

Report of the Directors

The directors submit their report together with the audited consolidated accounts of BYD Company Limited (“the Company”) and its subsidiaries (together with the Company hereinafter collectively referred to as “the Group”) for the year ended 31st December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is research, development, manufacture and sales of rechargeable batteries. The activities of the Company’s subsidiaries are set out in Note 13 to the accompanying accounts.

An analysis of the Group’s performance for the year by business and geographical segments is set out in Note 4 to the accompanying accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 28.

The directors recommend the payment of a final dividend of RMB0.512 (2002: RMB0.284) per share, totalling RMB276,224,000 (2002: RMB153,218,000).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 31 and in Note 25 to the accompanying accounts, respectively.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB459,000 (2002: Nil).

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in Note 14 to the accompanying accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 24 to the accompanying consolidated accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2003, calculated under section 79B of the Companies Ordinance and the relevant legislation in the People’s Republic of China (“the PRC”), the Company’s place of incorporation, amounted to approximately RMB612,235,000 (2002: RMB195,352,000).

PRE-EMPTIVE RIGHTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

At 31st December 2003, the interests and short positions of each of the directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), including interests and short positions which they are taken or deemed to have under Divisions 7 and 8 of Part XV of the SFO, as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Model Code") are as follows:-

Interests in the issued domestic shares of RMB1 each of the Company

Name of directors	Number of domestic shares of the Company			Total '000
	Personal interests '000	Family interests '000	Corporate interests '000	
Mr. Wang Chuan-fu	150,169.10	—	—	150,169.10
Mr. Xia Zuo-quan	32,888.70	—	—	32,888.70
Mr. Lu Xiang-yang	62,954.90	—	44,800.70	107,755.60

Save as disclosed herein, at 31st December 2003, none of the directors, supervisors or chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), including interests and short positions which they are taken or deemed to have under Divisions 7 and 8 of Part XV of the SFO, which are required to be recorded in the register kept under section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO or the Model Code.

During the year ended 31st December 2003, none of the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party to any arrangement which enables the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

The register of interests in shares and short positions maintained under section 336 of the SFO shows that at 31st December 2003, the Company had been notified of the following interests.

Interests in the issued domestic shares of RMB1 each of the Company

Name	Number of domestic shares held '000	Approximate percentage of holding relative to the total number of issued domestic shares (%) (Note 1)	Approximate percentage of holding relative to the total issued share capital of the Company (%) (Note 2)
		Mr. Wang Chuan-fu	150,169.10
Mr. Xia Zuo-quan	32,888.70	8.43	6.10
Mr. Lu Xiang-yang	107,755.60 (Note 3)	27.63	19.97
Mr. Yang Long-Zhong	20,717.30	5.31	3.84
Guangzhou Rongjie Investment Company Limited	44,800.70	11.49	8.30

SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Notes:

1. The total number of issued domestic shares of the Company as at 31st December 2003 was 390,000,000.
2. The total issued share capital of the Company as at 31st December 2003 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 SFO, to be interested in 44,800,700 domestic shares representing about 11.49% and about 8.30% 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.

Interests or short positions in the issued H shares of RMB1 each of the Company

Name	Number of H shares held '000	Approximate percentage of holding relative to the total number of issued H shares (%)	Approximate percentage of holding relative to the total issued share capital (%)
The Capital Group Companies, Inc.	25,391.50 (L)	16.98 (L)	4.71 (L)
Morgan Stanley	20,185.99 (L)	13.50 (L)	3.74 (L)
	6,563.25 (S)	4.39 (S)	1.22 (S)
Morgan Stanley Capital Management, L.L.C.	14,664.24 (L)	9.81 (L)	2.72 (L)
	1,041.50 (S)	0.70 (S)	0.19 (S)
Morgan Stanley Domestic Capital, Inc.	14,664.24 (L)	9.81 (L)	2.72 (L)
	1,041.50 (S)	0.70 (S)	0.19 (S)
Morgan Stanley International Incorporated	14,664.24 (L)	9.81 (L)	2.72 (L)
	1,041.50 (S)	0.70 (S)	0.19 (S)
Morgan Stanley International Holdings Inc.	13,514.24 (L)	9.04 (L)	2.50 (L)
Morgan Stanley Asia Pacific (Holdings) Limited	13,514.24 (L)	9.04 (L)	2.50 (L)
Morgan Stanley Asia Regional (Holdings) III LLC	13,514.24 (L)	9.04 (L)	2.50 (L)
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd	13,514.24 (L)	9.04 (L)	2.50 (L)
Morgan Stanley Investment Management Company	13,514.24 (L)	9.04 (L)	2.50 (L)
Morgan Stanley International Limited	1,150.00 (L)	0.77 (L)	0.21 (L)
	1,041.50 (S)	0.70 (S)	0.19 (S)
Morgan Stanley Group (Europe)	1,150.00 (L)	0.77 (L)	0.21 (L)
	1,041.50 (S)	0.70 (S)	0.19 (S)
Morgan Stanley UK Group	1,150.00 (L)	0.77 (L)	0.21 (L)
	1,041.50 (S)	0.70 (S)	0.19 (S)
Morgan Stanley & Co. International Limited	1,150.00 (L)	0.77 (L)	0.21 (L)
	1,041.50 (S)	0.70 (S)	0.19 (S)

SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Interests or short positions in the issued H shares of RMB1 each of the Company

Name	Number of H shares held '000	Approximate percentage of holding relative to the total number of issued H shares (%)	Approximate percentage of holding relative to the total issued share capital (%)
Morgan Stanley & Co. Incorporated	4,408.25 (L)	2.95 (L)	0.82 (L)
	4,408.25 (S)	2.95 (S)	0.82 (S)
MSDW Offshore Equity Services Inc.	1,113.50 (L)	0.74 (L)	0.21 (L)
	1,113.50 (S)	0.74 (S)	0.21 (S)
MSDW Equity Finance Services I (Cayman) Limited	1,113.50 (L)	0.74 (L)	0.21 (L)
	1,113.50 (S)	0.74 (S)	0.21 (S)
FMR Corp.	17,941.00 (L)	12.00 (L)	3.33 (L)
Fidelity Management & Research Company	16,814.60 (L)	11.25 (L)	3.12 (L)
Fidelity Management Trust Company	1,126.40 (L)	0.75 (L)	0.21 (L)
JPMorgan Chase Bank	13,379.30 (L)	8.95 (L)	2.48 (L)
J. P. Morgan Chase & Co.	13,379.30 (L)	8.95 (L)	2.48 (L)
	13,379.30 (P)	8.95 (P)	2.48 (P)

Notes:

(L) - Long position

(S) - Short position

(P) - Lending Pool

The total issued share capital of the Company as at 31st December 2003 was RMB539,500,000, divided into 390,000,000 domestic shares of RMB1 each and 149,500,000 H shares of RMB1 each, all fully paid up.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

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 | 4% |
| - the five largest suppliers combined | 14% |

Sales

- | | |
|---------------------------------------|-----|
| - the largest customer | 14% |
| - the five largest customers combined | 33% |

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

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December 2003, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), are, among others, disclosed in Note 31 to the consolidated accounts.

Other related party transactions, which also constitute connected transactions under the Listing Rules include:

(A) Ongoing connected transactions

- purchases of materials for automobile manufacturing from the China North Industries Corporation and its subsidiaries and associates (including Xian Northern Qin Chuan Machinery Industries Company Limited, a substantial shareholder of one of the Company's subsidiaries, BYD Automobile Company Limited, during the year); and
- procurement of utilities from Xian Qin Chuan (Group) Development Company, an entity under the control and supervision of the China North Industries Corporation, pursuant to an agreement dated 30th January 1999 entered into between BYD Automobile Company Limited and Xian Qin Chuan (Group) Development Company.

(B) Connected transaction

- cross-guarantee arrangement between BYD Automobile Company Limited and Xian Huashan Machinery Industries Co. Ltd., a wholly-owned subsidiary of China North Industries Corporation.

The directors (including the independent non-executive directors) confirm that:

- the annual consideration in respect of the materials purchases from the China North Industries Corporation and its subsidiaries and associates does not exceed 12% of the Group's total turnover for the year ended 31st December 2003; and
- the annual consideration in respect of the procurement of utilities from Xian Qin Chuan (Group) Development Company does not exceed 2% of the Group's net tangible asset value as at 31st December 2003.

CONNECTED TRANSACTIONS (continued)

The directors (including the independent non-executive directors) are of the opinion that:-

- (a) the above ongoing connected transactions (the "Transactions") have been entered into by the relevant member of the Group in the ordinary and usual course of its business;
- (b) the Transactions have been entered into on an arm's length basis and on normal commercial terms;
- (c) the Transactions are on terms that are fair and reasonable so far as the independent shareholders of the Company are concerned; and
- (d) the Transactions have been entered into either (i) in accordance with the terms of the agreement governing such Transactions; or (ii) where there is no such agreement, on terms no less favourable than terms available from third parties so far as the independent shareholders of the Company are concerned.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules.

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 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 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. Two meetings were held during the current financial year.

SUBSEQUENT EVENTS

On 20th February 2004, the Company entered into two agreements with Shaanxi Province Investment Group (Limited) Company and Xian Northern Qin Chuan Machinery Industries Company Limited, respectively, pursuant to which the Company will effectively acquire an aggregate of 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. Upon the completion of the acquisition, the equity interest of the Company in BYD Auto QC will increase from 77% to 92%.

AUDITORS

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

On behalf of the Board

Wang Chuan-fu

Chairman

Hong Kong, 20th February 2004