Management Review

Riding on the momentum of year 2003, the Group progressed from strength to strength during the first half of year 2004. Such progress is projected to continue through the remaining part of the year as a result of improving economic performance in most parts of the world and particularly in Asia. Regional expansion is gaining momentum. Motor distribution and Singapore, the flagship sectors by business and by location of the Group, remain the star performers. PRC and Thailand are growing contributors that should bring in improving streams of income.

Interim Group revenue improved 15% and 27% when compared to the 2nd half and 1st half of last year respectively. Likewise profit attributable to shareholders also moved upwards by 12% and 26% respectively. The improved financial performance was the result of focusing on strengthening margins.

Group unit vehicle sales rose 11% and 21% over the respective 2nd and 1st half of last year. Nissan unit sales improved in tandem by 11% and 20% respectively. Despite the slight dip in Subaru sold when compared to the second half of last year, sales volume for the full year is expected to be better than last year. Whilst Subaru sales in Hong Kong remained weak Subaru sales in the PRC were picking up steadily.

Office and residential rentals remained soft. The Group's property sector is expected to face tougher times ahead because of worldwide appreciation of interest rates. Increased interest costs coupled with lethargic demand for rental units will reduce revenue and profit and return on investment. However the refurbished rental units in Tan Chong Tower were bringing in better rental income and improved take-up rates and should cushion the performance of this sector.

Car rental businesses in Singapore although in a consolidation phase is holding well and contributed steadily to Group profit.

Stiff competition is still dampening trucks and forklifts sales and rental volume in Singapore. However Nissan Diesel business in Thailand the backbone of the Industrial Machinery and Equipment Division maintained good contribution to Group results.

ORIX Car Rentals Group was feeling the impact of consolidation in the car rental trade whilst Tyre Pacific (HK) Ltd gained momentum with bottom line improving 17% half year on half year as tyre distribution in China was boosted by improved economic and social status.

Activities in the 50/50 JV in Thailand that is principally engaged in automotive hire purchase business kicked off in June 2004 and are expected to produce positive returns.

The PRC Government introduction of measures to cool down the economy in the early part of the year affected sales at the Hangzhou JV manufacturing trucks which fell 35%. However, whilst car sales in general dropped 20% our nascent Subaru distribution in South China was encouraging. Seat exports from Wuxi were good and plans to invest in additional equipment will improve productivity. The PRC JV with Sumitomo Rubber Industries successfully launched sales of domestically produced tyres in July.

The generally optimistic view of the world economy towards the end of last year has now turned more cautious with measures to cool down the rapid economic expansion in China and a less confident outlook in the United States giving concern. Nevertheless the Group continues to be positive about its future progress and expects to maintain a steady income stream from its various businesses diversified through different products and regions.

Total cash consideration for acquiring the Wilby Residence amounted to HK$838 million. Mainly because of the acquisition and with the expectation that interest rates will trend upwards, bank borrowings as at 30th June 2004 increased to HK$466 million from HK$123 million at end of year 2003. In turn net cash position was down by HK$362 million.

Capital commitment for unfinished projects stood at HK$209 million. The bulk of it is for the Mulberry Grove project and for the alterations and additions to the newly acquired property at 19 Lorong 8 Toa Payoh. The Group has no contingent liabilities.

Debt collection continued to be closely monitored resulting in better trade debtors' turnover. Stock levels remained satisfactory. Headcount was up marginally because of increased regional activities.