which operates according to the policies approved by top management. As at 30th June 2004, the Group's borrowings were primarily denominated in RMB and USD while its cash and cash equivalents were denominated in RMB and USD.

It is the intention of the Group to maintain an appropriate mix of equity and debt to ensure an efficient capital structure over time.

The loans remaining outstanding as at 30th June 2004 were at fixed interest rates.

### Details of the Group's Asset Pledged

As at the date of this interim report, no asset of the Group is pledged.

### Use of IPO Proceeds

	<i>HK\$ million</i>	
	<b>Planned</b>	<b>Latest allocation</b>
• Expansion in production capacity and R&D and manufacturing of Li-ion batteries and related new products	189	Fully utilised
• Development and manufacture of raw materials in Li-ion batteries	94	Fully utilised
• Product R&D and manufacture of rechargeable batteries for electric vehicles	85	Fully utilised
• Product R&D and manufacture of fuel cells and solar cells	85	0.5
• Product R&D and manufacture of monochrome and colour STN-LCDs	142	Fully utilised
• Repayment of bank loans	377	Fully utilised
• Potential acquisition(s)	189	—
• General operating capital	188	Fully utilised

### Exposure to Foreign Exchange Risk

Most of the income and expenditure of the Group are denominated in RMB and U.S. dollars. The Group has not experienced any significant difficulties in its operations or liquidity as a result of fluctuations in currency exchange rates during the Period. The Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

### Employment, Training and Development

As at 30th June 2004, the Group had a total of over 40,000 employees representing, an increase of 12,000 employees compared with that at 31st December 2003. Total staff costs accounted for approximately 10% of the Group's turnover during the Period. Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies being reviewed on a regular basis. Bonuses and commissions may also be awarded to employees based on performance evaluation. There are incentives and encouragements for personal and career development.



# MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

## FINANCIAL REVIEW (cont'd)

### Share Capital

As at the date of this interim report, the share capital of the Company is as follows:

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

## SUPPLEMENTARY INFORMATION

### Purchase, sale or redemption of shares

The Company has not redeemed any of its shares since the listing on 31st July 2002 up to the date of this interim report. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

### Capital Commitment

As at 30th June 2004, the Group had authorised and contracted for capital commitments in respect of the acquisition of plants and machinery amounting to RMB622,809,000.

### Contingent Liabilities

As at 30th June 2004, the Group has contingent liabilities of approximately RMB10,125,000 which is guarantee of bank loans for other companies.

The Group is currently involved in two separate litigation proceedings in U.S.A. and Japan, both in relation to alleged patent infringements. Due to the fact that the proceeding in U.S.A. is still in progress and there has not been any material development in respect of the legal proceeding in Japan, it is impracticable and premature for the Directors to assess the impact of such proceedings on the Group and its operations. The Directors believe that the Group has not committed the alleged infringements and the Group would vigorously defend against all claims made under the proceedings.

### Shareholders with notifiable interests

As at 30th June 2004, so far as is known to the directors of the Company, the following persons (other than the directors, supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO"), 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*

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

## SUPPLEMENTARY INFORMATION (cont'd)

H shares of RMB1 each

Name	Number of shares in which the interested party is deemed to have interests or short positions	Approximate percentage shareholding of total issued share capital %	Approximate percentage shareholding of total issued H shares %
The Capital Group Companies, Inc. (note 3)	22,391,500 (L)	4.15 (L)	14.98 (L)
FMR Corp (note 4)	17,893,000 (L)	3.32 (L)	11.97 (L)
Morgan Stanley (note 5)	7,507,602 (L) 2,709,500 (S)	1.39 (L) 0.50 (S)	5.02 (L) 1.81 (S)

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

Notes:

1. Mr. Lu Xiang-yang, a director of the Company, is also deemed to be interested in 44,800,700 domestic shares representing about 11.49% of the Company's total issued domestic shares which are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 84% by Mr. Lu.
2. Mr. Yang Long-zhong is a senior management personnel responsible for sales function of the Group.
3. The Capital Group Companies, Inc. is taken to be interested in a long position of 14.98% of the Company's total issued H shares through the following companies:
  - (a) a long position of 22,391,500 H shares (representing approximately 14.98% of the Company's total issued H shares) held by Capital Group International, Inc.; and
  - (a) a long position of 22,391,500 H shares (representing approximately 14.98% of the Company's total issued H shares) held by Capital International, Inc..
4. FMR Corp is taken to be interested in a long position of 11.97% of the Company's total issued H shares through the following companies:
  - (a) a long position of 16,660,100 H shares (representing approximately 11.14% of the Company's total issued H shares) held by Fidelity Management & Research Company; and
  - (b) a long position of 1,232,900 H shares (representing approximately 0.82% of the Company's total issued H shares) held by Fidelity Management Trust Company.
5. Morgan Stanley is taken to be interested in a long position of 5.02% and a short position of 1.81% of the Company's total issued H shares through the following companies:-
  - (a) a long position of 6,167,102 H shares and a short position of 1,284,000 H shares (representing approximately 4.13% and 0.86% respectively of the Company's total issued H shares) held by Morgan Stanley Capital Management, L.L.C.;
  - (b) a long position of 6,167,102 H shares and a short position of 1,284,000 H shares (representing approximately 4.13% and 0.86% respectively of the Company's total issued H shares) held by Morgan Stanley Domestic Capital, Inc.;
  - (c) a long position of 6,167,102 H shares and a short position of 1,284,000 H shares (representing approximately 4.13% and 0.86% respectively of the Company's total issued H shares) held by Morgan Stanley International Incorporated;
  - (d) a long position of 4,716,507 H shares (representing approximately 3.15% of the Company's total issued H shares) held by Morgan Stanley International Holdings Inc;
  - (e) a long position of 4,716,507 H shares (representing approximately 3.15% of the Company's total issued H shares) held by Morgan Stanley Asia Pacific (Holdings) Limited;
  - (f) a long position of 4,712,240 H shares (representing approximately 3.15% of the Company's total issued H shares) held by Morgan Stanley Asia Regional (Holdings) III LLC;
  - (g) a long position of 4,712,240 H shares (representing approximately 3.15% of the Company's total issued H shares) held by Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd;
  - (h) a long position of 4,712,240 H shares (representing approximately 3.15% of the Company's total issued H shares) held by Morgan Stanley Investment Management Company;

## SUPPLEMENTARY INFORMATION (cont'd)

- (i) a long position of 4,267 H shares (representing approximately 0.00% of the Company's total issued H shares) held by Morgan Stanley Dean Witter (Hong Kong) Holdings Limited;
- (j) a long position of 4,267 H shares (representing approximately 0.00% of the Company's total issued H shares) held by MSDW Asia Securities Products LLC;
- (k) a long position of 4,267 H shares (representing approximately 0.00% of the Company's total issued H shares) held by Morgan Stanley Dean Witter Hong Kong Securities Limited;
- (l) a long position of 1,416,500 H shares and a short position of 1,284,000 H shares (representing approximately 0.95% and 0.86% respectively of the Company's total issued H shares) held by Morgan Stanley International Limited;
- (m) a long position of 1,416,500 H shares and a short position of 1,284,000 H shares (representing approximately 0.95% and 0.86% respectively of the Company's total issued H shares) held by Morgan Stanley Group (Europe);
- (n) a long position of 1,416,500 H shares and a short position of 1,284,000 H shares (representing approximately 0.95% and 0.86% respectively of the Company's total issued H shares) held by Morgan Stanley UK Group;
- (o) a long position of 1,416,500 H shares and a short position of 1,284,000 H shares (representing approximately 0.95% and 0.86% respectively of the Company's total issued H shares) held by Morgan Stanley & Co International Limited;
- (p) a long position of 95 H shares (representing approximately 0.00% of the Company's total issued H shares) held by Morgan Stanley Swiss Holdings GmbH;
- (q) a long position of 87,500 H shares (representing approximately 0.06% of the Company's total issued H shares) held by Morgan Stanley Capital (Luxembourg) S.A.;
- (r) a long position of 85,000 H shares (representing approximately 0.06% of the Company's total issued H shares) held by Morgan Stanley Capital (Cayman Islands) Limited;
- (s) a short position of 34,000 H shares (representing approximately 0.02% of the Company's total issued H shares) held by Morgan Stanley Asset & Investment Trust Management Co., Limited; and
- (t) a long position of 1,340,500 H shares and a short position of 1,340,500 H shares (representing approximately 0.90% and 0.90% respectively of the Company's total issued H shares) held by Morgan Stanley & Co Incorporated.

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

As at 30th June 2004, the interests and short positions of each director, supervisor and chief executive 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 SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange to be notified to the Company and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the supervisors) are as follows:-

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

(L) - Long Position

## SUPPLEMENTARY INFORMATION (cont'd)

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

<b>Name</b>	<b>Number of shares in which the interested party is deemed to have interests or short positions</b>	<b>Approximate percentage shareholding of total issued share capital %</b>	<b>Approximate percentage shareholding of total issued domestic shares/H shares %</b>
<i>H Shares</i>			
Mr. Wang Chuan-fu	560,000 (L) (note 2)	0.10	0.37

Note 2: According to the legal consultant of the Company, Mr. Wang Chuan-fu, being a director of the Company, is legally acceptable to purchase H Shares outside the PRC.

### Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 8th July 2002 in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The primary duties of the audit committee are to review the financial reporting process of the Group. The audit committee consists of the two independent non-executive Directors, namely Professor Li Guo-xun and Mr. Kang Dian and the non-executive Director, Mr. Lu Xiang-yang. A meeting was convened by the Company's audit committee and senior management of the Group (with the assistance from the auditors of the Company) to review the Group's financial statements, the accounting principles and practices adopted by the Group and to discuss scope of review, internal control and risk management and financial reporting matters (including the unaudited interim accounts for the six months ended 30th June 2004 before recommending them to the Board for approval).

### Compliance with the Code of Best Practice under the Listing Rules

The Board is pleased to confirm that the Company has complied with the Code of Best Practice under the Listing Rules.

None of the Directors is aware of any information that would reasonably indicate that the Group is not, or was not for any part of the Period, in compliance with the Code of Best Practice as set out in the Appendix 14 to the Listing Rules during the Period.

By Order of the Board  
**Wang Chuan-fu**  
Chairman

Hong Kong, 26th August 2004

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2004

(Expressed in Renminbi ("RMB"))

	Note	Unaudited	
		Six months ended 30 June	
		2004	2003
		RMB'000	RMB'000
Turnover	2	2,784,509	1,485,262
Cost of sales		(2,019,793)	(971,858)
<b>Gross profit</b>		764,716	513,404
Other revenue	2	17,131	12,004
Distribution costs		(72,099)	(41,774)
Administrative expenses		(172,445)	(101,964)
Other operating expenses		(586)	(66)
<b>Operating profit</b>	3	536,717	381,604
Finance costs		(26,859)	(8,285)
<b>Profit before taxation</b>		509,858	373,319
Taxation	4	(30,198)	(27,968)
<b>Profit after taxation</b>		479,660	345,351
Minority interests		(4,289)	(19,904)
<b>Profit attributable to shareholders</b>		475,371	325,447
Dividends	5(a)	—	—
Earnings per share - basic	6(a)	RMB0.88	RMB0.60
- diluted	6(b)	N/A	N/A

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2004

(Expressed in RMB)

	Note	Unaudited 30th June 2004 RMB'000	Audited 31st December 2003 RMB'000
<b>Non-current assets</b>			
Fixed assets	7	3,057,415	2,381,715
Intangible assets	7	175,325	84,180
Deferred tax assets	4(b)	11,217	11,518
<b>Total non-current assets</b>		<u>3,243,957</u>	<u>2,477,413</u>
<b>Current assets</b>			
Inventories	8	1,547,253	870,379
Prepayments and other receivables		295,830	217,206
Amounts due from a related party	15	—	1,043
Trade and notes receivable	9	1,453,416	1,493,362
Restricted bank deposits		6,313	19,678
Cash and bank deposits		723,409	498,813
<b>Total current assets</b>		<u>4,026,221</u>	<u>3,100,481</u>
<b>Current liabilities</b>			
Trade and notes payable	10	1,321,576	1,192,878
Accruals and other payables		263,414	189,408
Advances from customers		25,510	6,678
Amounts due to related parties	15	20,330	20,330
Taxes payable		(32,242)	2,995
Provision for warranty	12	5,526	7,518
Short-term bank loans	11(a)	1,725,722	602,659
Long-term bank loans - current portion	11(b)	17,441	16,527
<b>Total current liabilities</b>		<u>3,347,277</u>	<u>2,038,993</u>
<b>Net current assets</b>		<u>678,944</u>	<u>1,061,488</u>
<b>Total assets less current liabilities</b>		<u>3,922,901</u>	<u>3,538,901</u>
<b>Non-current liabilities</b>			
Long-term bank loans, less current portion	11(b)	334,710	105,138
Minority interests		105,830	153,529
<b>Net assets</b>		<u>3,482,361</u>	<u>3,280,234</u>
Financed by:			
<b>Shareholders' equity</b>			
Share capital	13	539,500	539,500
Reserves		2,942,861	2,740,734
<b>Total shareholders' equity</b>		<u>3,482,361</u>	<u>3,280,234</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2004

(Expressed in RMB)

### Unaudited Six months ended 30th June 2004

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Cumulative translation adjustments	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1st January 2004	539,500	1,523,080	92,065	41,174	(2,089)	1,086,504	3,280,234
Profit attributable to shareholders for the period	—	—	—	—	—	475,371	475,371
Dividends (Note 5(b))	—	—	—	—	—	(276,224)	(276,224)
Translation adjustments	—	—	—	—	2,980	—	2,980
As at 30th June 2004	539,500	1,523,080	92,065	41,174	891	1,285,651	3,482,361

### Unaudited Six months ended 30th June 2003

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Cumulative translation adjustments	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1st January 2003	539,500	1,523,080	27,007	13,503	(263)	468,590	2,571,417
Profit attributable to shareholders for the period	—	—	—	—	—	325,447	325,447
Appropriation	—	—	14,605	7,303	—	(21,908)	—
Dividends (Note 5(b))	—	—	—	—	—	(153,218)	(153,218)
Translation adjustments	—	—	—	—	(684)	—	(684)
As at 30th June 2003	539,500	1,523,080	41,612	20,806	(947)	618,911	2,742,962



# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2004

(Expressed in RMB)

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Net cash inflow generated from operations</b>	128,149	166,839
Interest paid	(20,198)	(6,902)
Overseas taxation paid	(65,134)	(77,145)
Net cash inflow from operating activities	42,817	82,792
<b>Cash flows used in investing activities</b>		
Bank deposit pledged	13,365	—
Interest received	2,633	3,767
Proceeds from disposal of fixed assets	1,548	45
Payment for deferred development costs	(91,042)	—
Purchase of a subsidiary, net of cash acquired	(52,500)	(251,184)
Acquisition of fixed assets	(772,529)	(307,334)
Acquisition of other intangible assets	—	(2,118)
Net cash outflow used in investing activities	(898,525)	(556,824)
<b>Cash flows from/(used) in financing activities</b>		
Proceeds from borrowings	1,533,518	201,707
Repayments of borrowings	(179,970)	(148,832)
Dividends paid	(276,224)	(153,218)
Net cash inflow from/(used) in financing activities	1,077,324	(100,343)
Increase/(decrease) in cash and cash equivalents	221,616	(574,375)
Cumulative effect on translations	2,980	(684)
<b>Cash and cash equivalents at beginning of period</b>	498,813	1,240,154
<b>Cash and cash equivalents at end of period</b>	723,409	665,095

# NOTES TO THE CONDENSED ACCOUNTS

30th June 2004

(Expressed in RMB unless otherwise stated)

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed accounts of BYD Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice Number 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

## 2. TURNOVER AND REVENUE

	Unaudited	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Turnover		
– Li-ion batteries	1,635,257	724,735
– Nickel batteries	580,030	523,245
– Automobiles	264,155	214,527
– Liquid crystal display ("LCD") for mobile phones	174,011	14,326
– Precise plastic parts for mobile phones	119,081	—
– Others	11,975	8,429
	<u>2,784,509</u>	<u>1,485,262</u>
Other revenue		
– Sales of materials (Note (a))	11,169	2,556
– Processing income	545	310
– Subsidy income	2,754	5,371
– Interest income	2,663	3,767
	<u>17,131</u>	<u>12,004</u>
Total revenue	<u>2,801,640</u>	<u>1,497,266</u>

- (a) During the period, the Group sold raw material to some of its suppliers amounting to approximately RMB84,294,000 (2003: RMB80,670,000) with a corresponding cost of raw materials of approximately RMB73,125,000 (2003: RMB78,114,000), resulting in other revenue of approximately RMB11,169,000 (2003: RMB2,556,000).

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 2. TURNOVER AND REVENUE (cont'd)

#### Primary reporting format — business segments

The Group is principally engaged in two main business segments:

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

An analysis of the Group's revenues and results for the period by business segments is as follows:

	<b>Unaudited</b>		
	<b>Six months ended 30th June 2004</b>		
	<b>Battery and other products</b>	<b>Automobile and related products</b>	<b>Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2,490,239	294,270	2,784,509
Segment results	546,698	(9,981)	536,717
Unallocated costs			—
Operating profit			536,717
Finance costs			(26,859)
Profit before taxation			509,858
Taxation			(30,198)
Minority interests			(4,289)
Profit attributable to shareholders			475,371

	<b>Unaudited</b>		
	<b>Six months ended 30th June 2003</b>		
	<b>Battery and other products</b>	<b>Automobile and related products</b>	<b>Group</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1,270,735	214,527	1,485,262
Segment results	375,576	6,028	381,604
Unallocated costs			—
Operating profit			381,604
Finance costs			(8,285)
Profit before taxation			373,319
Taxation			(27,968)
Minority interests			(19,904)
Profit attributable to shareholders			325,447

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 2. TURNOVER AND REVENUE (cont'd)

#### Secondary reporting format — geographical segments

An analysis by geographical segment, as determined by location of customers, is presented below. No segment assets and liabilities are presented as over 90% of the Group's assets are located in the PRC.

	<b>Unaudited</b>		
	<b>Six months ended 30th June 2004</b>		
	<b>Turnover</b>	<b>Cost of sales</b>	<b>Gross profit</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC	2,645,018	(1,928,266)	716,752
Europe	79,346	(53,068)	26,278
U.S.A.	60,145	(38,459)	21,686
Total	<u>2,784,509</u>	<u>(2,019,793)</u>	<u>764,716</u>

	<b>Unaudited</b>		
	<b>Six months ended 30th June 2003</b>		
	<b>Turnover</b>	<b>Cost of sales</b>	<b>Gross profit</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
PRC	1,427,667	(936,278)	491,389
Europe	30,960	(19,615)	11,345
U.S.A.	26,635	(15,965)	10,670
Total	<u>1,485,262</u>	<u>(971,858)</u>	<u>513,404</u>

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 3. OPERATING PROFIT

Operating profit is stated after charging and crediting the followings:

	Unaudited	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
<b>After charging–</b>		
Cost of inventories	1,732,336	803,685
Staff costs (excluding directors' emoluments)	279,241	175,643
Directors' (including supervisors') emoluments	1,721	1,668
Depreciation of fixed assets	95,029	44,167
Amortisation of intangible assets		
– Goodwill (included in other operating expenses)	1,699	595
– Development costs (included in administrative expenses)	5,047	—
– Other intangible assets	1,300	2,173
(Reversal of provision)/ provision for doubtful receivables	(4,696)	2,761
Provision for inventories	1,633	7,185
Operating lease expenses on land and buildings	2,157	2,040
Loss on disposal of fixed assets	252	46
Provision for warranty	3,663	2,150
Exchange losses, net	4,849	1,027
Auditors' remuneration	200	200
Research and development costs	31,212	18,208
	<u>          </u>	<u>          </u>
<b>After crediting–</b>		
Reversal of impairment of fixed assets	—	128
Interest income on bank deposit	2,663	3,767
	<u>          </u>	<u>          </u>

# NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

## 4. TAXATION

### (a) Income tax

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

No Hong Kong, U.S.A. and Netherlands profits tax was provided for as the Group had no assessable profit arising in or derived from Hong Kong, U.S.A. and Netherlands for the period (2003: Nil).

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

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

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

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation		
– Hong Kong profits tax	—	—
– Overseas taxation	29,897	27,968
Deferred taxation	301	—
	<u>30,198</u>	<u>27,968</u>

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

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	509,858	373,319
Calculated at a taxation rate of 33%	168,253	123,195
Effect of a tax concession	<u>(138,356)</u>	<u>(95,227)</u>
	<u>29,897</u>	<u>27,968</u>

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 4. TAXATION (cont'd)

#### (b) Deferred taxation

Deferred taxation is calculated in full on temporary differences under liability method using a principal taxation rate of 7.5% (2003: 7.5%).

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

	Unaudited	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
At 1st January	11,518	—
Deferred taxation debited to profit and loss account	(301)	—
	<u>11,217</u>	<u>—</u>
At 30th June	<u>11,217</u>	<u>—</u>
Representing:		
Deferred tax assets arising on provision for receivables and inventories	<u>11,217</u>	<u>—</u>

The amounts shown in the balance sheet include the following:

	Unaudited	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Deferred tax assets to be recovered after more than 12 months	<u>11,217</u>	<u>—</u>

There was no significant unprovided deferred taxation as at 30th June 2004 (2003: Nil).

### 5. DIVIDENDS

(a) No interim dividends have been proposed during the six months ended 30th June 2004 (2003: Nil).

(b) Dividends shown in the condensed consolidated statement of changes in equity represented:

	Unaudited	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
2003 Final dividends, of RMB0.512 (2002: RMB0.284) per ordinary share (Note (i))	<u>276,224</u>	<u>153,218</u>

(i) At a meeting held on 20th February 2004, the directors proposed a final dividend of RMB0.512 (2002: RMB0.284) per ordinary share for the year ended 31st December 2003, which was paid on May 2004 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2004.

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 6. EARNINGS PER SHARE

#### (a) Earnings per share — basic

The calculation of basic earnings per share for the period is based on the Group's profit attributable to shareholders for the period of approximately RMB475,371,000 (2003: RMB325,447,000) and the number of 539,500,000 (2003: 539,500,000) shares in issue during the period.

#### (b) Earnings per share — diluted

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

### 7. CAPITAL EXPENDITURE

	Fixed assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>	Development costs <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
Opening net book amount as at					
1st January 2004	2,381,715	45,814	33,865	4,501	2,465,895
Additions	772,529	8,149	91,042	—	871,720
Disposals	(1,800)	—	—	—	(1,800)
Depreciation/ amortisation charge	(95,029)	(1,699)	(5,047)	(1,300)	(103,075)
Closing net book amount as at					
30th June 2004	<u>3,057,415</u>	<u>52,264</u>	<u>119,860</u>	<u>3,201</u>	<u>3,232,740</u>

### 8. INVENTORIES

	Unaudited 30th June 2004 <i>RMB'000</i>	Audited 31st December 2003 <i>RMB'000</i>
Raw materials	753,304	390,990
Work-in-progress	628,635	384,067
Finished goods	165,314	95,322
	<u>1,547,253</u>	<u>870,379</u>

### 9. TRADE AND NOTES RECEIVABLE

	Unaudited 30th June 2004 <i>RMB'000</i>	Audited 31st December 2003 <i>RMB'000</i>
1 to 3 months	1,257,904	1,277,833
4 to 6 months	171,911	185,614
7 to 12 months	23,601	29,915
	<u>1,453,416</u>	<u>1,493,362</u>



## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 10. TRADE AND NOTES PAYABLE

	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <i>RMB'000</i>	<b>Audited</b> <b>31st December</b> <b>2003</b> <i>RMB'000</i>
1 to 3 months	815,055	956,160
4 to 6 months	486,784	218,437
7 to 12 months	15,210	3,519
1 to 2 years	2,268	11,336
2 to 3 years	2,259	3,426
	<u>1,321,576</u>	<u>1,192,878</u>

### 11. BORROWINGS

#### (a) Short-term bank loans

	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <i>RMB'000</i>	<b>Audited</b> <b>31st December</b> <b>2003</b> <i>RMB'000</i>
Secured	162,050	—
Unsecured	1,563,672	602,659
	<u>1,725,722</u>	<u>602,659</u>

As at 30th June 2004, the Group's short-term bank loans bore interest rates ranging from 1.56% to 4.78% per annum (2003: 1.93% to 5.84%), of which RMB112,050,000 (2003: RMB252,659,000) were denominated in United States dollar ("USD"). The secured portion were guaranteed by the Company.

#### (b) Long-term bank loans

	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <i>RMB'000</i>	<b>Audited</b> <b>31st December</b> <b>2003</b> <i>RMB'000</i>
Unsecured	240,016	—
Secured	112,135	121,665
	<u>352,151</u>	<u>121,665</u>
Less: amount repayable within one year (included in current liabilities)	(17,441)	(16,527)
	<u>334,710</u>	<u>105,138</u>

As at 30th June 2004, the Group's long-term bank loans bore interest rates ranging from 3.51% to 5.18% per annum (2003: 4.5% to 6.44%), among which approximately RMB112,135,000 (2003: RMB121,665,000) were denominated in USD. The secured portion are jointly guaranteed by China North Industries Corporation and Xian Huashan Machinery Industries Co., Ltd.

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 11. BORROWINGS (cont'd)

#### (b) Long-term bank loans (cont'd)

At 30th June 2004, the Group's long-term bank loans are repayable as follows:

	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <i>RMB'000</i>	<b>Audited</b> <b>31st December</b> <b>2003</b> <i>RMB'000</i>
Within one year	17,441	16,527
In the second year	255,798	15,782
In the third to fifth year	47,347	47,347
After the fifth year	31,565	42,009
	<u>352,151</u>	<u>121,665</u>

### 12. PROVISION FOR WARRANTY

	<b>Unaudited</b> <b>Six months ended 30th June</b>	
	<b>2004</b> <i>RMB'000</i>	<b>2003</b> <i>RMB'000</i>
At 1st January	7,518	—
Additional provisions	<u>3,663</u>	<u>2,150</u>
Charged to profit and loss account	11,181	2,150
Less: amounts utilised	<u>(5,655)</u>	<u>—</u>
At 30th June	<u>5,526</u>	<u>2,150</u>

The Group provides two-year or 40,000 kilometres warranties on automobiles and undertakes to repair or replace items that fail to perform satisfactorily. A provision of approximately RMB5,526,000 has been recognised at 30th June 2004 (31st December 2003: RMB7,518,000) for expected warranty claims based on past experience of the level of repairs and returns. It is expected that the majority of this expenditure will be incurred in the next financial year.

### 13. SHARE CAPITAL

Details of share capital are as follows:

	<b>Number of shares</b>		<b>Amount</b>	
	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <i>RMB'000</i>	<b>Audited</b> <b>31st December</b> <b>2003</b> <i>RMB'000</i>	<b>Unaudited</b> <b>30th June</b> <b>2004</b> <i>RMB'000</i>	<b>Audited</b> <b>31st December</b> <b>2003</b> <i>RMB'000</i>
Issued and fully paid	<u>539,500</u>	<u>539,500</u>	<u>539,500</u>	<u>539,500</u>

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 14. ACQUISITION

On 30th April 2004, the Group acquired an additional 15% equity interest in BYD Automobile Company Limited ("BYD Auto QC"), an existing 77% subsidiary of the Company for an aggregate consideration of RMB52,500,000 to be settled in cash. After the completion of the acquisition, the equity interest of the Company in BYD Auto QC had increased from 77% to 92%.

### 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:

<b>Name</b>	<b>Relationship</b>
Mr. Wang Chuan-fu	Director and shareholder of the Company
Shanxi Province Investment Group (Limited) Company ("Shanxi Group")	Minority shareholder of a subsidiary of the Group
Northwest Electric-power Finance Company Limited ("Electric-power Finance")	Subsidiary of Shanxi Group

(b) As at 30th June 2004, the significant balances with related parties were as follows:

	<b>Unaudited 30th June 2004 RMB'000</b>	<b>Audited 31st December 2003 RMB'000</b>
Due from a related party:		
– Mr. Wang Chuan-fu, director	—	1,043
Due to related parties:		
– Shanxi Group (Note (i))	330	330
– Electric-power Finance	20,000	20,000
	<u>20,330</u>	<u>20,330</u>

(i) Amount due to Shanxi Group represents unpaid dividend declared by BYD Auto QC prior to the Group's acquisition.

Except for the balance with Electric-power Finance, which bears interest at 6.21% (2003: 6.21%) per annum and is repayable no later than 2006, balances with related parties are unsecured and interest free, and have no fixed repayment terms.

## NOTES TO THE CONDENSED ACCOUNTS (cont'd)

30th June 2004

(Expressed in RMB unless otherwise stated)

### 16. COMMITMENTS

#### (a) Capital commitments

As at 30th June 2004, the Group had the following capital commitments in relation to plants and machinery:

	<b>Unaudited 30th June 2004</b>	<b>Audited 31st December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for	622,809	430,235

#### (b) Operating lease commitments

As at 30th June 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases for factories and office premises as follows:

	<b>Unaudited 30th June 2004</b>	<b>Audited 31st December 2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	2,603	3,375
After 1 year but within 5 years	2,191	4,007
	<u>4,794</u>	<u>7,382</u>

### 17. CONTINGENT LIABILITIES

- (a) As at 30th June 2004, the Group had outstanding guarantee of bank loans for other companies of approximately RMB10,125,000 (31st December 2003: RMB31,905,000).
- (b) The Group is currently involved in two separate litigation proceedings in the U.S.A. and Japan both in relation to alleged patent infringements. Due to the fact that the proceeding in the U.S.A. is still in progress and there has not been any material development in respect of the proceeding in Japan since commencement of such proceeding, the directors consider that it is impracticable and premature to assess the impact of such proceedings on the Group and its operation. The directors of the Company believe that the Group has not committed the alleged infringements. The Group would vigorously defend against all claims under the proceedings.

### 18. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period presentation.