



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”), non-consolidated subsidiaries, associated companies and a jointly controlled entity for the year ended 31st December 2003.

BUSINESS REVIEW

For the year ended 31st December 2003, turnover of the Group was approximately HK\$1,534,779,000, an increase of 5.3% over that of the previous year (2002: HK\$1,457,381,000). The audited consolidated profit attributable to shareholders was approximately HK\$1,686,709,000, an increase of 54.5% over that of the previous year (2002: HK\$1,091,913,000). Earnings per share amounted to HK48.9 cents, an increase of 50.9% over that of the previous year (2002: HK32.4 cents).

Year 2003 was an exceptional year. The auto industry of the People's Republic of China (the "PRC") could manage to stand firm after the outbreak of SARS in PRC in early 2003. Even under such tough situation, the auto industry was able to achieve a new record in output and sales of motor vehicles. With sustained high returns, the auto industry has remained the focus and pillar industry of the national economy. The aggregate output and sales of motor vehicles for the year was approximately 4,443,700 vehicles and 4,390,800 units, an increase of approximately 35.2% and 34.21% respectively over those of the previous year. The PRC has become the third largest country in terms of sales of motor vehicles in the world. After the output and sales of sedans in 2002 for the first time exceeded 1,000,000 units, output and sales for 2003 broke the record in its history and exceeded 2,000,000 units.

During 2003, the Group had produced and sold an aggregate of 118,183 vehicles and 118,057 vehicles through the jointly controlled entity (the "Sedan Company") and its subsidiary (the "Bus Company"), an increase of approximately 96% over that of the previous year, of which the output and sales of the Sedan Company amounted 117,158 units and 117,048 units respectively, an increase of approximately 98% over that of the previous year whilst the output and sales of the Bus Company amounted to 1,025 units and 1,009 units respectively.

All the other businesses of the Group, including the trading of motor vehicles, manufacturing of vehicle-related equipment and components, manufacturing and trading of audio equipment met their target as determined earlier in 2003.

FUTURE PROSPECTS

It is expected the PRC economy will continue to grow at a relatively high rate. According to the National Bureau of Statistics, it is anticipated that the annual output of vehicles for the full year will reach 5,500,000 vehicles whilst that of sedans will reach over 2,800,000 vehicles. Although the duties on imported vehicles and parts and components have been reduced for several years and the import quota has been increasing, all the auto producers must further enhance their strategies on domestic market development. They have to be competitive in respect of products, prices and services to increase their market share.

Following the promulgation of Measures Governing Auto Financing Companies (《汽車金融公司管理辦法》) last year, it is expected that the Policies on Auto Industry Development (《汽車產業發展政策》) will be formally implemented. We believe that the promulgation of the new policies will have long term influence on the PRC auto industry and market. The policies will definitely stimulate the vehicle demand, facilitate the vehicle consumption and establish and consolidate its strategic position in the auto industry in the PRC.

The improvement of the Sedan Company's production capacity to 240,000 vehicles will be completed in 2004. It is planned to produce and sell 200,000 sedans for the year. More products that may satisfy the market demand and fulfill customers' expectations will be introduced. Meanwhile, the Sedan Company will continue to expand and perfect the pre-sale and after-sales services system. The Sedan Company is customer-oriented with an aim to continue to enhance customers' satisfaction and to provide services with higher quality and at an accelerated pace. The Sedan Company persists on a roll-over principle for its development so as to achieve targets at higher level.

The Group will continue to pursue for investment opportunities with better returns that are related to the automobile business. The Board believes that the Group will be able to seize such opportunities for more rapid development, thereby generating attractive and better returns for its shareholders.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2003, the Group employed approximately 3,000 (2002: 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.

FINANCIAL SUMMARY

The Group's turnover for the year ended 31st December 2003 was about HK\$1,534,779,000, representing an increase of about 5.3% compared to that of 2002. The turnover of the trading of motor vehicles increased by about 3.9% compared to that of 2002 and reached around HK\$999,994,000 in 2003. The second major revenue source of the Group was the manufacturing and assembly of motor vehicles which registered a turnover of around HK\$256,171,000, representing an increase of about 7.3% compared to that of 2002. Despite the relocation of the related production plant twice recently, the production is caught up as the plan. The other business of manufacturing and trading of audio equipment has faced fierce competition and reduced about 6% in turnover. However, the operating profit of this segment is growing by 21.4%.

The total loans of the Group was slightly reduced by around 3.3% from HK\$59,178,000 to HK\$57,197,000 at the year ended of 2003. The Company maintains a low ratio of borrowings relative to total equity at 1.1% as at 31st December 2003. The ratio of total liabilities (including minority interests) relative to total equity was slightly increased to only 13.1%, compared with the ratio of 12.7% in 2002. The Group's bank borrowings were secured by land and buildings and investment properties with a total net book value of HK\$22,906,000 and bank balance of HK\$72,406,000. As at 31st December 2003, the Group had contingent liabilities of about HK\$13,873,000 which mainly represented guarantees for bank loans borrowed by a non-consolidated subsidiary.

The Group had at the end of 2003 cash and bank balances of about HK\$1,967,633,000. This had included the cash inflow from operating activities of around HK\$133,523,000. During the year, the major increase of the cash and cash equivalent is due to the receipt of cash dividend of about HK\$769,542,000 from the Sedan Company.

General and administrative expenses for the Group in 2003 were around HK\$135,227,000, representing a modest increase of about 11.2% compared to that of 2002. The increase was also mainly due to the extra expenses incurred for moving plant of Guangzhou Denway Bus Limited ("GZ Denway Bus") during the year. The finance costs was decreased by around 56.7% due to the increasing of the amount of cash held in Group. The interest cover is still growing fast and reached a new recorded high level of 750.8 multiples in 2003 compared to that of 212.3 multiples in 2002. The Group did not experience any significant exchange rate fluctuation in terms of Reminbi, the major operating currency of the Group during 2003.

Share of net profits of non-consolidated subsidiaries was HK\$1,776,000, remained similar as that of 2002. Further, share of profits from associated companies, including Shanghai Guangchee Automotive Trading and Services Company Limited, for the year ended 31st December 2003 was HK\$3,088,000.

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, 29th March 2004