



*Mr. Zhang Fangyou (Chairman and Managing Director)*

To all shareholders :

I would like to present the annual report of Denway Motors Limited (the “Company”) and the audited consolidated results of the Company and its subsidiaries (together the “Group”), associated companies and a jointly controlled entity for the year ended 31st December 2000.

### **BUSINESS REVIEW**

For the year ended 31st December 2000, the turnover of the Group amounted to approximately HK\$786,390,000 (1999: HK\$624,523,000), and the audited consolidated profit attributable to shareholders amounted to approximately HK\$453,203,000 (1999: HK\$37,867,000). Earnings per share were 16.9 cents (1999: 1.6 cents).

The total production and sales of Guangzhou Honda Automobile Co., Ltd. (“Guangzhou Honda”) for 2000 was 32,228 and 32,233 Guangzhou Honda Accord sedans respectively, representing a growth of 222% compared with those in 1999, and exceeded the production and operation target for the year. Guangzhou Honda Accord sedan accounted for 29.6% in the medium and high-end sedan market in the People’s Republic of China (the “PRC”) and ranked top among the manufacturers for the same. It has attained or surpassed the targets for various indicators of the product, such as passing rate for first inspection, defects, and after-sales service. Guangzhou Honda had obtained ISO 9002 certification on its products, and about 94% of its customers were satisfied about their vehicles. Through the stringent measures adopted by the Chinese and Japanese management, Guangzhou Honda succeeded in reducing the production costs and sustaining quality of the products, and the domestic component content level exceeded 50%. The “four-in-one” franchisee sales network, which has over 60 outlets in Beijing, Shanghai, Guangzhou and other major cities in the PRC, provides a strong support for the sale and after-sale services of the products of

Guangzhou Honda. Guangzhou Honda launched the new Accord 2.0Exi, from the bases of the existing Accord 2.3Vti-E and Accord 2.3Vti-L. In its initial stage, Guangzhou Honda fully utilized its annual production capacity, and in 2000 became the first enterprise in the PRC that produced and sold over 30,000 vehicles of medium and high-end sedans.



*Production plants of Guangzhou Honda*

In September 2000, the Company completed the issue of 350,000,000 new Shares at HK\$1.28 per Share in a top-up placing exercise, and the net proceeds amounted to approximately HK\$437,000,000. Save for approximately HK\$43,000,000 which was applied in the acquisition of an 51% interest in Guangzhou Honda Automobile No.1 Sales Co., Limited 廣州本田汽車第一銷售有限公司, and approximately HK\$55,000,000 which was applied in additional contribution to Guangzhou Denway Bus Co., Ltd., most of the remaining balance will be continuously invested in the related auto business for support of the development of Guangzhou Honda, so as to meet the demand for its product in the market.

Other business of the Group, including the manufacturing of coaches, automobile spare parts and electronic products, as well as sales of automobiles had achieved the targets set down in early 2000. Among these, Guangzhou Hua De Automobile Spring Co. Ltd. achieved a turnaround in its performance as a result of bulk supply of its products to Guangzhou Honda.

In order to reflect more accurately its business specialties, the Company was renamed as "Denway Motors Limited 駿威汽車有限公司" in June 2000.

### FUTURE PROSPECTS

For the first quarter of 2001, the output and sale of sedans in the PRC increased by 15.1% and 29.4% respectively compared with that of the previous year. The output and sale of Guangzhou Honda Accord sedans amounted to 11,837 vehicles and 11,667 vehicles respectively for the first quarter of 2001, which had increased by 183.8% and 185.9% respectively compared with that of 4,171 and 4,081 respectively for the same period in the previous year. The market share of Guangzhou Honda Accord sedans in the PRC's sedan market in the first quarter of 2001 had increased from 3.5% of the same period to 7.8%, and the demand still exceeded the supply of the products.

As the PRC will soon be admitted into the WTO, various domestic and foreign new car models and new products are being introduced into the PRC market. The automobile industry in the PRC, in particular the sedan industry would thus face more intensive competition. On the other hand, the policies for the automobile industry and its consumption as prepared by the relevant supervisory authorities in the PRC brought positive impact on the development of the automobile industry in the PRC and automobile consumption accordingly. The potential purchasing power of the sedan market in the PRC is emerging. It is expected that there will be a relative longer period of rapid growth for the consumption of sedans within the PRC and therefore, the Company considers that there will be challenges and opportunities ahead.

With the outstanding performance currently achieved by Guangzhou Honda in the automobile market in the PRC, the joint venture partners had a consensus for its development pace, restructuring and production and operation targets. Guangzhou Honda will maintain the production and sales target at 50,000 Guangzhou Honda Accord sedan per annum. On the other hand, in order to expand the scale of production and sale in the future, the joint venture will leverage on its existing capabilities and undergo restructuring so as to lay down solid foundation and to satisfy future development objective. With respect to the



*Stamping lines of Guangzhou Honda*

development of new products, it will insist on keeping its pace with that of the world. A new model of Guangzhou Honda Accord sedan with 3 litre V6 engine was launched in the market in April 2001. It will continue to introduce new models to satisfy demands of customers from different segments. Whilst preserving the brand through maintaining its competitive advantage in terms of quality, it will strengthen management process, reduce production cost and steadily increase the domestic component content level. In 2001, Guangzhou Honda will further expand and improve services function of the "four-in-one" network so as to consolidate its sales, after-sales service, spare-parts supply and the information feed-back, and will strive to set up a total of 120 outlets, thus increasing the competitiveness of Guangzhou Honda sedan.

While developing Guangzhou Honda in its best endeavours, the Group will seek better investment opportunities in the automobile business. The Directors believe that, Guangzhou Honda as the leader in the automobile industry in Guangzhou, will capitalize on the opportunities and develop in a more rapid pace, with an aim to occupy an important position in the sedan market in the PRC. Meanwhile, the Company will devote its best efforts to bring satisfactory returns to the shareholders in the future.

### FINANCIAL SUMMARY

The Group's turnover for the year ended 31st December 2000 was about HK\$786,390,000, representing a double digit increase of about 25.9% compared to that of 1999. The turnover of the trading of motor vehicles increased by about 43.4% compared to that of 1999 and reached around HK\$350,297,000 in 2000. The second major revenue source of the Group was the manufacturing and assembly of motor vehicles which registered a turnover of around HK\$192,240,000, representing an increase of about 22.0% compared to that of 1999. The order on hand of the Group for the business of the manufacturing and assembly of motor vehicles was about RMB52,646,000 (or equivalent to HK\$49,202,000) as at 31st December 2000.

Though the total loans of the Group had increased by around HK\$20 million during the year and reached HK\$128,273,000 as at 31st December 2000, the ratio of borrowings relative to total equity was only 7% as at 31st December 2000. The ratio of total liabilities (including minority interests) relative to total equity was only 23%, compared with the ratio of 38% in 1999. The Group's bank borrowings were secured by land and buildings and investment properties with a total net book value of HK\$118,245,000 and bank balance of HK\$42,256,000. At 31st December 2000, the Group had contingent liabilities of about HK\$2,804,000 which mainly represented guarantees for bank loans borrowed by a non-consolidated subsidiary.

The Group had at the end of 2000 cash and cash equivalents of about HK\$748,857,000. This had included the cash inflow from operating activities of around HK\$16,228,000. The large amount of cash is due to the receipt of cash dividend of about HK\$161,106,000 from our jointly controlled entity, Guangzhou Honda, during the year. Further, the Company issued new shares to employees under the employee option scheme and to a shareholder in a top-up

placing exercise with a gross proceeds of HK\$465,109,000 for the purpose of the investments in motor vehicles manufacturing business in the PRC. The proceeds will be applied as stated in the announcement dated 8th September 2000.

General and administrative expenses for the Group in 2000 were around HK\$89,713,000, representing a slight increase of about 4.7% compared to that of 1999. These expenses were tightly controlled such that the rate of increase of sales was improporionately larger than that of these expenses. Though the finance costs



*Quality inspection lines of Guangzhou Honda*

slightly decreased by around 2.1%, the interest cover reached a high level of 30.5 multiples in 2000. The Group did not experience significant exchange rate fluctuation in terms of Reminbi, the major operating currency of the Group during 2000.

Share of net profits of non-consolidated subsidiaries reached around HK\$1,134,000, representing a turning from share of losses to share of profits. However, the share of losses of associated companies had increased and reached around HK\$11,422,000 for the year.

### EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2000, the Group employed approximately 2,900 (1999:2,400) staff in the PRC and Hong Kong.

The remuneration package adopted by the Group includes discretionary bonus and share options being granted to eligible staff based on the Group's performance and individual performance. Staff training and development programs are conducted on a regular basis.

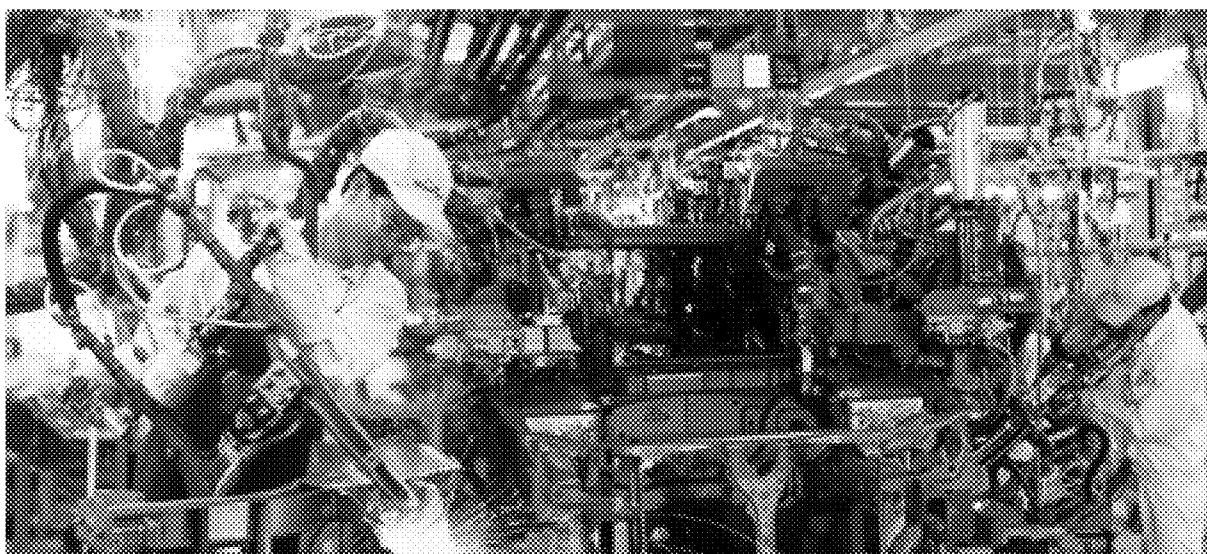
### ACKNOWLEDGEMENTS

I would like to extend my appreciation to all shareholders for their support and to thank the directors for their guidance and the staff members for their dedication and hard work.

**Zhang Fangyou**

*Chairman and Managing Director*

Hong Kong, 18th April 2001



Welding workshop of Guangzhou Honda