



BYD's R&D capabilities has always been the key of success to the Company. Leveraging on its strong foothold in the battery arena, it has also extended its reach to other battery related businesses in 2003.

## **Market Overview**

### **Global Market**

Inevitably affected by the outbreak of SARS in the first half of 2003, the global market sentiment gradually improved later in the second half of the year. Amongst various industries, rechargeable battery industry succeeded to become one of the few that experienced instant and strong rebound right after SARS subsided. The organic growth for the rechargeable battery industry was mainly due to increasing popularity of DIY (Do It Yourself) in European countries that rose the demand for power tools, and the delayed launch of the 2.5G and 3G digital systems that created expectation and demand for new models of mobile handsets as well as other digital

devices, etc. Entering into the information technology era, it is believed that portable/digital devices, especially notebook PC, will become the next key growth drive for the rechargeable battery industry.

As for the global mobile handsets market, growing number of market entry made competition fiercer than ever. Quality and cost effectiveness are now two major criteria for handset manufacturers to select rechargeable battery suppliers. Pricing strategies and quality/cost control become crucial for rechargeable battery players in order to sustain market share.

### **PRC Market**

The continual high GDP growth over the past decade in the PRC improved the living standard of its people and thus, a middle class with strong purchasing power has emerged. Rapid urbanization, on the other hand, stimulated the market demand for electronic necessities and communications

products. All these created a promising future for the PRC retail market, benefiting consumption goods such as electronic products and vehicles, etc.

Moreover, since the opening up of the PRC market in 1980s, "The World's Manufacturing Base" attracted many international famous brand owners and manufacturers, and created a huge demand for local supply of electronic components such as battery products, handset components etc.

Currently, vehicle ownership per capita in the PRC is relatively low as compared with those Asian and European countries. With rapid urbanization, the growing demand for long-distance in-bound travel, as well as the opening up of the automobile financing market, the demand for automobiles in the PRC will be infinite.

## Business Overview

### Rechargeable Battery Business

Capitalizing on its solid business foundation, unrivaled R&D capability, unique production processes, as well as high quality and tight cost competitiveness, the Group was able to sustain its leading market share of the rechargeable battery market, and captured the accelerating demand for mobile handset and other portable device in the second half of the year.

For the year ended 31st December 2003, Nickel and Li-ion batteries recorded sales of over RMB1,249 million and RMB2,113 million respectively, representing an increase of 12.64% and 79.99% as compared with the previous year. While the stable growth for Nickel battery products was mainly led by the growing demand for power tools and electric toys in the global market, the accelerating demand for mobile handset and other digital devices, the urge for cost efficient products under keen competition, as well as the booming orders for packed battery (ie. cell battery with plastic housing) all created dramatic surge in the demand for Li-ion battery products.

In terms of sales volume, the three core products, namely, NiCd, NiMH and Li-ion, have surpassed their respective performance in the previous year and stepped closer to the Group's mission of being the world's no. 1 rechargeable battery manufacturer.

Riding on its R&D expertise, the Group will further extend its reach to other applications regimes. The Group will capitalize the promising notebook PC market by producing Li-ion battery for notebook PC, so as to further mature its already extensive product portfolio. To meet with the growing demand, the production plant in Shanghai was completed to enhance production capacity. Production capacity is 200,000 units per day currently.





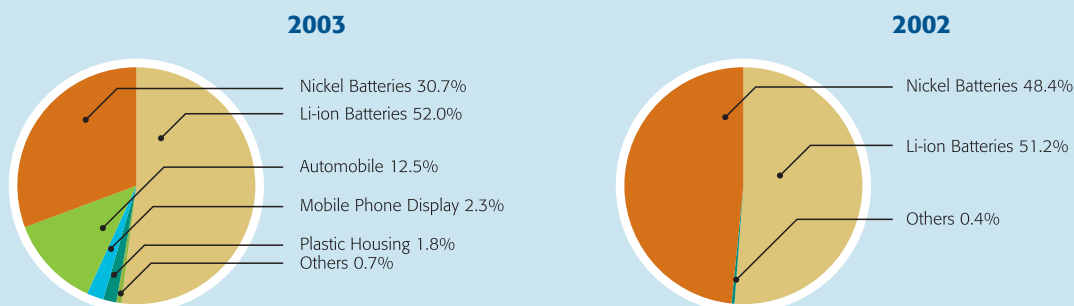
### Battery Related Businesses

With the view to provide a more diversified product range to its mobile handset clients and to improve its product mix, BYD explored horizontally into other battery-related products. Leveraging on its strong foothold in the battery arena, as well as its extensive and internationally renowned clientele, BYD successfully extended into production of mobile handset components, including mobile phone display and plastic housing and tooling. The Group has commenced its mobile phone display production in February 2003, with production capacity reaching 150,000 units/day currently. In 2003, it has also expanded its plastic and tooling capability from battery casing to the whole mobile phone housing. Both products were well received after launch and contributed to the Group's turnover and profit in 2003. Proportion of profit contribution is expected to increase in coming years.

### Automobile Business

To echo with the Group's core rechargeable battery business and to create new income sources for the Group, BYD successfully established its foothold in the automobile business by acquiring a 77% equity stake in Xian Qin Chuan Automobile Limited Liability Company, a state-owned mini-car manufacturer in the PRC, at the beginning of 2003 and the acquisition was completed in March 2003. To create the brand name effect, the Company was later renamed as BYD Automobile Company Limited ("BYD Auto QC"). The automobile products were also marketed under the brand name of "BYD". To further consolidate its interest and enhance management efficiency in BYD Auto QC, the Group has agreed to acquire an additional 15% equity interest in BYD Auto QC. Details of the acquisition has been disclosed in a separated announcement dated 20th February 2004.

## Turnover Breakdown by Products



The Group has strengthened the management of BYD Auto QC, introducing the concept of stringent cost and quality control as well as competitive pricing strategy, BYD Auto QC has been successfully transformed from a under-performed state-owned enterprise to a sales-oriented and outperforming automobile manufacturer and distributor, with turnover and net profit recorded RMB507 million and RMB10.5 million respectively, representing 12.49% and 1.22% of that of the Group. Despite keen competition in the PRC automobile market, the Group successfully sold approximately 15,400 units of 800cc petrol cars between April to December 2003, the key product of BYD Auto QC.

## Financial Review

### Turnover and Profit Attributable to Shareholders

For the year ended 31st December 2003, the Group continued to record outstanding growth performance, with turnover and profit attributable to shareholders increasing by 77% and 31% to approximately RMB4,063 million and

approximately RMB864 million respectively compared with 2002. Both increments are mainly attributable to the Group's strong capability to gain market share from both existing and new customer. Increase in the overall rechargeable battery consumption was led by the global market recovery for mobile handsets, electronic appliances and other digital applications models, as well as the Group's ability to improve cost efficiency and to introduce new products to further enhance its market potential.

### Turnover Breakdown By Products

While Li-ion battery product still represented the main income source of BYD, the Group successfully enhanced its product mix by introducing more battery-related products such as mobile phone display and plastic housing and tooling as well as non-battery business, namely, automobile business, all of which have started contribution to the Group and the portion is expected to enlarge in coming future.



# Management Discussion and Analysis

## Gross Profit and Margin

The Group's gross profit increased by approximately 39% from RMB954 million for the year ended 31st December 2002 to approximately RMB1,323 million for the year ended 31st December 2003. The increase was mainly due to increase in sales revenue and cost reduction.

To diversify its product range and provide value-added services for its existing international clients, as well as to balance its operational risk by exploring into products with lower gross profit margin, BYD has extended its foothold into the production of packed batteries in recently years. In 2003, the Group's overall sales strategy for Li-ion battery has been changed with focus shifting from cell battery to packed battery with the objective to enhance its intimate relationship with its clients. With the relatively lower gross profit margin of packed batteries, such phenomenon has inevitably lowered the aggregate profit margin and profitability. Coupled with another new product lines, automobile and mobile phone display, offered during the period, the Group's gross profit margin has decreased in 2003. Yet the enlarged share in both corresponding areas did offset the negative effect on profit margin, thus in turn brought significant contributions to the Group's profit. Given the enormous market potential and the measure to enhance relationship with its valuable international clients, it is believed the packed battery market will continue to serve a significant place to the Group's sales in future.

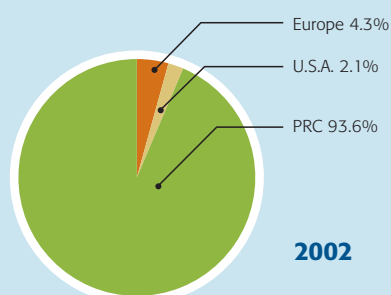
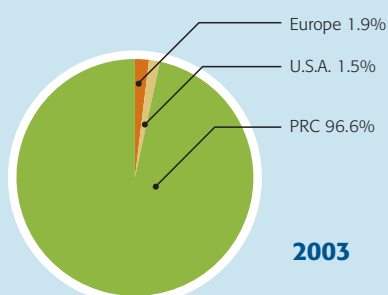
## Liquidity and financial resources

The Group generated a net operating cash inflow of approximately RMB441 million during the year ended 31st December 2003, which has been improved from approximately RMB311 million recorded last year.

The Group's total borrowings, which were all bank loans, as at 31st December 2003 were RMB724 million, compared with no borrowings as at 31st December 2002. The maturity profile spread over a period of nine years with RMB619 million repayable within one year, and RMB105 million within eight to nine years. Such increase on borrowings was mainly due to the expansion of production capacity with the objective to fulfill the booming market demand. With the completion of the production plants in Shanghai and Shenzhen, production capacity will be significantly enhanced, bringing enormous growth potentials for BYD in future. For day-to-day liquidity management and maintaining flexibility in funding as well as for capital expenditures, relevant funding requirements are expected to be met by its lasting proceeds and internal cash flow. Also, the Group can access to significant uncommitted short-term borrowing facilities provided by its principal banks. As at 31st December 2003, the gearing ratio of the Group was 6.9%, calculated on the basis of total borrowing net of cash and cash equivalent over net assets.

## Segmental Information

### Turnover Breakdown by Operating Segments



The Group's accounts receivable turnover days were about 94 for the year ended 31st December 2003 as compared to 76 days in the previous year. Since a large proportion of sales order received in the forth quarter of 2003 was mainly from those reputable clients with long-term and close business relationship. Also, the account receivable turnover recorded in the forth quarter amounted to 84% of the Group's total accounts receivable turnover. Therefore, the accounts receivable turnover days were increased but no material negative impact would be caused to the Group.

Inventory were required to store in the warehouse before delivery and production. Due to different product nature, the commencement of automobile operation has slightly decreased the overall inventory turnover days, from 93 days to 87 days.

### Capital Structure

The financial risk management of the Group is the responsibility of the Group's treasury function, which operates according to the policies approved by the top management. As at 31st December 2003, the Group's borrowings are denominated in RMB and US dollars while its cash and cash equivalents are mainly held in RMB, US dollars and Hong Kong dollars.

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

Details of the loans remaining outstanding as at 31st December 2003 is disclosed in Note 22 to the accounts. As at 31st December 2003, the loans were at fixed interest rates.

### Details of the Group's asset pledged

As at the date of this announcement, no assets of the Group are pledged.

### Use of IPO proceeds

	HKD million	
	Planned	Latest allocation
• Expansion in production capacity and R&D of Li-ion batteries	189	Fully utilized
• Development and manufacture of raw materials in Li-ion batteries	94	Fully utilized
• Product R&D and manufacture of rechargeable batteries for electric vehicles	85	Fully utilized
• Product R&D and manufacture of fuel cells and solar cells	85	—
• Product R&D and manufacture of monochrome and colour STN-LCDs	142	Fully utilized
• Repayment of bank loans	377	Fully utilized
• Potential acquisition(s)	189	—

# Management Discussion and Analysis

## Exposure to foreign exchange risk

Most of the income and expenditure of the Group are denominated in RMB and USD. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the period under review. The Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

## Employment, training and development

As at 31st December 2003 the Group has a total of 28,000

employees, an increase of 11,000 employees compared with 2002, and total staff costs amounted to about 9.95% of total turnover. The significant increase in staff employment was due to the extension into expansion of battery production capacity as well as automobile business. Employees are remunerated based on their performance, experience and the prevailing industry practices, with compensation policies and packages being reviewed on a regular basis. Bonuses and commissions may be awarded to employees based on performance evaluation. There are drives and encouragements for personal performance and motivation.

## Share Capital

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

	Number of shares issued	Percentage %
Domestic shares	390,000,000	72.289
H shares	149,500,000	27.711
Total	539,500,000	100.000

## 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 announcement. 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 31st December 2003, the Group had authorized and contracted for a capital commitment of the acquisition of fixed assets amounting to RMB430 million.

## Contingency liability

As at 31st December 2003, the Group has contingent liabilities of approximately RMB32 million 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 proceeding in Japan since commencement of such proceeding, it is impracticable and premature for the Directors to assess the impact of such proceedings on the Group and its operation. The Directors believe that the Group has not committed the alleged infringements. The Group would vigorously defend against all claims made under the proceedings.

## Future Prospect

The market potential of mobile industry and automobile industry are promising. BYD is fully prepared to set off for the two promising markets, with the aim of becoming no.1 rechargeable battery manufacturer in the world, as well as the world-class automobile manufacturer in the PRC, so as to create value in the interest of the Group and the shareholders as a whole.

## Rechargeable Battery Business

Looking ahead, BYD will further enhance its core business of R&D, manufacturing and sales of rechargeable batteries products. With the global economic revival, coupled with the imminence of 2.5G and 3G digital era, market demand for rechargeable batteries will be enormous. Demand for Nickel battery products is experiencing healthy and stable growth while Li-ion batteries continues to be the key growth engine for the Group. The Group will further expand for different types of rechargeable batteries (especially Li-ion battery). Also, the Group will further explore the market of packed battery in order to maximise the market share in Li-ion battery and benefit from the economies of scale. The Group's Li-ion battery manufacturing capacity is targeted to reach 1.5 million units/day.

The Group will also further develop new types of Li-ion batteries for various applications such as notebook PC, digital cameras, etc. With the growing demand for notebook PC, it is believed that notebook PC battery products will become

another growth drive for the Group following mobile handset, attracting increasing number of order from international PC giants by 2005.

## Battery Related Businesses

Leveraging on the booming demand for mobile handsets and its existing clientele, the Group will further develop mobile phone display and plastic housing and tooling for mobile handset. In future, the Group will further diversify its product range and improve technology. It will strive to strengthen its relationship with current customers so as to increase market share in the PRC, and at the same time, to expand customer base to include international mobile giants, with the aim to become a multi-component supplier to the global mobile industry.

## Automobile Business

In line with its battery business, the Group will continue to leverage on its unrivaled R&D, stringent cost and quality control to further strengthen its automobile operation. In future, BYD will not only enhance its production capacity, but also strengthen its R&D to develop automobile models for different capacity, such as 1,600-2,400c.c., etc. BYD Auto QC serves as a platform for the Group to expedite its development and production of rechargeable power batteries for electric motor vehicles. Looking forward, with its clear business objective and aggressive sales and marketing remuneration policy, the Group has set a mission to become the leading market player in the domestic automobile market.

