Management Review

OVERVIEW

The Board of Directors ("Board") is pleased to report a healthy set of results for the half-year ended 30th June 2001. Although the economies of the United States and Asia particularly Singapore are experiencing downturn, the financial performance of the Group has been cushioned somewhat by industry factors as well as a more favourable exchange rate environment. However, the second half of the year is expected to be trying especially for the industrial machinery, trading and rental businesses but is nevertheless on track to turn in satisfactory profits.

Group turnover grew by 25% over the same period last year and 3% over the second half of last year. There were upturns in turnover for the major locations of Singapore, Hong Kong and China. The improvement on group turnover was mainly attributable to the motor trade division with sales volume already achieving 60% of last year's record sales. Motor trade accounted for 92% of group turnover. Turnover of the other divisions was affected by the increasingly difficult business climate.

Profit attributable to shareholders increased by 43% over the same period last year and 24% over the second half of last year if the sale of Wilby Residence, an investment property that was sold in September 2000, is excluded. Lower corporate tax rates, a favourable Japanese Yen exchange against the Singapore Dollar, and steady vehicle quota premiums were contributing factors. Hong Kong and China also made positive contributions.

FINANCIAL STRENGTH

Cash inflows improved by HK$346 million or 81% over the position as at end of last year mainly derived from operating profits, reduction in stocks, trade debtors and hire purchase debtors. Stocks turnover was reduced from 61 days to 27 days and debtors turnover from 23 days to 10 days because of higher sales volume and better management of receivables.

In view of the sharp weakening of the Singapore Dollar against the Hong Kong Dollar because of the strength of the US Dollar (Hong Kong Dollar is pegged to US Dollar), there is a huge translation loss of HK$119 million as more than 90% of the Group's businesses is in Singapore. Consequently although profit attributable to shareholders improved by HK$192 million shareholders' equity only improved by HK$13 million after the payment of HK$60 million to shareholders for final dividend declared for year 2000.

There were no major capital expenditures for the half-year ended 30th June 2001 except for HK$10 million spent in acquiring a further equity stake in Guizhou, China.

Provisions of 2% were made for the Group's major investment properties because of softness in the property markets both in Hong Kong and Singapore.

Looking ahead, the Board does not foresee any major difficulties because of the Group's strong financial standing and hopes to look for business expansions in the region to prepare for the next wave of growth in Asia.

MOTOR TRADE DIVISION

Fresh and innovative marketing strategies have helped the Group to capture a bigger portion of the motor vehicle market in Singapore. Sales volume moved up 35% against the same period last year and 8% against the second half of last year. Market share for the Nissan make of vehicles increased from 22% to 25%. Subaru vehicle sales also showed marked improvements with sales volume increasing by 22% and 15% compared with the corresponding first and second half of last year respectively. In Hong Kong, sales volume increased in a market that remained largely unchanged.

Although the light commercial vehicle quota in Singapore was reduced by 61%, in total, combined sales of passenger vehicles and commercial vehicles is anticipated to be better than last year.

HEAVY COMMERCIAL AND INDUSTRIAL EQUIPMENT DIVISION

Heavy commercial vehicle sales was 10% up over the same period last year but was 20% down against the second half of last year reflecting the difficult business climate. Forklift sales was down from 97 units and 101 units for the same period and the second half of last year to 70 units this year. Forklift rental business was stable.

The sharp economic downturn in Singapore and the surrounding region is expected to pull down sales volume of heavy commercial vehicles and forklifts for the second half of this year. Nevertheless the division expects to maintain a satisfactory profit level for the year.

PROPERTIES RENTAL DIVISION

Rental income from investment properties was down when compared to the same period and the second half of last year mainly because of the disposal of Wilby Residence. It was however enhanced by better occupancy ratio and improved rates. The division is also not spared from the trying economic downturn and by intense business competition. However, all units on 30th Floor, Shui On Centre in Hong Kong are fully leased out and occupancy rate in Tan Chong Tower exceeds 90%.

Prospects for the second half of this year are expected to be softer than the first half.

OTHER DIVISIONS

In line with increased motor vehicle sales, volume from motor vehicle hire purchase financing business has been and is expected to be good. Bottom line has remained steady although it has been affected by a change in accounting standard that requires it to recognize income on the basis of Rule 78 instead of straight-line method. Such a change effectively means that there is no cushion for future defaults. There is also the risk from a low interest rate environment. T}= Board has the¤fore decided not to increase the volume in its hire purchase portfolio. Volume has been reducing from HK$ 360 million as at end of last year to HK$330 million as at 30th June 2001.

Returns for car rental business were still very encouraging although it is also riding the economic tide. Such businesses are cushioned by new prospects that were not willing to spend a capital sum in purchasing a car. Their future should be quite stable.

Turnover from Hong Kong, China and other Asian investments have been encouraging with improved bottom line throughout. These countries should maintain similar volumes and returns for the rest of the year. China's entry into the WTO is expected to enhance our investments there.

NEW DEVELOPMENTS

The Mulberry Grove property development consisting of 77 units of luxury terrace town houses received Written Permission (Planning Approval) in May. Piling tenders have been called and site works will start in the last quarter of this year with the main construction works to follow thereafter. Depending on market conditions, launching for sale can start in the next year.

Provisional Planning Permission has been granted for the proposed 8-storey Showroom and Service complex in Jalan Ubi. This new building will incorporate the latest technology for service operation and showroom display and provide additional facilities for our enlarged customer base. Piling will start in the last quarter of 2001 after receipt of the authority's Planning Approval. The main construction works will commence in the second quarter of 2002 with completion expected by end of 2003.

In recognition of the efforts of the Company over the years, Nissan Diesel Motor Co Limited has signed a 10-year Sole Distributorship Agreement with Tan Chong Industrial Machinery (Pte) Ltd for the distribution of their popular UD trucks. This long-term agreement assures the Company of the longer term prospects of continued business with the principals.