

# Report of the Board of Directors

## LAPORAN LEMBAGA PENGARAH

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Financial Statements of the Tan Chong Motor Group and of the Company for 2003.

### Highlights

New motor vehicle registration in 2003 as a whole fell 6.9% (source: MAA) from the previous year. Consumer sentiment during the first half of 2003 was partly dampened by the outbreak of SARS, the Iraq war and concerns over terrorist activities but improved in the second half as better global and domestic economic data emerged. Vehicle replacement in 2003, based on a five-year vehicle replacement cycle, was also affected to some extent, by the lower vehicles sales in 1998 while a section of the public had held back purchases in anticipation of possible price reduction ahead of AFTA.

Against the backdrop of declining industry volume, I am very pleased to report that the combine registration volume of Nissan and Nissan Diesel vehicles in 2003 was a healthy growth of 14%.

The year witnessed the successful launch of the new Nissan X-TRAIL that further strengthened Nissan's product line-up. The introduction of the face-lift Sentra in the third quarter of 2003 also re-affirmed our strong presence in a heavily contested passenger vehicle market segment. In the medium duty 5 ton truck segment, Nissan Diesel's YU41 model achieved a strong growth of 90% to record a sale of 1,500 units during the year. Overall market share of Nissan and Nissan Diesel vehicles of about 4.5% was higher than the 3.7% achieved in 2002.

*Bagi pihak Lembaga Pengarah, saya dengan sukacitanya membentangkan Laporan Tahunan dan Penyata Kewangan Syarikat dan Kumpulan Tan Chong Motor bagi tahun 2003.*

### Maklumat Penting

*Pendaftaran kenderaan bermotor baru dalam tahun 2003 merosot sebanyak 6.9% (sumber: MAA) pada keseluruhannya berbanding dengan tahun lepas. Sentimen pengguna yang dijejaskan oleh wabak SARS, peperangan di Iraq serta kebimbangan terhadap aktiviti-aktiviti pengganasan pada awal tahun 2003 telah kembali pulih pada akhir tahun dengan data ekonomi global dan tempatan yang lebih baik. Penjualan kenderaan yang rendah pada 1998, telah menjejaskan penggantian kenderaan pada 2003, berdasarkan kitaran penggantian kenderaan setiap lima tahun, sementara sebilangan masyarakat pula telah menunda pembelian dengan mengharapkan kemungkinan kejatuhan harga sebelum AFTA.*

*Bertentangan kemerosotan jumlah industri, saya dengan bangganya melaporkan bahawa gabungan jumlah pendaftaran kenderaan Nissan dan Nissan Diesel pada 2003 menunjukkan pertumbuhan yang sihat sebanyak 14%.*

*Pelancaran Nissan X-TRAIL yang dijalankan dengan jayanya pada tahun semasa mengukuhkan lagi rangkaian kenderaan keluaran Nissan. Pengenalan Sentra berwajah baru pada suku tahun ke tiga 2003 juga telah memantapkan lagi kehadiran kami dalam segmen kenderaan penumpang yang menghadapi saingan hebat. Dalam segmen trak 5 tan tugas sederhana, model YU41 Nissan Diesel mencapai pertumbuhan sebanyak 90% dengan mencatatkan jualan sebanyak 1,500 unit dalam tahun semasa. Pembahagian pasaran keseluruhan sebanyak 4.5% bagi kenderaan Nissan dan Nissan Diesel lebih tinggi berbanding dengan pencapaian sebanyak 3.7% pada tahun 2002.*



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Despite the volume growth, Group operating profit before tax was about the same as that achieved the year before. Operating results of the Nissan passenger and light commercial vehicle businesses declined mainly due to margin squeeze reflecting the general reduction in profit margins throughout 2003 as a result of higher yen exchange rate and high marketing and promotional expenses incurred for new model launches. However, the higher profits from the sale of heavy commercial vehicles helped to make up for the decline.

**Renault Distribution Right**

Tan Chong's position as a premier motor distributor in Malaysia has been further affirmed with our appointment as the exclusive distributor of Renault vehicles in Malaysia. The appointment bears testimony of the Group as an effective and productive distributor and business partner demonstrated over the last four decades in the development of Nissan vehicle business in Malaysia. It further cements our already strong relationship with our principals within the Nissan-Renault Alliance.

Upon signing the Master Agreement with Renault s.a.s., our resources were immediately mobilized to provide after-sales services to all existing Renault customers. We have to-date established three dedicated Renault sales outlets in Malaysia and brought in several shipments of Renault CBU vehicles. Mass production of the CKD Kangoo is currently targeted to commence during the last quarter of 2004. Given the many complementary product range available from Renault, we are confident that our current product line-up will be greatly strengthened in the future as more Renault models are introduced.

**Investment in Thailand**

Armed with 20 years of experience in automotive financing with a HP portfolio of RM330 million at end of 2003, the Group is venturing into Thailand by investing in a joint-venture company - TC Capital (Thailand) Co Ltd - to undertake automotive hire-purchase business for the purpose of diversifying its revenue base in the rapidly expanding economy of Thailand. The joint-venture company will be issued an operating license by the Board of Investment of Thailand before business commences.

*Walaupun terdapat pertumbuhan dalam jumlah jualan, keuntungan operasi sebelum cukai Kumpulan, lebih-kurang sama dengan yang dicapai pada tahun sebelumnya. Pencapaian operasi perniagaan kenderaan penumpang dan kenderaan perdagangan ringan Nissan merosot terutamanya disebabkan pengurangan margin yang disepanjang tahun 2003 pada keseluruhannya akibat kadar tukaran yen yang lebih tinggi serta perbelanjaan promosi dan pemasaran ke atas pelancaran model baru. Walau bagaimanapun, keuntungan yang lebih tinggi daripada jualan kenderaan perniagaan berat telah dapat mengatasi kemerosotan tersebut.*

**Hak Edar Renault**

*Pelantikan kami sebagai pengedar utama kenderaan Renault di Malaysia telah memantapkan lagi kedudukan Tan Chong sebagai pengedar motokar yang utama di Malaysia. Pelantikan ini merupakan perakuan bahawa Kumpulan merupakan pengedar dan rakan kongsi perniagaan yang berkesan serta produktif sebagaimana yang ditunjukkan di sepanjang pembangunan perniagaan kenderaan Nissan di Malaysia selama empat abad. Ia juga telah mengukuhkan lagi hubungan erat dengan prinsipal-prinsipal dalam Perikatan Nissan-Renault.*



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#### Review of Results

##### Nissan Passenger and Light Commercial Vehicles

The total number of new motor vehicles registered in the country in 2003 declined 6.9% to 405,000 units compared with a record of 435,000 units set in 2002 (source: MAA). The decline was mainly due to the lower sales of national cars caused partly by the entry of low priced non-national car models. On the other hand, registration of the non-national car segment increased 18% during the year as consumer interest were buoyed by the introduction of both new and face-lift models.

Registration volume of Nissan passenger and light commercial vehicles recorded a 10% improvement compared with the earlier year due to the successful launch of the new Nissan X-TRAIL in July 2003 and later, the face-lift Sentra in September.

Since its launch in July, the X-TRAIL - the best selling SUV in Japan for 3 consecutive years since 2001 - has also been the top seller in Malaysia, consistently achieving a monthly market share in excess of 35% in its market niche. It won the "SUV of the Year" in its category in the 2003 New Straits Times - MasterCard Car of the Year Award.

Toward the end of 2003, sales of Nissan Sentra received a strong boost when the new face-lift model was unveiled. A total of 5,400 units of Sentra were registered in 2003, 16% higher than that recorded in 2002. Unit sales of the Nissan C22 Vanette, whilst remaining highly popular, dropped marginally to 5,900 units compared with the 6,200 units sold in the previous year. Due to competitive disadvantage, sale of the Serena and Cefiro models were below expectation.



*Kami telah mengembelengkan sumber-sumber yang ada dengan serta merta untuk memberi perkhidmatan selepas jualan kepada semua para pelanggan Renault yang sediada. Sehingga kini, kami telah menubuhkan tiga buah pusat jualan Renault di Malaysia disamping membawa masuk beberapa kiriman kenderaan CBU Renault. Pengeluaran CKD Kangoo secara besar-besaran disasarkan untuk bermula pada suku tahun terakhir 2004. Dengan adanya modal tambahan daripada Renault, kami yakin terhadap pengukuhan rangkaian kenderaan yang sediada dengan pengenalan lebih banyak model Renault di masa hadapan.*

##### Pelaburan di Thailand

Berbekalkan pengalaman selama 20 tahun dalam pembiayaan kewangan kenderaan bermotor dengan portfolio sewa beli sebanyak RM330 juta pada akhir 2003, Kumpulan telah memperluaskan perniagaan ke Thailand dengan pelaburan dalam sebuah syarikat kerjasama - TC Capital (Thailand) Co Ltd - untuk mengendalikan perniagaan sewa beli kenderaan bermotor dengan tujuan mempelbagaikan sumber hasil daripada ekonomi Thailand yang giat berkembang. Syarikat kerjasama ini akan menerima lesen operasi daripada Lembaga Pelaburan Thailand sebelum memulakan perniagaannya.

##### Tinjauan Keputusan

##### Kenderaan Penumpang dan Perdagangan Ringan Nissan

Jumlah pendaftaran kenderaan bermotor baru di dalam negara bagi tahun 2003 merosot 6.9% kepada 405,000 unit berbanding dengan catatan rekod sebanyak 435,000 unit pada tahun 2002 (sumber: MAA). Kemerosotan jualan kereta nasional yang disebabkan oleh kemasukan kereta luar negara yang berharga rendah merupakan salah satu punca utama kemerosotan ini. Sebaliknya minat pembeli yang dibangkit oleh pengenalan model baru dan yang berwajah baru telah memberi peningkatan sebanyak 18% kepada pendaftaran bagi segmen kereta luar negara pada tahun semasa.

Kenderaan penumpang dan perdagangan ringan Nissan mencatatkan peningkatan jumlah pendaftaran sebanyak 10% berbanding dengan tahun sebelumnya berkat kejayaan pelancaran Nissan X-TRAIL yang baru dalam bulan Julai 2003 dan Sentra berwajah baru dalam bulan September.

Semenjak pelancarannya dalam bulan Julai, X-TRAIL - SUV terlaris di Jepun bagi 3 tahun berturut-turut sejak tahun 2001 - juga telah muncul sebagai kenderaan dengan jualan tertinggi di Malaysia, dengan mencatatkan bahagian pasaran bulanan sebanyak 35% dengan secara konsisten. Ia telah memenangi anugerah "SUV of the Year" bagi kategorinya dalam pertandingan "Anugerah Kereta Terbaik New Straits Times-MasterCard Tahun 2003".

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As in the past, much management time was directed at identifying and planning future new models to ensure continued and sustainable growth in overall Nissan sales. To strengthen further Nissan's product line-up, much effort was made to introduce another new and exciting Nissan model - the Frontier 4x4 - to the Malaysian market. The launch of this additional model in 2004 will allow us to participate for the first time in the growing 4x4 Sports Utility Truck (SUT) market niche in Malaysia.

Apart from the usual marketing and promotional activities, the Group also participated in the Kuala Lumpur International Motorshow 2003 held in September to showcase the various Nissan, Nissan Diesel as well as Renault models.

To further improve after-sales service to Nissan customers and to enhance the Nissan brand loyalty, the number of service workshops and spare part centres have been expanded throughout the country with existing showrooms and service facilities in several major towns upgraded.

### Medium and Heavy Commercial Vehicles

Overall market demand for commercial vehicles in 2003 continued to improve on the back of a sustained Gross Domestic Product (GDP) growth. The 5 to 7 ton truck segment, in particular, enjoyed a robust growth of about 20%. In tandem, sales of Nissan Diesel trucks in this capacity range, with a reputation of being the most reliable high-performance truck backed by a dependable nationwide after-sales service network, improved 90%.



*Menjelang akhir tahun 2003, jualan Nissan Sentra bertambah baik dengan pengenalan model berwajah baru. Sejumlah 5,400 unit Sentra didaftarkan pada 2003, 16% lebih tinggi daripada yang dicatatkan dalam 2002. Jualan Nissan C22 Vanette yang masih disukai ramai, merosot kepada 5,900 unit berbanding dengan 6,200 unit yang dijual pada tahun sebelumnya. Jualan model Serena and Cefiro lebih buruk daripada yang dijangkakan dengan kehadiran saingan yang hebat.*

*Seperti yang biasa, kebanyakan masa pengurusan ditumpukan kepada mengenal pasti serta merancang model masa hadapan yang baru bagi memastikan perkembangan yang berterusan dalam keseluruhan jualan Nissan. Kami telah berusaha dengan bersungguh-sungguh untuk memperkenalkan model baru Nissan yang lebih menarik - Frontier 4x4 - ke pasaran di Malaysia untuk mengukuhkan lagi rangkaian kenderaan Nissan. Pelancaran model tambahan ini pada 2004 membolehkan kami menyertai bidang pasaran Trak Utiliti Sukan (SUT) yang giat berkembang di Malaysia buat pertama kalinya.*

