MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY

The Group, aided by several factors, did well in 2004. A bigger supply of Certificates of Entitlement ("COE"), besides stabilizing COE prices, boosted sales volume of Nissan passenger cars in Singapore by 11%. Light commercial vehicle volume improved 15% because of lower quota premium and better pricing. Good success in taxi tenders brought about a five-fold increase in Nissan taxi sales. Subaru car sales improved 41%. Nissan Diesel truck sales in Singapore and Thailand were up 26%. However, bottom line did not move in tandem with sales revenue because of severe market competition, price cutting, and the relatively more expensive Japanese Yen against the Singapore dollar. Our competitors have the advantage of sourcing their supplies from countries with lower production costs.

Revenue and profit attributable to shareholders appreciated by 23% and 18% year on year to HK$5.25 billion and HK$341 million respectively. However, bottom line for the second half year remained as that of the first half.

VEHICLE DIVISION

Sales of Nissan vehicles were firmly supported by the face-lifted Nissan Sunny and Nissan Cefiro. The introduction of new Nissan passenger models like the Latio, Presage, Lafesta and Murano in 2005 will help the Group to garner more sales in the MPV and SUV sectors which are getting more popular in Singapore. Increased sales from these new models will help to tone down the impact of the reduced COE quota.

With the continued focus on performance and youth appeal Subaru car sales volume in Singapore improved 24% year on year to 1501 units. Innovative niche marketing with sales packaging catering to selected groups of enthusiasts attracted the interests of new and existing customers. Subaru sales volume in Hong Kong improved 32% but margins were affected by severe market competition and intense price cutting.

Car rental business had another year of steady turnover with lower margins because of under-cutting of rental rates and many new entrants into the car rental trade even though lower COE premiums and other car-related costs also enabled us to offer reduced rental rates. Rental rates are expected to remain stable in 2005.

INDUSTRIAL MACHINERY DIVISION

The truck section, helped by the beginning of an upturn in the construction industry, saw a 19% improvement in sales, unlike the forklift section which continued to be affected by the downturn in the logistic industry and intense competition with severe price cutting. Profit margins for the Division in Singapore and Shanghai, though better, were eroded by currency movements and severe competition. To complement its product range in Singapore, the Division introduced the Traction and Battery Charger business line.

Truck sales in Thailand, assisted by a further 6% economic growth, were lifted 29% to 1278 units. Market share remained steady at 10%. The new self-developed prototype truck tractor and cargo truck received good review and acceptance by customers.

PROPERTY DIVISION

Property rental business experienced a slight upturn. Occupancy improved on the back of better business climate. However, the situation of oversupply of service apartments impacted the bottom line. Such oversupply is expected to remain over the next few years.

The new terrace-housing development at our freehold site in Upper Aljunied Road is on target and will be launched for sale after it received Certificate of Completion in mid-2005. The 3S Centre at Ubi Road commenced business operations in March and complemented existing facilities to better serve our customers. Retrofitting work in Tan Chong Tower was completed on schedule and occupancy rates soared from 55% to 88% with better rental returns helped partly by its proximity to the central business and shopping belt.

CHINA DIVISION

Sales by MotorImage China through its 3S Centre in Dongguan rose four-fold year on year boosted by the introduction of the new Subaru Legacy and Outback at the Beijing Motor Show. However, the cooling of the Chinese economy and new regulations and policies affecting the auto industry are expected to slow growth in 2005.

We are rationalizing our other businesses in China in particular disposing of our interest in joint-ventures that have been underperforming and concentrating on manufacturing where we have direct ownership and management control.

FINANCE

Bank borrowings stood at HK$430 million. The increased borrowings were mainly for the exercise of the call option on Wilby Residence in March which also contributed to reduced net cash position. Decline in net cash to HK$483 million was also due to the 20.7% acquisition of Zero Co., Ltd and to payments for construction costs on capital projects. Capital commitments for construction and development projects at Upper Aljunied Road (Mulberry Grove), Lorong 8 Toa Payoh, the 3S Centres in Petaling Jaya and in Jakarta totaled HK$144 million. There is no contingent liability to-date.

PROSPECTS

The Group's strong financial position enabled it to expand into the region in automobile and truck distribution and parts manufacturing. We have now built up an automobile distribution network spanning several countries in ASEAN, Hong Kong and four provinces in Southern China. These regions are expanding economies that will provide us with the opportunity of enlarging our network and improve revenue streams.

While we expect the global economy to continue the momentum of the past year, uncertainties in currency exchange rate movements, escalating oil prices and economic adjustments in China and the United States are matters which may impact our businesses. Nevertheless we believe in our ability to ride the changes and continue to build the Company's future.