

## **Management Review**

### **OVERALL RESULTS**

The Board of Directors (the "Board") is pleased to announce that the Company and its subsidiaries (together referred to as the "Group") has achieved a satisfactory set of results for the half year ended 30th June 2002.

Group results were affected by several contributory factors.

Firstly, in line with the review of Group results for Year 2001 whereby the Board foresaw "that for year 2002, because of the change to open bidding for car quotas, profit margins may be squeezed even with expected increase in market size for vehicles", profit attributable to shareholders was down 21% and 47% when compared with the second half and first half of year 2001 respectively. Market size in Singapore did not increase as expected but declined 7%.

Secondly, intense competition through new model launches and aggressive pricing has translated into lower Group revenue and unit sales volume, which declined by 7% and 6% when compared with the 2nd half of last year and by 29% and 29% half year on half year.

Thirdly, the Japanese Yen against the Singapore Dollar has appreciated 5% (from 1.41 to 1.48) during this first half year.

### **FINANCIAL STRENGTH**

Financially, the Group continues to grow from strength to strength. Net tangible assets were up HKD0.08 per share to HKD1.66 per share mainly due to translation gains and profit contributions. Net cash was marginally affected by taxes and dividend paid and by increase in working capital. The increase in working capital was due to higher stock and trade debtors because of a fivefold increase in supply of taxis tendered. Bank borrowings remained at around HKD 100 million and are unsecured and the Group has no contingent liabilities.

### **CAPITAL COMMITMENTS**

As at 30<sup>th</sup> June 2002, capital commitments in respect of two construction projects and a property purchase in Singapore at UBI Road 4 and Upper Aljunied Road and at Sixth Lok Yang Road are HKD 69.7 million and HKD 14.1 million and HKD 21.9 million respectively. Main contract work for Upper Aljunied Road is yet to be awarded.

## **MOTOR TRADE**

As anticipated, Nissan car sales business in Singapore was adversely impacted by intense competition through aggressive pricing, newer models of cars brought in by competitors and the change to open bidding for car quotas. The situation was exacerbated by the appreciation of Japanese Yen against the Singapore Dollar. Profit margins were squeezed and volume declined resulting in a smaller market share. The Board is however encouraged by the sales performance of Nissan SUV and MPV, which became market leaders in their respective classes. Sales performance of our Subaru car distribution network in Singapore soared by 46% and 26% when compared to the 1st and 2nd half of Year 2001 respectively. We expect the competition to remain unabated in the second half putting continuing pressure on sales and profit.

## **HEAVY COMMERCIAL VEHICLE AND INDUSTRIAL EQUIPMENT**

The position in the Heavy Commercial Vehicle and Industrial Equipment Division continue to move downwards because of the slow economic recovery in Singapore and the surrounding countries particularly in the logistics businesses. Revenue and profit from operations were down by 22% and 39% respectively.

## **PROPERTY RENTALS**

The property rentals market in Singapore remained soft. However, although rental revenue of our properties in Singapore was down because of soft rental rates, occupancy remains good. The encouraging occupancy level coupled with cost cutting measures has resulted in better operating profits. As for Shui On Centre in Hong Kong there is full occupancy and bottom line has improved as a result of reduction in bank borrowings. We expect overall performance of the Group's Property Division to be stable for the remaining part of the year.

## **OTHERS**

In July, Fuji Heavy Industries signed an exclusive distribution agreement with our wholly owned subsidiary Motor Image China Limited to market their SUBARU vehicles in Guangdong, China. Two dealers have been appointed to date and several more will be added to cater for the market. SUBARU will introduce their trademark All Wheel Drive, world renown WRX sports sedan and also Forester sports SUV. Guangdong has the highest per capita GNP of all the provinces in China and offers good prospects for the premium SUBARU products.

Our tyre distribution company, Tyre Pacific HK Ltd made further inroads into the China market with the expansion into motorcycle and heavy truck tyres. Our new Guangzhou tyre gallery is the first of its kind in China to showcase the full range of DUNLOP tyres, which we represent. Sales improve by 55% over the corresponding half year.

Our Hangzhou DongFeng Nissan Diesel JV is on track to achieving better sales and profit results than last year. The recognition of quality in their products is propelling better sales and acceptance in the market.

The SUBARU Guizhou JV is facing intense competition in the mini-car sector. Nevertheless, the company achieved better sales and reduced operational loss and more effort at cost rationalization will be carried out to improve contributions.

In Thailand our fledgling Companies distributing SUBARU vehicles and renting Nissan Forklifts had a profitable half-year. The distribution of Nissan Forklifts in Zhejiang and Jiangsu Province and Shanghai, signed with Nissan Motor in November last year, is now operational and sales are satisfactory.

## **PROGRESS AND PROSPECTS**

The difficult situation in Singapore is further compounded by the overall external factors of slowing growth in United States and persisting high unemployment rates in the region.

For future prospects, we continue to look into expanding our current businesses in the region particularly in China and Thailand. For the balance of the year we will be introducing new car models in the various markets, which will stimulate sales.