Management Review

The first half of year 2003 was both challenging and rewarding. The Group remains financially strong and has taken pre-emptive steps to cut cost and to expand business regionally.

Group revenue and profit attributable to shareholders improved half year on half year. Although revenue only improved marginally to HK$2033 million from HK$2015 million, there was a significant improvement of 32 % in profit attributable to shareholders mainly assisted by increased contributions from our operations in Thailand and the Motor Division in Singapore.

Unit vehicle sales in Singapore may have eased half year on half year to 7280 from 7650 but when compared to the second half of last year of 6518 units it has improved by 12%. However, total market share for Nissan declined by 5.7%. There were two main reasons for the mixed performance. Firstly, increase in the number of Certificates of Entitlement (car quota) in Singapore. Secondly, intense price competition and the introduction of new models by other car distributors eroded market share. Both the Nissan Prairie and Primera continue to sell well, and the new Nissan Sunny that was launched in June was well received by the buying public. Sales of Subaru cars in Singapore maintained its strength. The new Legacy to be introduced later this year is expected to give a boost to sales volume. Car sales in Hong Kong however were adversely impacted by the introduction of a new vehicle tax structure and the SARS outbreak. A deteriorating unemployment situation also affected our car sales which is primarily in the mid-price segment. Although market share was maintained, both unit sales volume and margins eroded.

The consequences of the SARS outbreak and Middle East uncertainties depressed the occupancy rates of our service apartments. In Hong Kong, office rentals suffer from lower demand caused by companies shifting to mainland China while Singapore apartment rentals were pressured by more new units added onto an already saturated market. However, margins were partly cushioned by softer interest costs. The Group is using this lull period as an opportunity to upgrade the rental units in Tan Chong Tower. Once completed the refurbished apartments would fetch better rates and occupancy ratios are expected to improve.

Car rental businesses in Singapore were encouraging despite a more difficult economic climate. Continuing renewal of our car rental fleet and attractive sales packaging helped to achieve good customer retention and maintain contributions to Group profits.

Trucks and forklifts sales and rental volume in Singapore remain steady. In spite of the continuing adverse business conditions in the region, the results of Industrial Machinery and Equipment Division was supported by strong contributions from our Nissan Diesel business in Thailand.

Our associates ORIX Car Rental Group and Tyre Pacific (HK) Ltd ("TPHK") fared well with improved margins half year on half year. Despite the SARS situation in China, tyre distribution results remained unaffected. TPHK is in discussion with Sumitomo Rubber Industries Ltd the manufacturer of Dunlop brand tyres to form a joint venture distribution company for tyres to be manufactured in China. This joint venture would significantly enlarge the scope and nature of TPHK's business in China. Our investment in Hangzhou has also continued to do well in the expanding China truck market.

While there is growing consensus on economic improvement in the latter half of year 2003, the volatility of exchange rates, high unemployment rates and weak retail sales are still causes for concern though the strength of the Group's financial position and our regional strategy will cushion the uncertainties ahead. We expect to make good progress in Thailand and China.

As at end of the half year ending 30th June, 2003 bank borrowings on floating interest rates were reduced to HK$131 million from HK$143 million at end of year 2002. Net cash position has improved marginally to HK$889 million. The reduced borrowings and the improved net cash position were achieved after netting off net bond sales of HK$22 million, payment of HK$27 million for the continuing development and refurbishing costs of Tan Chong Tower and ongoing projects at Sixth Lok Yang Road, Upper Aljunied Road and Ubi Road, increase in truck, forklift and car rental fleet and accounting for net dividend and taxes paid and net working capital reduction. Capital commitment for unfinished projects stood at HK$236 million. The Group has no contingent liabilities.

Paying more attention to debt collection in the face of harsher economic environment had resulted in better trade debtors'turnover. Stock level however had increased because of the introduction of the New Sunny model and the bringing in of more Subaru cars to cater for increased sales in Singapore. Changes and revisions in international accounting standards will continue to affect Group results presentation.