

Managing Director's Review

The Group experienced a very difficult trading year in 2006 as the automotive industry was impacted by the introduction of the National Automotive Policy ("NAP"). The new vehicle market in Malaysia declined by 11% to 490,800 units while the non-national segment fell by 14% to 173,000 units. Prices of new locally assembled vehicles fell and had the effect of lowering the residual values of existing cars which together with tighter vehicle financing criteria lead to the overall decline in new vehicles sold. The completely-built-up ("CBU") market was hardest hit as prices did not fall in tandem with locally assembled vehicles, widening the gap between the two. The luxury segment was less severely impacted than the lower to middle range segments.

Mercedes-Benz

Mercedes-Benz passenger cars remained ahead of the competition with a total of 1,403 units registered, slightly above the previous year, but at lower margins as marketing initiatives were introduced because of the intense competition. In addition, sales of Smart cars grew by 30% to 139 units. Despite the challenging trading environment, Cycle & Carriage Bintang's ("CCB") retail after-sales

businesses performed satisfactorily with revenue growth and improvements in customer satisfaction.

During the year, a new dealership in Mutiara Damansara was opened, the renovation of the Johor Baru branch was completed and the workshop in Ipoh was upgraded. By the end of 2007, CCB's facility improvement programme would be largely complete, following the planned renovation of the Batu Caves workshop and development of a new showroom in Jalan Ampang.

Mazda

Mazda sales declined by 55% despite the launch of three new models during the year as the price gap between Mazda CBU vehicles and other competing Japanese brands, most of which are locally assembled, widened. In addition, fewer units of the popular Fighter 4X4 which is being run-out, ahead of its replacement by the new BT50 in 2007, were sold. Sales are expected to improve in 2007 with a full year's impact of the Mazda 5 (awarded the Multi-purpose vehicle of the year in Malaysia by The New Straits Times and Auto Car Magazine) which was launched in the second quarter alongside

Mercedes-Benz B-Class



the availability of the full range of passenger cars since the last quarter. The Group also renovated two new showrooms during the year in Petaling Jaya and Ampang.

Peugeot

Peugeot sales declined by 64% to 150 units and margins were under pressure due to the strong Euro, although this is expected to ease with the recent strengthening of the Ringgit. The Peugeot product range is being reviewed to assess how it could be made more competitive. The launch of the Bestari, the local version of the Peugeot 206, added some volume with 173 units sold by Cycle & Carriage Automobiles (“CCA”) from May 2006. CCA opened a comprehensive service centre in Petaling Jaya to provide a full range of after-sales services to the entire Bestari customer base.

Automotive Services

The automotive services division continued to make good progress. The i-mob antitheft device performed well during the year with over 500 units installed in customers’ cars. Another i-mob model and a new paint protection product were introduced during the year.

Developments

During the year, Cycle & Carriage Malaysia (“CCM”) terminated its Proton, Kia and Hyundai dealership agreements as the proliferation of dealerships in the Klang Valley with severe price-cutting made these businesses unprofitable. CCM has been restructured to focus on the retailing of the new generation of Mazda vehicles while its successful parts business has been placed under a new subsidiary, Cycle & Carriage Parts and Accessories (“CCPA”). CCPA was established to focus on the substantial after-sales market for spare parts, estimated at RM18 billion per annum. The company represents products from China, India, Indonesia, Japan, Taiwan and Thailand. Its strategy is to develop a wide portfolio of value-for-money parts with a strong brand image, for distribution through a network of parts retail shops and workshops throughout Malaysia.

In December 2006, the Company announced that it had entered into a distribution arrangement with Sinotruk (Hong Kong) to assemble and distribute trucks originating from China. The Ministry of International Trade and Industry has

approved the arrangement in February 2007 and it is targeted to commence operations by the third quarter of 2007.

Outlook

The automotive market suffered in 2006 and it is unlikely to recover significantly in 2007. The management’s priorities will be to maintain tight operational controls, focus on building the existing businesses for long-term profitable growth and develop new complementary sources of income.

Steven Gareth Foster
Managing Director

Mercedes-Benz E-Class

