

## *Chairman's Statement*

With its excellent product quality and comprehensive sales service, both the brand name recognition and reputation of Guangzhou Honda Accord keep rising, and the brand has won the recognition of domestic consumers. In 2000 and 2001 consecutively, it was chosen as “The most favorite sedan of the Shanghai community” by the Jie Fang Daily of Shanghai; in 2001, Guangzhou Honda Accord won a number of awards such as “My most favorite sedan car”, “Priority brand name of car to be bought” and “My favorite medium and high-end sedan” at the Guangzhou celebrity cars nomination event jointly organized by Yang Cheng Evening News and the Guangzhou Car Sales Association; in 2001, it was chosen as the most stylishly shaped car by over 100 journalists from 34 media entities in Beijing.

In respect of developing new products, Guangzhou Honda with its firm adherence to its “keeping abreast with the world” philosophy, endeavours to launch new models in every year. Subsequent to the launching of Guangzhou Honda Accord 2.3VTI in 1999, 2.0 EXI in 2000 and 3.0V6 in 2001, ODYSSEY, the multi-purpose passengers vehicle which has a large passenger capacity will be launched in April 2002. The Guangzhou Honda Accord 2002 series have been on the market since January 2002, and all three sedans, namely, the 2.3VTI model, the 2.0EXI and





the 3.0V6 of the 2002 series have been modified by installing noise-reducing device and anti-theft system, thereby enhancing the value of these products and offering customers more pleasure in driving.

Following the corporate restructuring of other operations of the Group and technological revamp of the plants over the recent years, operating results of the Group's principal subsidiaries in the PRC were that as anticipated, marked improvements have been seen in terms of profitability. In particular, increase in net profit of Guangzhou Honda

Automobile No. 1 Sales Co., Ltd. ("GZ Honda No. 1 Sales"), a company 51% owned by the Company through its indirect non wholly-owned subsidiary, is in line with anticipation; the sales revenue and net profit of Guangzhou Weida Machinery Enterprises Corporation Limited - Automotive Industry Trading Company ("GATC") increased by 31.9% and 523.4% respectively over that of the previous year; the sales revenue and net profit of Guangzhou Hua De Automobile Spring Co., Ltd. increased by 52.6% and 51.7% respectively over that of the previous year; the sales revenue and net profit of Arkon Group, which is engaged in the manufacturing of consumer electronic products, increased by 11.3% and 825.5% respectively over that of the previous year.

The major loss-making company of the Group in the PRC is Guangzhou Storage Battery Enterprise Company Limited, an associated company in which the Group directly owns as to 36% in shareholding. Loss incurred by this company decreased by 31.4% over that of the previous year.

In order to facilitate the Group's management of its companies in the PRC, the restructuring of Guangzhou Weida Machinery Enterprises Corporation Limited was completed in 2001 and was renamed as Guangzhou Denway Enterprises Development Company Limited ("GZ Denway").

### **FUTURE PROSPECTS**

2002 is the first year upon the PRC's accession to the WTO, in which tariffs for imported vehicles will be reduced substantially, whereas quota for imported vehicles will be increased. As such, the vehicle manufacturing industry of the PRC will operate in the midst of severe competition. As the market demand for vehicles in the PRC has become more rational, and where their operation is becoming more standardized and competition becoming more severe, together with other factors such as the State's continued implementation of proactive financial policies and sound monetary policies, the continued steady growth in the economy of the PRC, the continued improvement in the living standard of the people, the construction of expressway network and the continued improvement in the urban environment, as well as newly introduced policies such as the "Policy for the Automobile Industry" and the "Policy for Automobile Consumption" which encourage the consumption of automobiles, attractive conditions have been created for the development of the automobile industry. It can be seen that a period of high growth for the consumption of automobiles in the PRC is coming. Therefore, we consider that Guangzhou Honda will see growth rather than difficulties, and will come up with opportunities rather than challenges.

In the first quarter of 2002, in spite of the keen competition of the domestic market for sedans, three models of Guangzhou Honda continued to produce and sell satisfactorily without having to reduce price. From January to March, a total of 11,839 Guangzhou Honda Accord sedans were produced and 11,764 vehicles were sold, both represented increases over the previous year.



Both the Chinese and the Japanese partners have firmly adhered to the market-led development strategy when Guangzhou Honda was first established. It is confirmed that two essential targets for 2002 are: accomplishing the mission of producing and selling 59,000 vehicles and the completion of the reconstruction of production plant for an annual capacity of 120,000 vehicles. At the same time, the system to better serve customers will be strengthened with 160 franchised sales service outlets to be established by the end of the year; maintenance of production facilities will be emphasized, and attention will be paid in the supply of raw materials, reduction of production costs, reasonable arrangements for shifts of production staff, and where product quality is of paramount importance, production capacity will be maximized and continued improvements will be made for the Guangzhou Honda's internal management, thereby enhancing its productivity. It will also make timely adjustment to its product mix in accordance with the market demand with a view to optimize its cost-effectiveness and seizing the largest market share.

The Group has completed the relocating of the plants of Guangzhou Denway Bus Company Limited ("Denway Bus") in the first quarter of 2002 so as to make way for the high speed growth of Guangzhou Honda. It has also reduced its shareholding interests in the relocated bus operation, which is in line with the Group's overall investment strategy, so that its capital can be utilized more effectively. While the automobile operation remains its core operation in future, the Group will seek and identify other more promising investment opportunities. The Board of Directors believes that Guangzhou Honda being the market leader in Guangzhou auto industry, will be able to seize opportunity which arises and speed up its development, thereby placing itself at a predominant position in the PRC's sedan car market. Other operations of the Group will also experience envious growth, and with its continued efforts, the Group will bring forth attractive returns for its shareholders.

### **EMPLOYEES AND REMUNERATION POLICY**

As at 31st December 2001, the Group employed approximately 3,230 (2000:2,900) 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.