

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 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are research, development, manufacture and sale of rechargeable batteries LCD and other electronic product. The activities of the Company’s subsidiaries are set out in Note 9 to the accompanying consolidated financial statements. There were no significant changes in the nature of the Group’s principal activities during the year ended 31st December 2005.

An analysis of the Group’s performance for the year ended 31st December, 2005 by business and geographical segments is set out in Note 5 to the accompanying consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements on pages 33 to 84 of this annual report.

Due to the substantial capital need for future development, the Directors did not recommend a final dividend payment for the year ended 31st December 2005.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 69 of this annual report and in Note 17 to the accompanying consolidated financial statements, respectively.

DONATIONS

Charitable and other donations made by the Group during the year ended 31st December 2005 amounted to approximately RMB438,000 (2004: RMB314,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 6 to the accompanying consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 16 to the accompanying consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2005, 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 RMB 782,801,000 (2004: RMB878,302,000).

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Article 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 2005.

DIRECTORS

The Directors who held office during the year ended 31st December 2005 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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive 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 starting from 11th June 2002. Their contracts were renewed on 11th June 2005 for a term of three years with the notice period of 3 months.

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

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DIRECTORS REMUNERATIONS

The emolument payable to each Executive Director is based on (i) his/her duties and responsibilities; (ii) prevailing market conditions and (iii) performance and profitability of the Company. Details of the remuneration of the Directors are set out in note 24 to the consolidated financial statements.

The emolument payable to each Non-Executive Director (including Independent Non-Executive Director) is based on the responsibilities and undertaking to the Board taking into account his experience and market practice for such post.

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.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS

As at 31st December 2005, 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 Future Ordinance (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 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	2,941,500 (L) (note 2)	0.10	0.37

Note 2: According to the legal consultant of the Company, Mr. Wang Chuan-fu, being a director the Company, is not prohibited from purchasing H shares outside the PRC.

Saved as disclosed above, as at 31st December 2005, 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 2005, 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 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 (note 1)	44,800,700 (L)	8.30	11.49
Yang Long-zhong (note 2)	20,717,300 (L)	3.84	5.31

Notes:

- 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.
- Mr. Yang Long-zhong is a senior management personnel responsible for sales function of the Group.

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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 1)	12,992,600 (L)	2.41	8.69
JPMorgan Chase & Co. (note 2)	8,384,300 (L)	1.55	5.61
	5,030,800 (P)	0.93	3.37
FMR Corp (note 3)	12,000,000 (L)	2.22	8.03
Li Lu (note 4)	8,997,500 (L)	1.67	6.02
Government of Singapore Investment Pte Ltd	10,402,000 (L)	1.93	6.96

Notes:

- (1) The Capital Group Companies, Inc. is deemed to be interested in 12,992,600 H shares (L) through Capital International, Inc. and Capital Group International, Inc., both of which are controlled corporations of The Capital Group Companies, Inc.
- (2) JPMorgan Chase & Co. is deemed to be interested in 8,384,300 H shares (L) through JPMorgan Chase Bank, N.A., J.P. Morgan Chase International Holdings Limited, J.P. Morgan Securities Ltd., J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc, J.P. Morgan Overseas Capital Corporation, J.P. Morgan Whitefriars Inc., JPMorgan Asset Management (Asia) Inc., JF Asset Management Limited and JPMorgan Asset Management Holdings Inc., all of which are controlled corporations of JPMorgan Chase & Co.
- (3) FMR Corp is deemed to be interested in 12,000,000 H shares (L) through Fidelity Management & Research Company, which is a controlled corporation of FMR Corp.
- (4) Li Lu is deemed to be interested in 8,997,500 H shares (L) through LL Group, LLC and LL Investment Partners, L.P., both of which are controlled corporations of Li Lu.

The total issued share capital of the Company as at 31st December, 2005 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.

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

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 2005.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year ended 31st December 2005 attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	4%
— the five largest suppliers combined	13%

Sales

— the largest customer	20%
— the five largest customers combined	37%

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 customer noted above.

CONNECTED TRANSACTIONS

There was no connected transaction entered into by the Group during the year ended 31st December 2005 which is required to be disclosed under the Listing Rules.

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 three independent non-executive Directors, namely Professor Li-Guo-xun, Mr. Kang Dian and Mr. Lin You-ren, and a 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 2006 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, 2005 before recommending them to the Board for approval). There were two meetings convened by the Company's audit committee during the year.

REMUNERATION COMMITTEE

Pursuant to code provision B.1.1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), the Board of Directors established a Remuneration Committee on 27th June 2005. The Remuneration Committee comprises Mr. Wang Chuan-fu, Mr. Xia Zuo-quan, Mr. Kang Dian, Professor Li Guo-xun and Mr. Lin You-ren. The terms of reference of the Remuneration Committee were adapted by the Board on 27th June 2005.

NOMINATION COMMITTEE

Pursuant to the relevant provision of the Code, the Group established the Nomination Committee. The Nomination Committee comprises Mr. Wang Chuan-fu, Mr. Lu Xiang-yang, Mr. Kang Dian, Professor Li Guo-xun and Mr. Lin You-ren, with Mr. Wang Chuan-fu as the Chairman. The Nomination Committee will perform such duties as set out in the Code, including making recommendations to the Board on selection of individuals nominated for directorship.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has not adopted a code of securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiry made with Directors, the Company has confirmed that each of the Directors complied with the Model Code.

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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 under review, except for the following deviation:

CODE A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Wang Chuan-fu is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals and meets regularly every three months to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Wang and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

Save as disclosed above, the Board is not aware of any other information indicating that the Company did not comply with the said Code of Best Practice at anytime during the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information which is publicly available to the Company and within the knowledge of its directors as at the latest practicable date (being 21st April 2006) prior to the issue of the annual report, the directors confirm that the Company had sufficient public float as required by the Listing Rules.

CONFIRMATION OF INDEPENDENCE

On 24th March 2006, each Independent Non-Executive Director has provided a written statement confirming his Independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company assessed that each Independent Non-Executive Director continues to be independent.

AUDITORS

The consolidated financial statements 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, 24th March 2006