

DENWAY MOTORS LTD**IT IS A FAILURE, TODAY;****IT IS LIKELY TO BE A FAILURE, TOMORROW**

One of the very few groups of people to earn any money from publicly listed Denway Motors Ltd (formerly known as Denway Investment Ltd)(Code: 203) is the 11-man Board of Directors -- because other shareholders of this Company, certainly, are not profiting from its operations in terms of dividends paid out, or for that matter, much in the way of appreciation in the Company's share price.

In the Financial Year, ended December 31, 1999, Denway turned in a Profit Attributable to Shareholders of about \$HK37.87 million on a Turnover of about \$HK624.52 million.

But the seeming increase in the Bottom Line (1998: The Profit Attributable to Shareholders was \$HK23.63 million) is highly suspect; and, one should not imagine for a single moment that the 1999 Net Profit was derived from just the Principal Activities of the Group of Companies that make up Denway Motors Ltd.

For one thing, during the 1999 Year, Denway issued a total of 2,509,190,970 new shares to Guangzhou Automobile Group Company Ltd for cash, bringing in about \$HK529 million, net of expenses.

This money, the Chairman and Managing Director of Denway, Mr Zhang Fang You, said, in his 1999 Business Review, was '*applied to the repayment of loan due to Guangzhou Automobile Group Company Limited ... Currently, Guangzhou Automobile is the Company's ultimate controlling shareholder which has 55.71 per cent shareholding in the Company ...*'.

According to Page 29 of the 1999 Annual Report, the Consolidated Cash Flow Statement, the Company grossed about \$HK563.92 million from the issue of new shares, and paid out about \$HK529.29 million to retire a debt in respect of the repayment of advances from a related company of an investment in a jointly controlled entity (which must have been Guangzhou Honda Automobile Company Ltd).

The effect of the Rights Issue, taken up by Guangzhou Automobile, mainly, was to reduce Long-Term Liabilities, from the 1998 Balance Sheet figure of about \$HK705.53 million to the 1999 Balance Sheet figure of about \$HK108.40 million.

This had the knock-on effect of reducing Denway's interest-bearing liabilities, during the 1999 Year, from the 1998 Year's figure of about \$HK39.40 million to about \$HK15.81 million, paid out in 1999.

The successful Rights Issue exercise, pitched in February 1999, also, helped retire nearly all of the Company's bank and other loans, from the 1998 figure of about \$HK45.34 million to the 1999 figure of about \$HK5.48 million.

So, in one fell swoop, Denway cleared the decks for action.

And then, it did nothing.

All the Company's moves, last Year, the cash injection and the retirement of debt, are all very positive moves -- especially for a motor-car manufacturing company and motor-car trader whose aggregate Financial Results for the past 5 Financial Years are a negative \$HK709.72 million.

(One point that should be mentioned at this stage in this financial analysis is that the '*Five Year Financial Summary*' on Page 12 of the 1999 Annual Report is wrong since the 1998 Financial Results are, in fact, the 1999 Financial Results. It is surprising that the Authorities in the Hongkong Special Administrative Region (HKSAR)

of the People's Republic of China (PRC) and the Company's Auditors, PriceWaterhouseCoopers, have not spotted this stupid and gross error)

Coming back to the Consolidated Profit and Loss Account on Page 27 of the 1999 Annual Report, had it not been for income of about \$HK59.15 million, designated '*Net other operating income*', it is definite that Denway would have turned in another loss for the 1999 Year.

The '*Net other operating income*' is explained on Page 37 of the 1999 Annual Report as being the net gain on disposal of certain loss-making subsidiaries to Guangzhou Automobile Group Company Ltd, now the principal and controlling shareholder of Denway, amounting to about \$HK53.90 million.

In addition, there was a \$HK5.71-million write-back of a former Provision for Bad and Doubtful Debts, and another \$HK1.18-million write-back in respect of loss on inventories.

If one subtracts the \$HK59.15 million from the Net Profit Attributable to Shareholders for the 1999 Financial Year (it would not have rated for any HKSAR tax assessment charge), the final result would have been a negative figure of about \$HK21.28 million.

Eating One's Fill

Shareholders of Denway did not get a dividend in respect of the 1999 Financial Year and, in fact, they have not received a dividend since 1994.

But that has not stopped the Executive Directors and the Non-Executive Directors of Denway from taking an official and legal nibble at the fruits of their labours, ready now for the picking, thanks to the February 1999 Rights Issue, in the main.

Page 40 of the 1999 Annual Report shows that, whereas basic salaries of Directors were just \$HK816,000, totally (1998: \$HK660, 000) and fees were just \$HK655,000, totally (1998: \$HK880,000), share options exercised by certain Executive Directors amounted to about \$HK13.41 million (1998: Nil).

In addition, 2 Executive Directors took \$HK2.50 million, each, as ... [CLICK TO ORDER FULL ARTICLE](#)

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