

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 2006.

Principal Activities and Geographical Analysis of Operations

The principal activities of the Group are research, development, manufacture and sale of rechargeable batteries, automobiles and related products, handset components, LCD and other electronic products. The activities of the Company’s subsidiaries are set out in Note 20 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 2006.

An analysis of the Group’s performance for the year ended 31st December 2006 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 2006 and the financial position of the Group and the Company as at the date are set out in the consolidated financial statements on pages 35 to 99 of this annual report.

The Board recommended the payment of a final dividend of RMB0.4 per share for the year ended 31st December 2006. (2005: Nil). The dividend will be payable on or before 5th July 2007 (Thursday) to shareholders whose names appear on the register of member on 8th June 2007 (Friday).

Closure of Register of Members

The register of members of the Company will be closed from 10th May 2007 (Thursday) to 8th June 2007 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for entitlement to the final dividend to be approved at the Annual General Meeting and to attend and vote at such meeting, all documents about transfer of shares of the Company accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on 9th May 2007 (Wednesday).

Reserves

Movements in the reserves of the Group and the Company during the year are set out on page 93 of this annual report and in Note 32 to the accompanying consolidated financial statements, respectively.

Donations

Charitable and other donations made by the Group during the year ended 31st December 2006 amounted to approximately RMB9,619,000 (2005: RMB438,000).

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 15 to the accompanying consolidated financial statements.

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Share Capital

Details of the movements in share capital of the Company are set out in Note 31 to the accompanying consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company as at 31st December 2006, 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 RMB527,310,000 (2005: RMB782,801,000).

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.

Directors

The Directors who held office during the year ended 31st December 2006 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 Directors except Mr. Lin You-ren 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. Mr. Lin You-ren has entered into a service contract with the Company for a term of three years starting from 1st December 2004.

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.

Directors Remunerations

The emolument payable to each Executive Director is based on (i) his 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 9 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 18.

Directors', Supervisors' and Chief Executives' Interests

As at 31st December 2006, 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) were 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 %
<i>Domestic shares of RMB1.00 each</i>			
Mr. Wang Chuan-fu	150,169,100 (L)	27.83	38.50
Mr. Lu Xiang-yang	107,755,600 (L) <i>(note 1)</i>	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.

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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 %
<i>H shares of RMB1.00 each</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 2006, 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 2006, so far as was 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 RMB1.00 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.

H shares of RMB1.00 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)	8,570,600 (L)	1.59	5.73
JPMorgan Chase & Co. (note 2)	7,208,300 (L)	1.34	4.82
	5,478,300 (P)	1.02	3.66
FMR Corp (note 3)	10,492,500(L)	1.94	7.02
Li Lu (note 4)	8,997,500 (L)	1.67	6.02
LL Investment Partners, L.P. (note 5)	8,997,500 (L)	1.67	6.02
Franklin Templeton Investments Corp.	9,153,000 (L)	1.70	6.12
Fidelity International Limited	10,682,000(L)	1.98	7.15
Templeton Global Advisors Ltd.	9,004,500 (L)	1.67	6.02
Value Partners Limited (note 6)	12,110,000 (L)	2.24	8.10
Cheah Cheng Hye (note 6)	12,110,000 (L)	2.24	8.10
Halbis Capital Management (Hong Kong) Limited	7,755,000 (L)	1.44	5.18
Baring Asset Management Limited	7,496,000 (L)	1.39	5.01

Notes:

- (1) The Capital Group Companies, Inc. is deemed to be interested in 8,570,600 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 7,208,300 H Shares (L) and 5,478,300 H Shares (P) through, as the case may be, 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 10,492,500 H Shares (L) through Fidelity Management & Research Company (as to 10,436,000 H Shares) and Fidelity Management Trust Company (as to 56,500 H Shares), both of which are controlled corporations 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.
- (5) LL Group, LLC is deemed to be interested in 8,997,500 H Shares (L) through LL Investment Partners, L.P., which is a controlled corporation of LL Group, LLC.
- (6) Cheah Cheng Hye is deemed to be interested in 12,110,000 H Shares (L) through Value Partners Limited, which is a controlled corporation of Cheah Cheng Hye.

The total issued share capital of the Company as at 31st December 2006 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

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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 2006.

Major Customers and Suppliers

The percentage of purchases and sales for the year ended 31st December 2006 attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	8%
— the five largest suppliers combined	15%

Sales

— the largest customer	6%
— the five largest customers combined	23%

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 2006 which is required to be disclosed under the Listing Rules.

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 16th March 2007) 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 16th March 2007, 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 Ernst & Young.

During the year ended 31st December 2006, the Company appointed Ernst & Young as auditors of the Company to fill the casual vacancy following the resignation of PricewaterhouseCoopers as auditors of the Company. The change of auditors has obtained approval of the shareholders as announced by the Company on 30th January 2007.

On behalf of the Board

Wang Chuan-fu

Chairman

Shenzhen, The PRC, 16th March 2007