



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 2002.

BUSINESS REVIEW

For the year ended 31st December 2002, turnover of the Group was approximately HK\$1,457,381,000, an increase of 12.5% over that of the previous year (2001: HK\$1,295,908,000). The audited consolidated profit attributable to shareholders was approximately HK\$1,091,913,000, an increase of 50.8% over that of the previous year (2001: HK\$724,242,000). Earnings per share amounted to HK32.4 cents, an increase of 47.3% over that of the previous year (2001: HK22.0 cents).

During the first year upon the accession to the WTO, the People's Republic of China (the "PRC") economy had recorded stable and sustainable growth, which had a positive impact on the domestic auto industry. The aggregated output and sales of vehicles for 2002 was approximately 3,251,200 vehicles and 3,248,100 vehicles, an increase of approximately 38.49% and 36.65% respectively over those of the previous year, of which the aggregated output and sales of sedans had reached a new high of approximately 1,090,800 units and 1,126,000 units, an increase of approximately 55.05% and 56.08% respectively over those of the previous year. Year 2002 is a land-mark of achievement of the auto industry in the PRC. The motor vehicles sales increased drastically with more new models being launched. In addition, the profile of car consumers changed greatly (i.e. 80% of the sedans were sold to private individuals), and the cooperation between the PRC and overseas car manufacturers was further enhanced.

During 2002, the Group had produced and sold an aggregate of 60,387 vehicles and 60,292 vehicles through the jointly controlled entity (the "Sedan Company") and its subsidiary (the "Bus Company"), of which the output and sales of the Sedan Company amounted to 59,080 units and 59,151 units respectively, an increase of approximately 15.51% and 15.85% over those of the previous year. While the output and sales of the Bus Company amounted to 1,307 units and 1,141 units respectively, a decrease of approximately 18.87% and 25.20% over those of the previous year.

2002 marked the foundation for the rapid development of the Sedan Company in the future. The production and sales target of 59,000 vehicles for the whole year of 2002 had been achieved. The target of revamping the production plant to an annual production capacity of 120,000 vehicles was also achieved. Following the launch of the multi-purpose passengers vehicle in April 2002, the new generation of sedan model had also been successfully launched in the market in January 2003. In respect of cost control, the Sedan Company continued to increase the domestic component content level of its products. The quality of products of the Sedan Company ranked the first among nine sedan manufacturers in the users' satisfactory index for 2002, which was jointly announced by the China Quality Association and National Consumer Committee. An extensive franchised sales services network has been set up. The quality of the Sedan Company's products continued to rank relatively high in the medium and high-end sedans market. Its products are well-received by the consumers and the supply falls short of the demand.

The Bus Company relocated its production site in order to cope with the development of the Sedan Company. New products such as low-platform city buses, air-conditioned trams and gas city buses had been developed.

The plans for 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 set forth early in the Year 2002 had been completed as scheduled, and the overall profitability had been increased. In particular, increase in gross profit of Guangzhou Honda Automobile No.1 Sales Co., Ltd., a subsidiary of the Group, is in line with anticipation; the sales revenue and net profit of Guangzhou Weida Machinery Enterprises Corporation Limited-Automotive Industry Trading Company increased by 19.1% and decreased by 3.3% respectively over those of the previous year; the sales revenue and net profit of Guangzhou Hua De Automobile Spring Co., Ltd. increased by 22.4% and 22.7% respectively over those 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 17.4% and 4.9% respectively over that of the previous year.

Guangzhou Storage Battery Enterprises Limited ("GZSB"), an associated company of the Group, has been making loss and the Board of Directors (the "Board") considers that it will continue to incur loss in the future. The Group's interest in GZSB as at 31st December 2002 has been reduced to zero as a result of the share of GZSB's loss under the equity method of accounting.

FUTURE PROSPECTS

The economy of the PRC will continue to maintain rapid and sustained growth in 2003. After the consecutive years of development of the auto market over the past few years, in particular the accelerated growth of the auto industry last year, and on top of these the domestic investment environment and the consumption policy which are favorable to the development of cars consumption, it is expected that the output and sales of motor vehicles in the PRC will grow even further in 2003 compared with the previous year. As such, the auto industry will become one of the major industries which are drivers of PRC economic growth.

The Sedan Company will grasp the opportunity in the rapid development of the sedan market in the PRC and face the challenges. The integration of technical level, logistics and ancillary services for new products will be speeded up, and the scale of investment will be increased to expand the production capacity in such a way that an annual production capacity of 240,000 vehicles will be attained as soon as possible. As for the Sedan Company, it will endeavour to achieve the goal for 200 franchised sales shops to be established in the PRC, so as to further improve the sales network in the market, thereby increasing its competitiveness and market share.

It is expected that production for Year 2003 will be affected by the relocation of production site of the Bus Company. However, the Bus Company will take all necessary steps to restore the production to normal and to maintain its established market share. Furthermore, new body technology for buses will be introduced and a new modernized bus plant will be soon established.

The Group will continue to look for investment opportunities with better returns which are all 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 returns for its shareholders.

EMPLOYEES AND REMUNERATION POLICY

As at 31st December 2002, the Group employed approximately 2,900 (2001: 3,230) 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 2002 was about HK\$1,457,381,000, representing a double digit increase of about 12.5% compared to that of 2001. The turnover of the trading of motor vehicles increased by about 14.2% compared to that of 2001 and reached around HK\$962,030,000 in 2002. The increase represents the strong demand for motor vehicles in the PRC. The second major revenue source of the Group was the manufacturing and assembly of motor vehicles which registered a turnover of around HK\$238,652,000, representing an increase of about 3.3% compared to that of 2001. The major reason is the moving of production plant into a new site. The turnover of manufacturing is slow down for the period of relocation. The other business of manufacturing and trading of audio equipment has done very well and still recorded 17.4% growth in turnover.

The total loans of the Group were largely reduced by around 49.8% from HK\$141,427,000 to HK\$70,947,000 at the year ended of 2002, a large portion of loans was repaid. The Company maintains a low ratio of borrowings relative to total equity at 2.0% as at 31st December 2002. The ratio of total liabilities (including minority interests) relative to total equity was further reduced to only 12.7%, compared with the ratio of 20% in 2001. The Group's bank borrowings were secured by land and buildings and investment properties with a total net book value of HK\$24,146,000 and bank balance of HK\$52,636,000. As at 31st December 2002, the Group had contingent liabilities of about HK\$16,252,000 which mainly represented guarantees for bank loans borrowed by a non-consolidated subsidiary.

The Group had at the end of 2002 cash and bank balances of about HK\$1,236,127,000. This had included the cash inflow from operating activities of around HK\$63,299,000. During the year, the major increase of the cash and cash equivalent is due to the receipt of cash dividend of about HK\$358,172,000 from the Sedan Company.

General and administrative expenses for the Group in 2002 were around HK\$121,596,000, representing an increase of about 12.5% compared to those of 2001. These expenses were slightly higher than expected though the rate of increase of sales was proportionate to that of these expenses. The increase was also mainly due to the extra expenses incurred for moving the plant of Bus Company during the year. The finance costs decreased by around 50.5% due to the increase of the amount of cash held by the Group. The interest cover is still growing fast and has reached a new recorded high level of 212.3 multiples in 2002 compared to that of 67.2 multiples in 2001, since bank borrowings have reduced by about 49.8% as mentioned above. The Group did not experience any significant exchange rate fluctuation in terms of Renminbi, the major operating currency of the Group during 2002.

Share of net profits of non-consolidated subsidiaries reached around HK\$1,776,000, representing an increase of 22.7% compared with 2001. Further, share of losses of associated companies increased significantly to HK\$48,904,000 as a result of the loss related to GZSB as mentioned in the "Business Review" section.

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, 15th April 2003