

REPORT OF THE DIRECTORS

The directors have the pleasure in presenting the first annual report together with the audited accounts of BYD Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st December, 2002.

GROUP REORGANISATION

The Company was formerly incorporated in the People's Republic of China (the "PRC") on 10th February, 1995 under the name Shenzhen BYD Battery Company Limited ("BYD Industries") as a private limited company under the PRC Company Law. Through a group reorganisation as described more fully in the paragraphs headed "Corporate reorganisation" in Appendix VI of the prospectus of the Company issued on 22nd July, 2002 (the "Reorganisation"), BYD Industries was transformed into a joint stock limited company and changed to its present name, BYD Company Limited, on 11th June, 2002.

The Company's H shares ("H Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31st July, 2002.

The Reorganisation has been reflected in the accompanying accounts by regarding the Company as having been the holding company of the Group from the beginning of 2001. The basis of preparation for these accounts is set out in Note 2 to the accompanying accounts.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is research, development, manufacture and sale of rechargeable batteries. The activities of the Company's subsidiaries are set out in Note 10 to the accompanying accounts.

An analysis of the Group's performance for the year ended 31st December, 2002 by geographical segments is set out in Note 25 to the accompanying accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated profit and loss account on page 25 of this annual report.

The directors recommend the payment of a final dividend of Renminbi ("RMB") 0.284 per share, totalling RMB153,218,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 27 of this annual report and in Note 21 to the accompanying accounts, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 11 to the accompanying accounts.

SHARE/ PAID-IN CAPITAL

Details of the movements in share/ paid-in capital of the Company are set out in Note 20 to the accompanying accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December, 2002, as the lower of amount calculated under section 79B of the Companies Ordinance and the relevant legislation applicable in the PRC, the Company's place of incorporation, amounted to approximately RMB195,352,000 (2001: RMB116,288,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no similar restriction under the laws of the PRC in respect of joint stock limited company.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 2 to 3 of this annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December, 2002.

DIRECTORS

The directors in office during the year ended 31st December, 2002 and up to the date of this report are:

Executive directors

Mr. Wang Chuan-fu (Effective date of appointment is 11th June, 2002)

Mr. Xia Zuo-quan (Effective date of appointment is 11th June, 2002)

Non-executive director

Mr. Lu Xiang-yang (Effective date of appointment is 11th June, 2002)

Independent non-executive directors

Mr. Li Guo-xun (Effective date of appointment is 11th June, 2002)

Mr. Kang Dian (Effective date of appointment is 11th June, 2002)

Each of the directors (excluding the non-executive directors and independent non-executive directors) has entered into a service contract with the Company for a term of three years. There being no provision in the Company's Articles of Association for retirement by rotation, all directors continue in office.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the directors or supervisors has an un-expired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than normal statutory compensation.

DIRECTORS' AND SUPERVISORS' 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 during or at the end of the year ended 31st December, 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of directors, supervisors and senior management are set out on pages 14 to 16 of this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS

(a) As at 31st December, 2002, the directors and the supervisors had the following interests in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which were required to be kept by the Company in the register referred to in Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed companies:

Name of directors/ supervisors	Number of domestic shares of the Company			
	Personal interests	Family interests	Corporate interests	Total
	'000	'000	'000	'000
Mr. Wang Chuan-fu (director)	150,169.1	—	—	150,169.1
Mr. Xia Zuo-quan (director)	32,888.7	—	—	32,888.7
Mr. Lu Xiang-yang (director)	62,954.9	—	44,800.7	107,755.6

(b) Save as disclosed herein, as at 31st December, 2002, no director or supervisor of the Company was interested beneficially in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which he is taken or deemed to have under Section 31 of or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by directors of listed companies.

(c) Save as disclosed above, at no time during the year ended 31st December, 2002 was the Company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st December, 2002, according to the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance, the following persons were directly or indirectly interested in 10% or more of the nominal value of domestic shares carrying rights to vote at general meetings of the Company and the amount of each of such person's interest in such securities was:

Name	Number of domestic shares held	Approximate percentage of holding relative to the total number of issued domestic shares	Approximate percentage of holding relative to the total issued share capital of the Company
		(%) (Note 1)	(%) (Note 2)
Mr. Wang Chuan-fu	150,169,100	38.505	27.835
Mr. Lu Xiang-yang	107,755,600	27.630	19.973
	(Note 3)		

SUBSTANTIAL SHAREHOLDERS' INTERESTS (cont'd)

Notes:

1. The total number of domestic shares issued as at 31st December, 2002 was 390,000,000.
2. The total issued share capital of the Company as at 31st December, 2002 was RMB539,500,000, divided into 390,000,000 domestic shares and 149,500,000 H Shares, all fully paid up.
3. Mr. Lu Xiang-yang is deemed, pursuant to the SDI Ordinance, to be interested in 44,800,700 Domestic Shares representing about 11.487% and about 8.304% of, respectively, the total number of issued domestic shares and the then issued share capital of the Company. Such number of domestic shares are held by Guangzhou Rongjie Investment Company Limited, a company owned as to 84% by Mr. Lu Xiang-yang.

As 31st December, 2002, according to the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance, the following persons were directly or indirectly interested in 10% or more of the nominal value of H Shares carrying rights to vote at general meetings of the Company and the amount of each of such person's interest in such securities was:

Name	Number of H Shares held	Approximate percentage of holding relative to the total number of issued H Shares (%)	Approximate percentage of holding relative to the total issued share capital of the Company (%) (Note)
The Capital Group Companies, Inc.	18,735,500	12.532	3.473

Note: The total issued share capital of the Company as at 31st December, 2002 was RMB539,500,000, divided into 390,000,000 Domestic Shares and 149,500,000 H Shares, all fully paid up.

Save as disclosed herein, as at 31st December, 2002, so far as is known to the directors, no other person were interested, either directly or indirectly, in 10% or more of the nominal value of any class of the share capital attaching rights to vote at general meetings of the Company.

MANAGEMENT CONTRACTS

No contracts 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.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	9%
— the five largest suppliers combined	26%

(Note: The percentage of purchases for the year ended 31st December, 2002 attributable to the Group's five largest suppliers combined is less than 30%)

Sales

— the largest customer	17%
— the five largest customers combined	48%

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

RELATED PARTY TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December, 2002 are disclosed in Note 29 to the accompanying accounts.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year, the Company was 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 since the listing of its H Shares on the Stock Exchange.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants (the "HKSA").

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Audit Committee comprises two independent non-executive directors, namely Mr. Li Guo-xun and Mr. Kang Dian and one non-executive director, namely Mr. Lu Xiang-yang. One meeting was held during the financial year 2002.

On 13th February, 2003, the Audit Committee held a meeting to review and acknowledge the accompanying financial statements.

SUBSEQUENT EVENTS

On 22nd January, 2003, the Company entered into two agreements to acquire an aggregate of 77% equity interest in Xian Qin Chuan Automobile Limited Liability Company which is engaged in the manufacturing of automobile for an aggregate consideration of RMB269,500,000. The aggregate consideration will be satisfied by the Group's operating cash flow without any application of the listing proceeds. Details of the acquisition including the timing of payment of the aggregate consideration have been described in the disclosable transaction circular of the Company dated 22nd January, 2003.

AUDITORS

The accompanying accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

Wang Chuan-fu

Chairman

Hong Kong, 14th February, 2003