

Report of the Directors

The directors of the Company ("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, 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are research, development, manufacture and sale of rechargeable batteries. The activities of the Company's subsidiaries are set out in Note 13 to the accompanying accounts. There were no significant changes in the nature of the Group's principal activities during the year ended 31st December, 2004.

An analysis of the Group's performance for the year ended 31st December, 2004 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 ended 31st December, 2004 are set out in the consolidated profit and loss account on page 29.

The Directors proposed a final dividend of RMB0.577 (2003: RMB0.512) per share, totaling approximately RMB311,292,000 (2003: RMB276,224,000) for the year ended 31st December, 2004.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 32 of this annual report and in Note 25 to the accompanying accounts, respectively.

DONATIONS

Charitable and other donations made by the Group during the year ended 31st December, 2004 amounted to approximately RMB314,000 (2003: approximately RMB459,000).

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTION SCHEME

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

The Company does not have any share option scheme.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December, 2004, 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 RMB878,302,000 (2003: approximately RMB612,235,000).



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 laws 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.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five 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 had purchased or sold any of the Company's shares during the year ended 31st December, 2004.

DIRECTORS

The Directors who held office during the year ended 31st December, 2004 and up to the date of this report are:

- Executive director:
 - Mr. Wang Chuan-fu
 - Mr. Xia Zuo-quan

- Non-executive director:
 - Mr. Lu Xiang-yang

- Independent non-executive director:
 - Mr. Li Guo-xun
 - Mr. Kang Dian
 - Mr. Lin You-ren (appointed on 10th November, 2004)

Each of the executive directors (excluding the non-executive director and independent non-executive directors) has entered into a service contract with the Company for a term of three years starting from 11th June, 2002. Terms of the service contracts for such directors are in all material respects the same. Pursuant to the articles of association of the Company, the remuneration of such directors and the supervisors will be determined by shareholders in general meeting. 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

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 at the end of the year or at any time during the year.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 14 to 17.

Each independent non-executive director has provided a written confirmation to the Company confirming his independence during the year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS

At 31st December, 2004, the interests and short positions of each of the Directors, supervisors 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 Securities and Future Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "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 Stock Exchange to be notified to the Company and the 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 share/ 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

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.

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 share/ H shares %
<i>H shares</i>			
Mr. Wang Chuan-fu	560,000 (L) (note 2)	0.10	0.37

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

Save as disclosed above, as at 31 December, 2004, none of the Directors, Supervisors or the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or (b) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHAREHOLDERS WITH NOTIFIABLE INTERESTS

As at 31st December, 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 Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO (Cap.571 of the Laws of Hong Kong), 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

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 share %
Guangzhou Rongjie Investment Company Limited <i>(note 1)</i>	44,800,700 (L)	8.30	11.49
Yang Long-zhong <i>(note 2)</i>	20,717,300 (L)	3.84	5.31

Notes:

1. Mr. Lu Xiang-yang, a director of the Company, is also 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.
2. Mr. Yang Long-zhong is a senior management personnel responsible for sales function of the Group.

Report of the Directors

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 domestic share/ H shares %
The Capital Group Companies, Inc	20,740,500(L) <i>(note 1)</i>	3.84	13.87
FMR Corp	19,756,000(L) <i>(note 2)</i>	3.66	13.21
Morgan Stanley	7,507,602(L) <i>(note 3)</i>	1.39	5.02
	2,709,500(S) <i>(note 3)</i>	0.50	1.81

Note:

- (1) The Capital Group Companies, Inc. is deemed to be interested in 20,740,500 H shares (L) through Capital International, Inc. and Capital Group International, Inc., both of which are controlled corporations of The Capital Group Companies, Inc. Each of these companies were deemed to have the same interest shown above.
- (2) FMR Corp is deemed to be interested in 19,756,000 H shares (L) through Fidelity Management & Research Company and Fidelity Management Trust Company, both of which are controlled corporations of FMR Corp and were interested in 16,211,100 H shares (L) and 1,795,400 shares (L) respectively.
- (3) Morgan Stanley is deemed to be interested in 7,507,602 H shares (L) and 2,709,500 shares (S) through the following controlled corporations:-
 - (a) 6,167,102 H shares (L) and 1,284,000 H shares (S) deemed interest held by Morgan Stanley Capital Management, L.L.C., which is a controlled corporation of Morgan Stanley;
 - (b) 6,167,102 H shares (L) and 1,284,000 H shares (S) deemed interest held by Morgan Stanley Domestic Capital, Inc., which is a controlled corporation of Morgan Stanley;
 - (c) 6,167,102 H shares (L) and 1,284,000 H shares (S) deemed interest held by Morgan Stanley International Incorporated, which is a controlled corporation of Morgan Stanley;
 - (d) 4,716,507 H shares (L) deemed interest held by Morgan Stanley International Holdings Inc, which is a controlled corporation of Morgan Stanley;
 - (e) 4,716,507 H shares (L) deemed interest held by Morgan Stanley Asia Pacific (Holdings) Limited, which is a controlled corporation of Morgan Stanley;
 - (f) 4,712,240 H shares (L) deemed interest held by Morgan Stanley Asia Regional (Holdings) III LLC, which is a controlled corporation of Morgan Stanley;
 - (g) 4,712,240 H shares (L) deemed interest held by Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd, which is a controlled corporation of Morgan Stanley;

- (h) 4,712,240 H shares (L) deemed interest held by Morgan Stanley Investment Management Company, which is a controlled corporation of Morgan Stanley;
- (i) 4,267 H shares (L) deemed interest held by Morgan Stanley Dean Witter (Hong Kong) Holdings Limited, which is a controlled corporation of Morgan Stanley;
- (j) 4,267 H shares (L) deemed interest held by MSDW Asia Securities Products LLC, which is a controlled corporation of Morgan Stanley;
- (k) 4,267 H shares (L) held by Morgan Stanley Dean Witter Hong Kong Securities Limited, which is a controlled corporation of Morgan Stanley;
- (l) 1,416,500 H shares (L) and 1,284,000 H shares (S) deemed interest held by Morgan Stanley International Limited, which is a controlled corporation of Morgan Stanley;
- (m) 1,416,500 H shares (L) and 1,284,000 H shares (S) deemed interest held by Morgan Stanley Group (Europe), which is a controlled corporation of Morgan Stanley;
- (n) 1,416,500 H shares (L) and 1,284,000 H shares (S) deemed interest held by Morgan Stanley UK Group, which is a controlled corporation of Morgan Stanley;
- (o) 1,416,500 H shares (L) and 1,284,000 H shares (S) held by Morgan Stanley & Co International Limited, which is a controlled corporation of Morgan Stanley;
- (p) 95 H shares (L) held by Morgan Stanley Swiss Holdings GmbH, which is a controlled corporation of Morgan Stanley;
- (q) 87,500 H shares (L) held by Morgan Stanley Capital (Luxembourg) S.A., which is a controlled corporation of Morgan Stanley;
- (r) 85,000 H shares (S) held by Morgan Stanley Capital (Cayman Islands) Limited, which is a controlled corporation of Morgan Stanley;
- (s) 34,000 H shares (L) held by Morgan Stanley Asset & Investment Trust Management Co., Limited, which is a controlled corporation of Morgan Stanley; and
- (t) 1,340,500 H shares (L) and 1,340,500 H shares (S) held by Morgan Stanley & Co Incorporated, which is a controlled corporation of Morgan Stanley.

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

The total issued share capital of the Company as at 31st December, 2004 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 ended 31st December, 2004.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year ended 31st December, 2004 attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	9%
— the five largest suppliers combined	24%

Sales

— the largest customer	25%
— the five largest customers combined	46%

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, 2004, 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 accompanying accounts.

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

(A) Continuing connected transactions

- (a) As set out in the circular (the "Circular") of the Company dated 1 April, 2003, the Company obtained a waiver from the Stock Exchange from strict compliance with the requirements set out in the then Chapter 14 of the Listing Rules regarding purchase by BYD Automobile Company Limited (formerly known as Xian Qin Chuan Automobile Limited Liability Company) ("BYD Auto") (a non-wholly owned subsidiary of the Company) of various materials for the manufacturing of mini-cars sold under the "Flyer" brand from members of China North Industries Corporation ("CNIC") in respect of each and every occasion as they arise during the three financial years ending 31 December, 2005. There is no long term supply agreement between the Group and the suppliers of these materials. Purchase orders are placed on a monthly basis.

CNIC is the holding company of Xian Northern Qin Chuan Machinery Industry Company Limited ("ZC Machinery") (a substantial shareholder of BYD Auto) and by virtue of its controlling interest in ZC Machinery, constituted a substantial shareholder of BYD Auto. Subsequent to the acquisition of ZC Machinery's 13% equity interest in Auto by the Company (as set out in paragraph (B)(a) below), the purchase of materials from CNIC and its subsidiaries and associates ("CNIC Group") by the Group ceased to be continuing connected transactions of the Company.

CONNECTED TRANSACTIONS (continued)

(A) Continuing connected transactions (continued)

- (b) As set out in the Circular, the Company obtained a waiver from the Stock Exchange from strict compliance with the requirements set out in the then Chapter 14 of the Listing Rules regarding the procurement of utilities from Xian Qin Chuan (Group) Development Company ("Qin Chuan Group") pursuant to an agreement dated 30 January, 1999 entered into between Auto and Qin Chuan Group in respect of each and every occasion as they arise during the three financial years ending 31 December, 2005. The agreement shall remain in force until the expiry of Auto's term of operation.

Qin Chuan Group was regarded as a connected person on the basis that it was controlled by and under the supervision of CNIC. Subsequent to the acquisition of ZC Machinery's 13% equity interest in Auto by the Company (as set out in paragraph (B)(a) below), the procurement of utilities from members of CNIC by the Group ceased to be continuing connected transactions of the Company.

(B) Connected transactions

- (a) Further to the acquisition of a 77% equity interest in Auto in January, 2003, the Company obtained a further 15% equity interest in aggregate in Auto from each of Shaanxi Province Investment Group (Limited) Company ("Shaanxi Group") and ZC Machinery (in respect of 2% equity interest and 13% equity interest respectively) pursuant to two agreements both dated 20 February, 2004 for the aggregate consideration of RMB52,500,000. Each of Shaanxi Group and ZC Machinery ceased to be substantial shareholders of Auto and connected persons of the Company.
- (b) Pursuant to two agreements both dated 7 September, 2004 between Shanghai BYD Company Limited ("BYD Shanghai") and each of Ms Dai Jing and Mr Shen Pei-sen respectively, BYD Shanghai acquired an aggregate of 6.52% equity interest in Shenzhen BYD Lithium Battery Company Limited for an aggregate consideration of RMB45,691,000. Ms Dai is the sister of Ms Dai Chang, being one of the promoters of the Company. Mr Shen is the spouse of Ms Jia Yan-xiu, being one of the promoters of the Company.

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

- (a) the annual consideration in respect of the material purchases from the CNIC Group does not exceed 12% of the Group's total turnover for the year ended 31st December, 2004; and
- (b) the annual consideration in respect of the procurement of utilities from Qin Chuan Group does not exceed 2% of the Group's net tangible asset value as at 31st December, 2004.

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

- (a) the above connected transactions and continuing 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;

CONNECTED TRANSACTIONS (continued)

(B) Connected transactions (continued)

- (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; and
- (e) the continuing connected transactions of the Company ceased to be so upon completion of the acquisition of ZC Machinery's 13% equity interest in Auto by the Company.

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 as set out in Appendix 14 to the Listing Rules applicable during the year ended 31st December, 2004.

AUDIT COMMITTEE

One of the primary duties of the audit committee is to review the financial reporting process of the Group. The audit committee consists of two independent non-executive Directors, namely Mr. Li Guo-xun and Mr. Kang Dian and one non-executive Director, Mr. Lu Xiang-yang. A meeting was convened by the Company's audit committee and the Company's auditors, PricewaterhouseCoopers on 24th March, 2005 to review the accounting policies and practices adopted by the Group and to discuss auditing, internal control, risk management and financial reporting matters (including the financial statements for the year ended 31st December, 2004 before recommending them to the Board for approval). There were two audit committee meetings held during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date (being 24th March, 2005) prior to the issue of the annual report, the directors confirm that the Company had sufficient public float as required by the Listing Rules.

SUBSEQUENT EVENTS

The Group entered into an agreement with Sanyo Energy (USA) Corporation, a Delaware Corporation, and Sanyo Electric Co. Ltd., a Japanese company (collectively referred to as "Sanyo") effective 24th January, 2005 for settlement of the legal proceeding brought by Sanyo against the Group in 2002 for alleged patent infringements. Pursuant to the settlement agreement, among other things, both the Group and Sanyo dismissed their respective claims or counter-claims against the other and the parties agreed not to sue each other for an agreed period regarding patent infringement of lithium-ion batteries. In addition, the Group has paid Sanyo US\$2,400,000 as part of the terms of the settlement.

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

President

Hong Kong, 24th March, 2005