management discussion and analysis

Lei Shing Hong
is principally engaged in five diversified businesses

- distribution of automobiles
- distribution of heavy machinery
- property development and investment
- trading of commodity
- financial investment and services

The Group takes pride in achieving impressive performances and profitability for its businesses. Such success is attributable not only to favourable external factors, but also to the management's vision to strategically penetrate into promising high growth markets with its premium brands, value-added after-sales and support services.

During the period under review, Northeast Asia recorded an overall encouraging performance. Despite the fact that many economies continued to suffer from the effects of weak market sentiment, the China market witnessed phenomenal economic development and vast business potentials. Likewise, Korea and Taiwan are also robust markets that cannot be overlooked, as the former posted strong GDP growth, second to China, while the latter recorded an improving GDP, signs of sound economic health.

The Group takes pride in achieving impressive performances and profitability for its businesses. Such success is attributable not only to favourable external factors, but also to the management's vision to strategically penetrate into promising high growth markets with its premium brands, value-added after-sales and support services. For the year ended 31 December 2002, the Group's total turnover and profit attributable to shareholders amounted to HK$6,175 million and HK$180 million respectively.

automobile division

The Group is the major distributor of **premium automobiles** for Northeast Asia, including a full range of Mercedes-Benz in China, Mercedes-Benz and Porsche in Korea as well as Mercedes-Benz, Chrysler, Jeep and Smart in Taiwan.

China

The increase in purchasing power, as a result of the rising per capita disposable income, contributed largely to the significant growth of luxurious brands and products in China. As a result of the escalating economy that encourages consumer spending and demands for quality, China continued to record an increase in automobile sales. Effective since January 2002, further reductions in tariff rates also contributed to the growth of the automotive industry, as the tariff for cars with engine capacity of 3 litres and below was reduced from 70% to 43.8%, and those with engine capacity of over 3 litres was reduced from 80% to 50.7%. Under the combination of these favourable factors, the imported automobiles increased by approximately 10.3% as compared to 2001.

The turnover of the Group's business in China rose 47% from the corresponding period of 2001, despite the strong appreciation of the Euro against RMB and US dollars, the increasing competition from other imported car manufacturers in China, as well as the temporary service recall of MB100 and MB140, which, to a certain extent affected sales volume and profit margins. Leveraging on the increase in automobile sales, the Group's service centers also benefited and recorded an increase of 29% in turnover as compared to 2001.

By embracing the goal to strengthen our competitive advantages and to enhance the value-added services for our customers, the Group successfully maintained its market leadership in Eastern and Northern China. During the period under review, the Group reached the final stage of design for the establishment of a multi-function flagship building in Shanghai for showcasing our premium brand products. Pending the necessary government approvals for the design, construction is expected to commence in 2003.

The Group believes that customer service is a pivotal factor that differentiates our success from our peers. By embracing this mission, the Group focuses on appointing new dealers and establishing new showrooms and service outlets in various developing cities, so as to offer value-added services and comprehensive after-sales services to its customers. The Group also recruits high calibre staff and vigorously implements regular sales and technical training programs for our staff, with the view of upgrading their service standards and technical competency. More importantly, the ability to maximise customer satisfaction is what sets the Group apart from parallel importers — by capturing the loyalty of its customers.

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Taiwan

Taiwan, a market that recorded 3.4% growth in GDP and reviving consumer confidence, recorded an increase of approximately 11% in automobile sales in 2002. However, to a certain extent, the increasing competition from imported cars and the high import cost that resulted from the Euro appreciation affected the sales of Mercedes-Benz. During the period under review, the Group's automotive business in Taiwan was able to achieve an encouraging performance under the challenging environment.

During the period under review, the Group opened two new showrooms in Taipei and Kaohsiung for its Mercedes-Benz products through its associate, Capital Motors Inc. ("CMI"). In addition, the Group's joint venture with DaimlerChrysler AG, DaimlerChrysler Taiwan Limited ("DCT"), distributes a series of DaimlerChrysler brands including Chrysler, Smart and Jeep in the Taiwan market. These brands have enjoyed market acceptance. The formation of DCT has also contributed to a profit increase for the Group.

Both DCT and CMI helped to cement the Group's market presence and enlarged its distribution network. In addition, the two main growth drivers for the Group's automotive business in Taiwan have been attributable to the significant reduction in commodity

Continuous launch of new **premium car** models and quality showrooms

tax on imported cars over 3.6 litres from 60% to 35%, as well as the newly launched E-class that stimulated an increase in sales.

The Group is also confident that the new brands, Chrysler, Smart and Jeep, will widen its income stream in the medium term. As a result, the Group will implement several enhancement projects, including the rollout of the Retail Operating System in all of its workshops in 2003 to maximise operational efficiency. The Mercedes brand has been in Taiwan for over 30 years and we are confident of maintaining the market leadership.

Korea

Doubling its GDP from 3% in 2001 to 6.2% in 2002, Korea is a high growth market. The booming economy contributed to the emergence of a middle class which directly stimulated the demand of luxury automobiles in Korea.

During the year under review, the Group recorded an increase of 77% in turnover as compared to 2001. In addition to the two Mercedes-Benz showrooms in Seoul, the Group has also completed its new Porsche showroom in January 2002. Customers can now enjoy viewing different models of Porsche cars in the luxurious ambience of the new showroom.

To accelerate the speed of its expansion in Korea, Han Sung Motor Company Limited entered into a joint venture, Mercedes-Benz Korea Limited, with Daimler Chrysler AG, for the wholesale distribution of Mercedes-Benz products. The Group also commenced the design and planning of new showroom and workshops for Mercedes-Benz in Seoul and Suwon. At the same time, we expect the ongoing programs to enhance the quality of our staff skills and workshops to increase customer satisfaction and loyalty to the Mercedes brand. Our long-term goal is to establish a nationwide presence, represented by the most qualified and competent staff, not only in Seoul, but also throughout the whole of South Korea.