



*Tan Chong International Limited
Annual Report 2005*



A new logo for the Group was adopted with effect from 21 Nov 2005. The new logo reinforces and portrays the Asian origin of Tan Chong International, its strong heritage and trusted reputation.

The calligraphic strokes lend a uniquely human touch to the logo, bringing to mind personalized service and customer-orientedness.

The strokes trailing off at the end exude a dynamic feel, symbolizing Tan Chong International as an ever-progressing and vibrant entity.

The typeface of 'Tan Chong' is carried through from the former logo, symbolic of a continuation of the legacy that it has built over the years.



Adopting a revolutionary approach to enhance the value of our shareholders and improve service quality to our customers.

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Enclosures:

Circular on Mandates to Issue and Repurchase Shares **1**

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Form of Proxy

Revenue and profit attributable to shareholders jumped 14% and 31% year on year to HK\$6 billion and HK\$445 million respectively.



MANAGEMENT DISCUSSION AND ANALYSIS



SUMMARY

The Group produced a good set of financial results for year 2005. The star performers were again those companies from the Motor Division with both Nissan and Subaru raking in increased sales volume. There was a burst of new car launches both within the Group and industry wide and increased activities in all business groupings. In Singapore, falling quota certificate cost brought car prices to the low levels that were never seen in the last five years thus making car ownership affordable to a larger group of consumers. Nissan and Subaru passenger car sales in Singapore climbed another 36% & 4% respectively year on year as a result of innovative sales packaging promotional schemes. Commercial vehicle volume also improved 7% despite higher quota premium and intense competition but taxi sales tapered. Total Nissan Diesel truck sales in Singapore and Thailand were up another 2% with bottom line holding steady despite severe market competition, price cutting and difficult political climate in Thailand. The weakness of the Japanese Yen against the Singapore dollar and the Hong Kong dollar also helped in boosting bottom line.

Revenue and profit attributable to shareholders jumped 14% and 31% year on year to HK\$6 billion and HK\$445 million respectively. Bottom line for the second half year is also better than that of the first half.

VEHICLE DIVISION

Sales of Nissan vehicles were firmly supported by the face-lifted Nissan Sunny and Nissan Cefiro and newer models like the Latio and Murano. The Nissan Murano made further inroad into the intensely competitive SUV sector of the vehicle market in Singapore. Despite a slow start the Nissan Latio is gaining increasing acceptance. The Nissan Sylphy will be launched in April 2006 and is expected to be another steady contributor drawing in customers from a fresh segment of the vehicle market range that falls between the Nissan Latio and the Nissan Cefiro.

With increased focus on performance and enhanced lifestyle appeal Subaru car sales volume both in Singapore and China has been gaining increased market share and continue to attract selected





groups of motor enthusiasts. Subaru sales volume in Hong Kong and Thailand held steady in very quiet markets. Subaru sales in Indonesia and Malaysia are also progressing well.

Car rental market remained steady with rental rates easing because of cheaper vehicle quota premium.

INDUSTRIAL MACHINERY DIVISION

Performance of the forklift sector is still buffeted by intense competition with severe price cutting. Sales volume of trucks remained promising. However, the introduction of the Euro 4 emission standards in 2006 for commercial vehicles in Singapore will bring about volatility and uncertainty on truck sales. Profit margins for the Division in Singapore improved 32% whilst those in Thailand were commendable in the face of a weaker Thai Baht, natural disaster, bird flu and the harsher political and economic climate. To ease the impact of high oil prices, Thai industries are encouraged to switch to alternative fuel such as bio-diesel and compressed natural gas.

PROPERTY DIVISION

Property rental business volume improved but bottom lines were adversely affected by price undercutting and oversupply of service apartments despite a better

business climate in Singapore. Such oversupply is not expected to ease in the near term. The Division will continue to explore avenues to increase both occupancy and rental rates.

Oasis@Mulberry the new 77 units terrace-housing development at the Group's freehold site in Upper Aljunied Road obtained its Temporary Occupation Permit in February 2006. A limited pre-sales launch by invitation was well received. The 3S (Sales, Service, Spare Parts) Centre at Ubi Road was a crowd drawer bringing in increased sales all round. Occupancy at the newly refurbished Tan Chong Tower soared bringing in improved contribution to bottom line.

CHINA DIVISION

Sales revenue at MotorImage China through its 3S Centre in Dongguan rose more than two-fold year on year boosted by the introduction of the new Subaru Impreza, Legacy and Outback and easing of rules and restrictions on imported cars. Sales in year 2006 are expected to be better than in 2005.



MANAGEMENT
DISCUSSION
AND ANALYSIS

As mentioned in last year's report the Group has disposed off its joint-venture investments in HangZhou and GuiZhou and has revamped the seats and shock absorbers manufacturing operations.

FINANCE

Bank borrowings stood at HK\$489 million out of which HK\$279 million are term loans that will mature equally on March 2006 and March 2007. Despite continual payments on capital projects net cash improved to HK\$528 million. Capital commitments for construction and development projects in Singapore, Thailand and the Philippines totaled HK\$69 million. There are no contingent liabilities to-date.

Adherence to changes in the standards of reporting by the Stock Exchange of Hong Kong and the International Accounting Standards Board has affected and will continue to impact the organization and presentation of the Group's Annual Report.

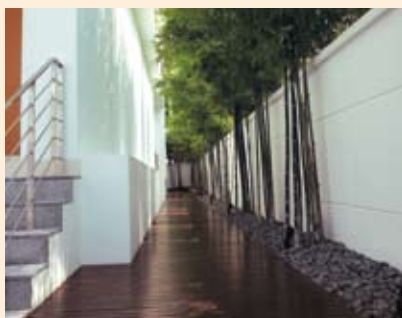
PROSPECTS

The Group will continue to ride on its strong financial position to expand into the region in automobile and truck distribution and parts manufacturing and be ready to develop investment opportunities. It will expand its automobile distribution network that spans eight countries covering ASEAN, Hong Kong and five provinces in Southern China to tap on the regions' expanding economies that will accord it the prospects of enlarging its network and improve revenue streams.

The Group reiterates that it expects the global economy to continue the momentum of the past year. However, uncertainties in currency exchange rate movements, escalating oil prices and economic adjustments in China and the United States are matters for its continual vigilance. Nevertheless it will continue to find ways to ride the changes and uncertainties and sustain the future of the Group.

CORPORATE ACTIVITIES

Corporate activities in the Group for the year were dominated by car launches, product promotions and sponsorship events. In Singapore, 2005 saw the launches of the new Nissan Latio, Latio Sport, Presage, Lafesta and Murano and a special Nissan Black Unlimited event showcasing the whole Nissan range in black. In Singapore and China, several new Subaru models were also introduced. In our continual effort to promote road safety and healthy lifestyle, the Group again sponsored the perennial New Paper Big Walk and Road Safety events in Singapore.





CORPORATE GOVERNANCE

The Board of Directors (“the Board”) is committed to the observance of good corporate governance to protect and enhance shareholders value and the financial performance of the Group. The Board has adopted the Code on Corporate Governance Practices (“CG Code”) that forms part of the disclosure requirement under the Listing Rules of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Where applicable various self-regulatory and monitoring measures were adopted for effective corporate governance practice.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted and implemented the Model Code set out in Appendix 10 of the Listing Rules on dealing in securities. This has been made known to all the directors of the Company and each director has confirmed in writing that he or she has observed the Model Code for year 2005. The Group has its own in-house mechanism to guide its directors regarding dealing in the Company’s securities including reminders on the law regarding insider trading.

BOARD OF DIRECTORS

The Board comprises of eight directors, three of whom, namely Mr. Lee Han Yang, Mdm. Jeny Lau and Mr. Masatoshi Matsuo, are independent and non-executive. The independence of each director is confirmed in writing by each of the independent directors. As the independent non-executive directors made up at least one-third of the Board the current Board size is considered appropriate with regard to the nature and scope of the Group’s operations. The Board members bring with them a wealth of knowledge, expertise and experience to contribute valuable direction and insight to the Group.

The Board, which meets at least four times a year, manages the business and affairs of the Group, approves the Group’s corporate and strategic direction, appoints directors and key personnel, approves annual budgets and major funding and investment proposals, and reviews the financial performance of the Group.

For effective management, certain functions have been delegated to various board committees, each of which has its own written terms of reference and whose actions are reported to and monitored by the Board.

The Company has internal guidelines in regard to matters that require Board approval. Material transactions that need

Board approval are as follows:

- approval of interim results announcement;
- approval of annual results and accounts;
- declaration of interim dividends and proposal of final dividends;
- convening of shareholders' meeting;
- approval of corporate strategy;
- authorization of merger and acquisition transactions; and
- authorization of major transactions

The Board meets at approximately quarterly intervals. Ad hoc meetings are also convened to deliberate on urgent substantive matters. Telephonic attendance and conference via audio-visual communication at board meetings are allowed under the Company's Bye-laws. The number of board meetings held in the year as well as the attendance of each Board member at those meetings and meetings of the various Board committees are disclosed below:

	Board of Directors			Remuneration Committee			Audit Committee			Independent Non-Executive Directors		
	Board Meetings			Meetings			Meetings			Meetings		
	Position	No. held	No. attended	Position	No. held	No. attended	Position	No. held	No. attended	Position	No. held	No. attended
Executive Director												
Dato' Tan Kim Hor ⁽¹⁾	C	4	4	-	-	-	-	-	-	-	-	-
Mr. Tan Eng Soon ⁽²⁾	C	4	4	-	-	-	-	-	-	C	1	1
Mr. Joseph Ong Yong Loke ⁽³⁾	M	4	4	-	-	-	-	-	-	-	-	-
Mr. Tan Kheng Leong	M	4	4	-	-	-	-	-	-	-	-	-
Mr. Neo Ah Chap	M	4	4	-	-	-	-	-	-	-	-	-
Mdm. Sng Chiew Huat	M	4	4	-	-	-	-	-	-	-	-	-
Independent Non-Executive Director												
Mr. Lee Han Yang	M	4	4	C	1	1	C	2	2	M	1	1
Mr. Liu Kwei Ming ⁽⁴⁾	M	2	2	-	-	-	M	1	1	-	-	-
Mdm. Jeny Lau ⁽⁵⁾	M	4	4	M	1	1	M	2	2	M	1	1
Mr. Masatoshi Matsuo ⁽⁶⁾	M	4	4	-	-	-	M	1	1	M	1	1

Denotes:

C-Chairman, M-Member

Number of meetings held/attended during the financial year/period from 1 January 2005 (or date of appointment, where applicable) to 31 December 2005

(1) Retired as Chairman of Board of Directors & appointed as Honorary Life Counsellor on 13 May 2005

(2) Appointed as Chairman of Board of Directors on 28 November 2005

(3) Nominated to chair each of the Board Meetings

(4) Retired on 13 May 2005

(5) Re-designated from Non-Executive Director to Independent Non-Executive Director on 13 May 2005

(6) Appointed as Audit Committee Member on 13 May 2005





CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The current Chairman, although appointed only on 28 November 2005 had been instrumental in listing the Group. He has in-depth professional knowledge of, and extensive experience in the automobile industry and full cognizance of the workings of the business operations of the Group. In view of this, the Board would like him to continue with some executive functions. The balance of power and authority is ensured by the participation and input of the other Board members who are highly qualified and experienced professionals. The roles of the respective executive directors and senior management who are in charge of different disciplinary functions complement the role of the Chairman and Chief Executive Officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to make and implement decisions promptly and efficiently.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received annual confirmation from each of the Independent non-executive directors concerning their independence and accepts that each of the Independent non-executive directors is independent.

There is no service contract between the Company and Independent non-executive directors. Independent non-executive directors have no fixed term of service but are subject to retirement by rotation and re-election at the Company's Annual General Meetings in accordance with the Company's Bye-laws. The Board with reference to the Directors' job responsibility, prevailing market conditions and the Company's operating performance and profitability determines directors' fees. Such fees are submitted for approval at Annual General Meetings.

REMUNERATION COMMITTEE (RC)

The RC comprises two independent non-executive directors, namely, Mr. Lee Han Yang (Chairman of the Committee) and Mdm. Jeny Lau.

Members of the RC carried out their duties according to the following terms of reference:

- a. review and determine the employment terms and remuneration packages of the executive directors and senior management staff ;
- b. decide on annual incentives and bonuses to be paid to the said key executives in (a) in regard to the Group's performance and individual's contribution;
- c. approve employment contracts and other related contracts entered into with key executives; and
- d. determine the terms of any compensation package for early termination of the contract of key executives.

There is no service contract between the Company and the executive directors. Executive directors have no fixed term of service but are subject to retirement by rotation and re-election at Annual General Meetings of the Company in accordance with the Bye-laws of the Company. Their directors' fees will be determined by the Board with reference to job responsibility, prevailing market conditions and the Company's operating performance and profitability. Such fees are submitted for approval at Annual General Meetings.

NOMINATING COMMITTEE (NC)

As there were no new Board appointments the Company has no NC. The Board will form a NC when fresh appointments to the Board are required.

AUDITORS REMUNERATION

The Auditors' remuneration (excluding out of pocket and miscellaneous expenses) for audit services for year 2005 is HK\$2,208,000. There were no non-audit services.

CORPORATE
GOVERNANCE



Tan Chong International Limited



AUDIT COMMITTEE (AC)

The AC comprises three board members, all of whom are independent non-executive directors.

The chairman of the AC, Mr. Lee Han Yang, is a lawyer by profession. The other members of the AC have years of experience in business management, finance and legal services. The Board is of the view that the members of the AC have sufficient financial management, expertise and experience to discharge the AC functions.

The AC convened two meetings during the year with full attendance from all members. The AC also met up with both internal and external auditors, without the presence of the Company's management, at least once a year. Details of members and their attendance are provided in the above table.

The AC carries out its functions under the following terms of reference:

- a. Reviews the audit plans of the internal auditors of the Company and ensures the adequacy of company's system of accounting controls and co-operation of the Company's management with the external and internal auditors;
- b. Reviews the interim and annual financial statements and the auditors' report on the annual financial statements of the Company before their submission to the Board;
- c. Reviews effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management through reviews conducted by the internal auditors;
- d. Meets with the external auditors, other committees, and management in separate executive sessions regarding matters that these parties believe should be discussed privately with the AC;
- e. Reviews the cost effectiveness and the independence and objectivity of the external auditors;
- f. Recommends to the Board the compensation of the external auditors, and reviews the scope and results of the audit;
- g. Reviews connected transactions in accordance with the requirements of the Stock Exchange's Listing Rules.

The AC has the power to conduct or authorize investigations into any matters within the AC's scope of responsibility.

INTERNAL CONTROLS

The Company's internal auditors continually review the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, and risk management according to their audit plans. Any material non-compliance or failures in internal controls together with recommendations for improvements were reported accordingly.

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls maintained by the Group and that was in place throughout the financial year and up to the date of this report, provides reasonable assurance against material financial misstatements or loss, and include the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and containment of business risk.

COMMUNICATIONS WITH SHAREHOLDERS

The Board is obliged to provide regular, effective and fair communication with shareholders. Information is conveyed to the shareholders on a timely basis. The Company's summary financial report is sent to all shareholders and its Annual Report is available on request and accessible on the Company's website.

Shareholders' views on matters that affect the Company are welcomed by the Board at shareholders' meetings. Shareholders are notified of shareholders' meetings through notices published in the newspapers and reports or circulars sent to them. Each item of special business in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. The chairman of the Audit and Remuneration Committee are normally available at the meeting to answer those questions in regard to the work of these committees. The external auditors are also present to assist the directors to address any relevant queries from the shareholders.

The Company's internal auditors continually review the effectiveness of the Company's material internal controls including financial, operational and compliance controls, and risk management according to their audit plans.





BOARD OF DIRECTORS

Chairman

Mr. Tan Eng Soon

Managing Director

Mr. Joseph Ong Yong Loke

Executive Director

Mr. Tan Kheng Leong

Executive Director - Marketing

Mr. Neo Ah Chap

Executive Director - Finance

Mdm. Sng Chiew Huat

Independent Non-Executive Directors

Mr. Lee Han Yang*

Mdm. Jeny Lau*

Mr. Masatoshi Matsuo*

*Audit Committee Members

Honorary Life Counsellor

Dato' Tan Kim Hor

Company Secretary

Miss. Teo Siok Ghee

AUDITORS

KPMG

8/F, Prince's Building
10 Charter Road
Central, Hong Kong

SOLICITORS

Preston Gates & Ellis

35/F Two International Finance
Centre, 8 Finance Street,
Central, Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street,
Hamilton HM 11
Bermuda

PRINCIPAL PLACES OF BUSINESS

HONG KONG

Unit 3001, 30th Floor,
Shui On Centre,
6-8 Harbour Road, Wanchai
Hong Kong

SINGAPORE

Tan Chong Motor Centre
911 Bukit Timah Road
Singapore 589622

BERMUDA RESIDENT REPRESENTATIVES

Mr. John C R Collis

Mr. Anthony D Whaley (Deputy)

PRINCIPAL BANKERS

Bank of America NA

Oversea-Chinese Banking Corporation Limited
United Overseas Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
11 Rosebank Centre, Bermudiana Road,
Hamilton, Bermuda

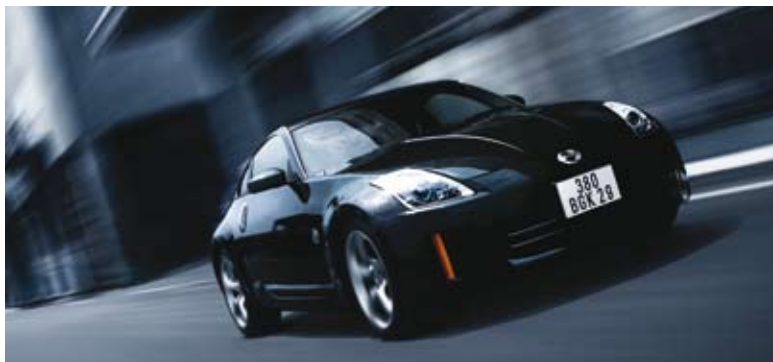
BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

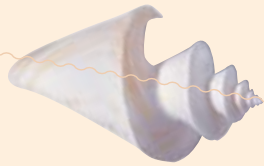
Computershare Hong Kong Investor Services Limited
Hopewell Centre, 46th Floor
183 Queen's Road East,
Wan Chai, Hong Kong

STOCK CODE

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CORPORATE INFORMATION





DIRECTORS AND SENIOR MANAGEMENT PROFILE



DIRECTORS

Chairman

Mr. Tan Eng Soon, age 57, is the Chairman of the Company and is a Director of many subsidiaries of the Group. He is also the Managing Director of Tan Chong Motor Holdings Berhad ("TCMH") and a Director of APM Automotive Holdings Berhad. Mr. Tan joined TCMH after qualifying as an Engineer from the University of New South Wales, Australia, in 1971.

Managing Director

Mr. Joseph Ong Yong Loke, age 57, is the Managing Director of the Company. He joined the Group in 1981 and has served in a number of senior capacities in Singapore before his posting to Hong Kong in 1992. Mr. Ong, a Chartered Surveyor, graduated with a BSc. (Building Economics) from the University of Reading in the United Kingdom in 1971. His previous work experience includes appointments with the Singapore Ministry of Defence and Straits Steamship Co Limited from 1976 to 1980.

Executive Directors

Mr. Tan Kheng Leong, age 63, is the Deputy Managing Director of the Nissan motor operations in Singapore and a Director of several subsidiaries of the Group. Mr. Tan joined TCMH soon after completing his education in 1962. Over the past 43 years, Mr. Tan has worked in all areas of the Group's motor business, specializing in marketing and after-sales service. He is a brother-in-law of Mr. Neo Ah Chap.

Mr. Neo Ah Chap, age 62, is the Marketing Director of the motor operations in Singapore and a Director of several subsidiaries of the Group. Mr. Neo first joined the Group in Singapore in January 1971 as an Assistant Manager. In 1974, he assumed the position of Finance Director and subsequently the position of Marketing Director in 1977. He was trained as an Accountant in Perth, Australia, and is a member of the Australian Society of Certified Practising Accountants.

Mdm. Sng Chiew Huat, age 58, is the Finance Director of the Company. Mdm. Sng, who joined the Group in 1977, completed her degree in Accountancy from the University of Singapore in 1970. She commenced her working career in the same year with Chartered Industries Pte Ltd where she rose to the position of Deputy Chief Accountant before leaving to become the Chief Accountant of Singapore Ceramics Limited in 1974. Mdm. Sng obtained a Master of Business Administration degree from the Oklahoma City University in 1993. She is a Fellow of both CPA Singapore and CPA Australia.

Independent Non-Executive Directors

Mr. Lee Han Yang, age 74, is a lawyer by profession. Mr. Lee was appointed as a Director of the Company in April 1998. Mr. Lee is currently a member of the Board of several public-listed companies in Singapore.

Mdm. Jeny Lau, age 47, was appointed as a Director of the Company in August 2003. She is currently the Director of the corporate finance department of a Hong Kong listed company. She was the Managing Director of Platinum Securities Co Ltd and also worked with the corporate finance division of Jardine Fleming Securities Ltd after spending more than ten years with major commercial banks in the U.S. and major international accounting firms. Mdm. Lau holds a Master of Science degree in Accountancy and Systems and also a Bachelor of Science degree in Accounting. She is a Certified Public Accountant and is a member of the American Institute of Certified Public Accountants, Hong Kong Society of Accountants, Hong Kong Securities Institute, and a Licensed Financial Advisor under the Hong Kong Securities & Future Commission.



Mr. Masatoshi Matsuo, age 62, graduated from Yamaguchi National University in Japan with a degree in Mechanical Engineering. He has over 18 years' experience in manufacturing and technical activities and another 18 years' experience in corporate and commercial activities in Europe, South America, Middle East, Africa, South East Asia and China and was the Senior Managing Director of Nissan Diesel Motor Co Ltd, a renown world-wide truck and engine manufacturing and distribution company listed on the Tokyo Stock Exchange, until his retirement in 2001. Mr. Matsuo was appointed as a Director of the Company on 6 December 2004.

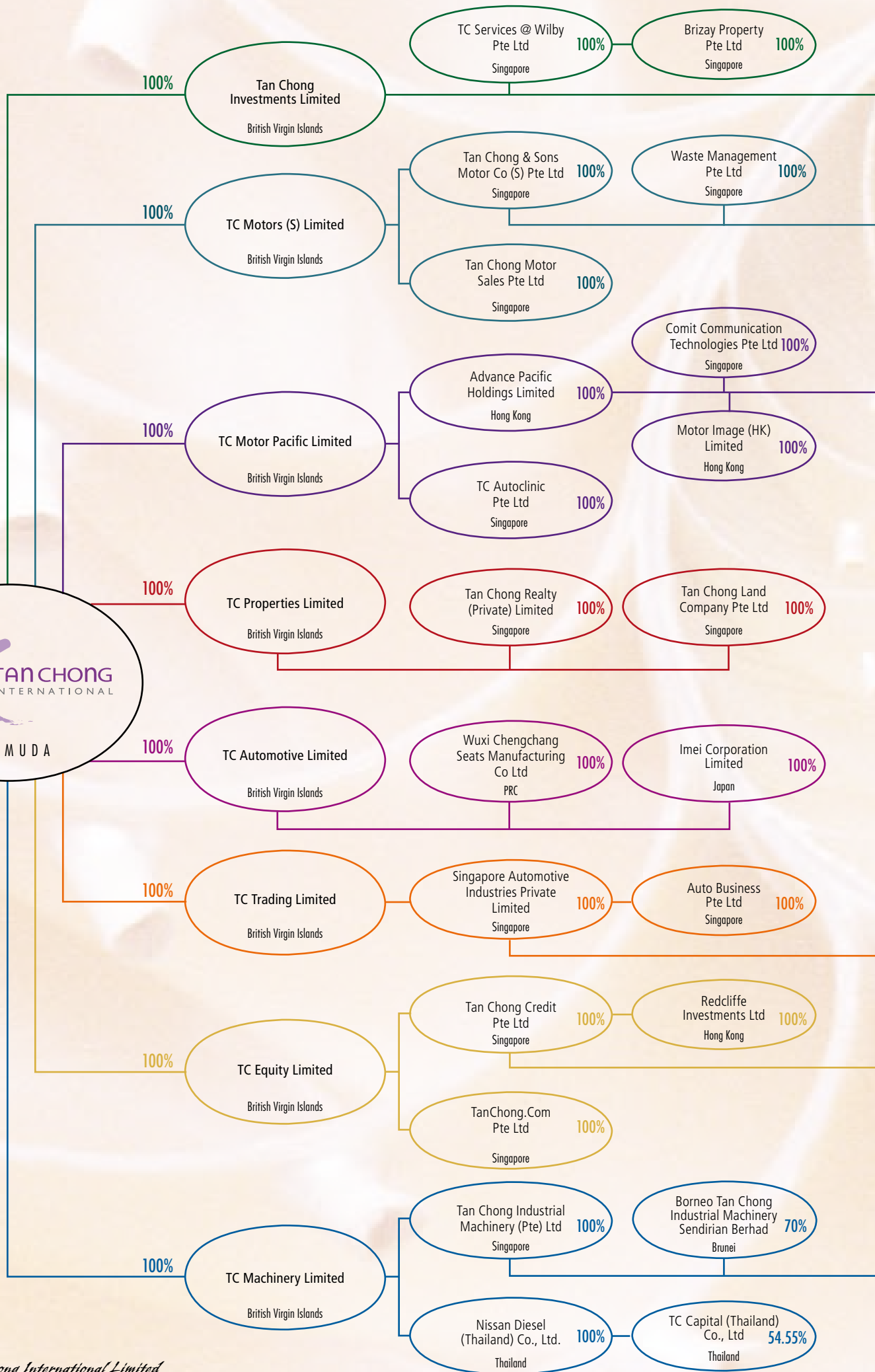
SENIOR MANAGEMENT

Mr. Chia Yong Sian, age 52, is the General Manager (Marketing) of the Nissan motor operations in Singapore. He joined the Group in 1982. Mr. Chia holds Diplomas in Mechanical Engineering and Marketing Management. He obtained a Master of Business Administration degree from the State University of New York at Buffalo in 2004.

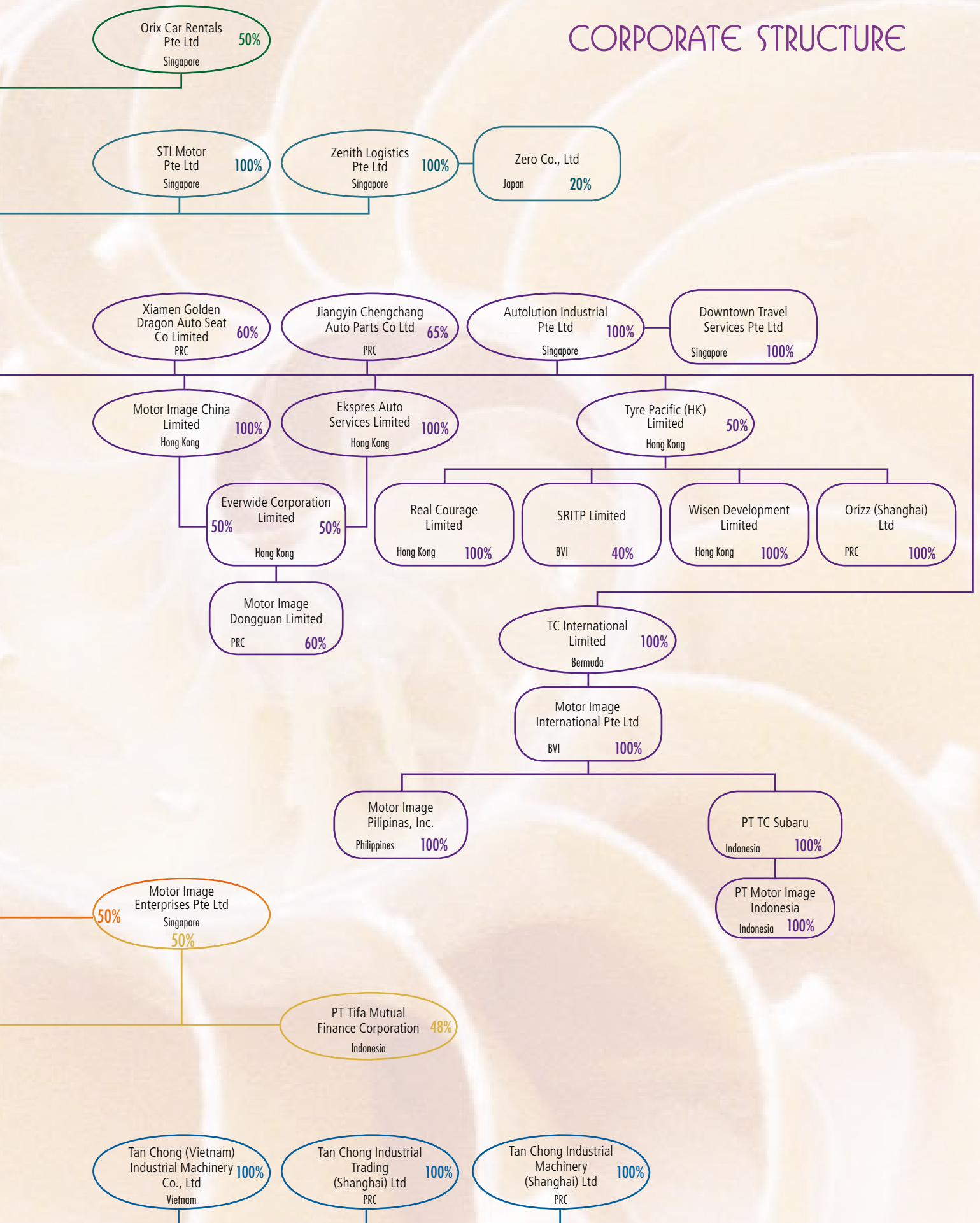
Mr. Chow Sheng Choy, age 59, is the Executive President of Nissan Diesel (Thailand) Co., Ltd. ("NDT") and a Director of the heavy commercial vehicles and industrial equipment division of the Group. Mr. Chow joined the group in 1989. He holds a Bachelor of Engineering degree from the University of Singapore.

Mr. Hiew Bon Yock, age 54, is the General Manager (Sales) of the Nissan motor operations in Singapore. Mr. Hiew joined the Group in 1984. He holds Diplomas in Mechanical Engineering, Business Administration and Marketing Management.

Mr. Yeong Yue Sun, age 52, is the Executive Vice President of NDT. Mr. Yeong is a trained Automotive Engineer and a Member of the Institute of Motor Industry in the United Kingdom. He also holds a Bachelor of Business Administration degree from the Royal Institute of Technology in Australia.

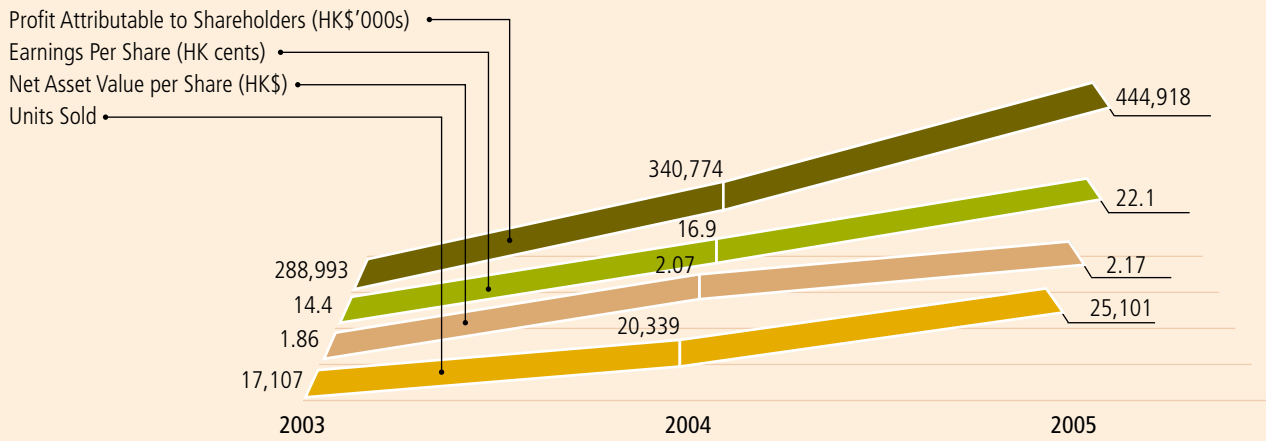
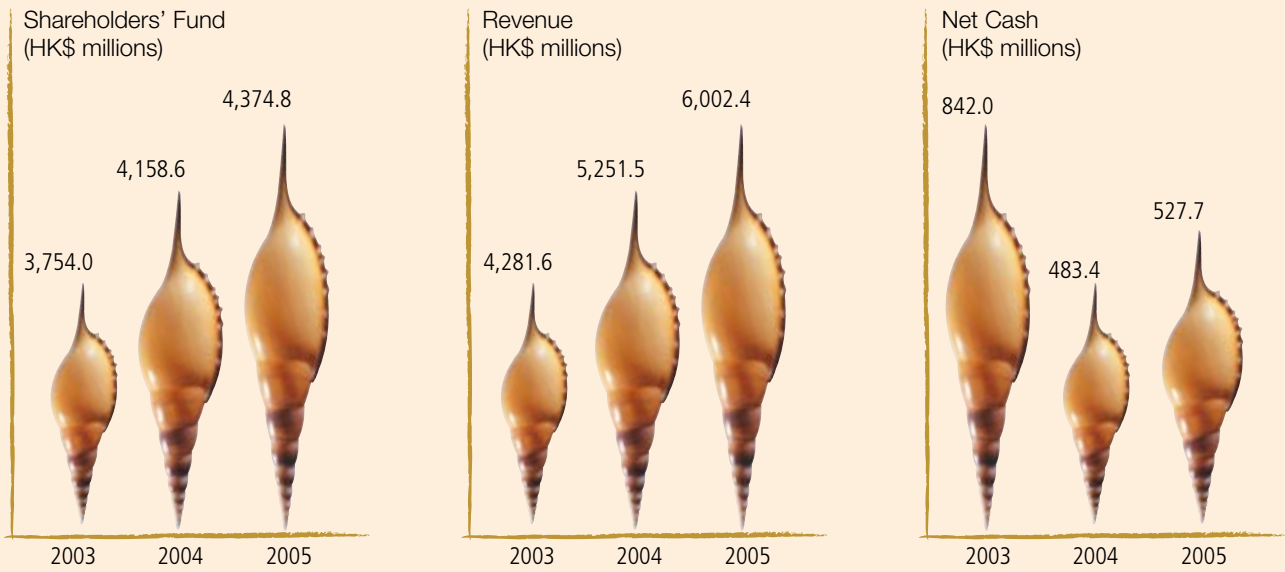


CORPORATE STRUCTURE



Note: Excluding dormant subsidiaries and associate companies

FINANCIAL HIGHLIGHTS



Motor Vehicle Distribution	84%
Property Rentals	1%
Heavy Coml. Vehicle & Indl. Equipmt. Distrib.	13%
Others	2%



Singapore	83%
Hong Kong	4%
PRC	2%
Others	11%

DIRECTORS' REPORT

Tan Chong International Limited

The directors have pleasure in submitting their annual report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out in note 18 to the financial statements.

The analysis of the types of businesses and geographical areas of the operations of the Company and its subsidiaries during the financial year are set out in note 33 to the financial statements.

Financial statements

The profit of the Group for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 79.

Transfer to reserves

Profits attributable to shareholders, before dividends, of HK\$444,918,000 (2004: HK\$340,774,000) have been transferred to reserves. Other movements in reserves are set out in note 29 to the financial statements.

An interim dividend of HK2.0 cents (2004: HK1.5 cents) per share was paid on 14 September 2005. The directors now recommend a final dividend of 4.5 cents (2004: HK4.0 cents) per share in respect of the year ended 31 December 2005.

Major suppliers and customers

The percentages of purchases of inventories for sale attributable to the Group's major suppliers during the financial year are as follows:

Purchases

- the largest supplier	64%
- five largest suppliers in aggregate	90%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major suppliers.

The aggregate percentage of sales attributable to the Group's five largest customers is less than 30% of total sales during the year and therefore no additional disclosures with regard to major customers are made.

Tan Chong International Limited

Property, plant and equipment

Movements in property, plant and equipment during the year are set out in note 16 to the financial statements.

Directors

The directors during the year were:

Executive directors

Tan Eng Soon (Chairman)
Joseph Ong Yong Loke (Managing Director)
Tan Kheng Leong
Neo Ah Chap
Sng Chiew Huat
Dato' Tan Kim Hor (resigned on 13 May 2005)

Independent non-executive directors

Lee Han Yang
Jeny Lau
Masatoshi Matsuo
Liu Kwei Ming (resigned on 13 May 2005)

In accordance with Bye-law 87, Tan Eng Soon, Sng Chiew Huat and Lee Han Yang retire from the board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

Connected transactions

During the year, the Group entered into continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules") with the Tan Chong Motor Holdings Berhad ("TCMH") Group, APM Automotive Holdings Berhad ("APM") Group and Motor Ultima Pte Ltd ("Ultima") Group. Tan Eng Soon is the managing director of TCMH and a director of APM. The Ultima Group is controlled by members of the Tan family and Tan Chong Consolidated Sdn Bhd is a substantial shareholder of the TCMH Group and the APM Group.

A summary of the significant related party transactions undertaken by the Group during the year is set out in note 32 to the financial statements.

Connected transactions (continued)

The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

The independent non-executive directors have reviewed the continuing connected transactions and confirmed that they were conducted in the following manner:

- (1) entered into by the Company in the ordinary and usual course of its business;
- (2) entered into on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- (3) entered into either in accordance with the relevant agreements governing them or where there are no such agreements, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties, and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The directors have received the auditors' confirmation as required under Rule 14A.38 of Chapter 14A of the Listing Rules.

Directors' interests and short positions in shares

The directors who held office at 31 December 2005 had the following interests in the issued share capital of the Company at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the Securities and Futures Ordinance ("SFO"):

	Ordinary shares of HK\$0.50 each			Percentage of total issued shares	Total
	Personal interests	Family interests (Note 1)	Corporate interests (Note 2)		
Executive Directors:					
Tan Eng Soon	4,200,000	-	101,580,000	5.25%	105,780,000
Joseph Ong Yong Loke	600,000	795,000	940,536	0.12%	2,335,536
Tan Kheng Leong	2,205,000	210,000	-	0.12%	2,415,000
Neo Ah Chap	3,300,000	-	-	0.16%	3,300,000
Sng Chiew Huat	564,000	-	-	0.03%	564,000

Notes:

- (1) These shares are beneficially owned by the spouses of Joseph Ong Yong Loke and Tan Kheng Leong, respectively and hence they are deemed to be interested in these shares.
- (2) These shares are beneficially owned by corporations controlled by Tan Eng Soon and Joseph Ong Yong Loke, respectively.

Tan Chong International Limited

Directors' interests and short positions in shares (continued)

Save as disclosed above, none of the directors or chief executives, or any of their spouses or children under eighteen years of age, had any beneficial or non beneficial interests or short positions in shares of the Company or any of its associates (within the meaning of the SFO) as at 31 December 2005, and there was no right granted to or exercised by any directors or chief executives of the Company, or any of their spouses or children under eighteen years of age, during the year to subscribe for shares, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

At no time during the year was the Company, any of its subsidiaries or any of its fellow subsidiaries or their holding companies a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial interests in the share capital of the Company

The Company has been notified of the following interests (other than a director of the Company) in the Company's issued shares at 31 December 2005 amounting to 5% or more of the ordinary shares in issue:

<u>Name</u>	<u>Note</u>	<u>Ordinary shares held</u>	<u>Percentage of total issued shares</u>
Tan Chong Consolidated Sdn. Bhd.	(1)	912,799,986	45.34
Guoco Group Limited	(2)	121,392,000	6.03

Notes:

- (1) The share capital of Tan Chong Consolidated Sdn. Bhd. is held by Tan Eng Soon as to approximately 16.66 per cent and Tan Kheng Leong as to approximately 11.21 per cent. The remaining shareholding is held by certain members of the Tan family who are not directors of the Company.
- (2) Pursuant to the SFO, these corporations/individuals namely Quek Leng Chan, HL Holdings Sdn Bhd, Kwek Leng Kee, Davos Investment Holdings Private Limited, Hong Leong Investment Holdings Pte Ltd, Kwek Holdings Pte Ltd and Hong Leong Company (Malaysia) Berhad, are deemed to be interested in all the shares in which Guoco Group Limited has an interest because of their direct/indirect interest in the entire/partial share capital of Guoco Group Limited. However, according to the Company's register, Capital Intelligence Limited, Guoline Capital Assets Limited and Guoline Overseas Limited reported interest is only 5.04%.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

Emolument policy

The emolument policy of the employees of the Group is based on their merit, qualification and experience, having regard to their individual performance and the Group's operating results.

The emolument policy of the directors and senior management is decided by the Remuneration Committee ("RC"), taking into account the Group's performance and individual contribution. Details of the functions of the RC are mentioned in the Corporate Governance Report.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

Directors' interests in contracts

Save as disclosed in Connected Transactions above, no contract of significance, to which the Company, any of its subsidiaries or any of its fellow subsidiaries or their holding companies was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Bye-laws or the law in Bermuda.

Purchase, sale or redemption of the Company's listed securities

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the year.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2005 are set out in notes 24 and 25 to the financial statements.

Financial summary

A summary of the results of the Group and of the Group's assets and liabilities for the last five financial years is set out on pages 80 and 81 of the annual report.

Properties

Particulars of the Group's properties are shown on pages 82 to 84 of the annual report.

Retirement schemes

Details of retirement schemes to which the Group contributes are set out in note 8 to the financial statements.

Tan Chong International Limited

Confirmation of independence

The Company has received from each of the independent non-executive directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors independent.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board

Tan Eng Soon

Chairman

Hong Kong,

14 March 2006

AUDITORS' REPORT

to the shareholders of
Tan Chong International Limited
(Incorporated in Bermuda with limited liability)

Tan Chong International Limited

We have audited the financial statements set out on pages 24 to 79 which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other persons for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit, changes in equity and cash flows for the year then ended, and have been properly prepared in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong,
14 March 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

Tan Chong International Limited

	Note	2005 \$'000	2004 (restated) \$'000
Revenue	3	6,002,371	5,251,540
Cost of sales		(5,023,810)	(4,392,032)
Gross profit		978,561	859,508
Other operating income	4	132,215	52,185
Distribution costs		(281,004)	(235,463)
Administrative expenses		(252,042)	(239,686)
Other operating expenses	5	(31,811)	(44,898)
Profit from operations		545,919	391,646
Financing costs	6	(15,637)	(9,119)
Share of profits less losses of associates		30,239	28,230
Profit before taxation	7	560,521	410,757
Income tax expense	10(a)	(115,586)	(72,465)
Profit for the year		444,935	338,292
Attributable to:			
Equity shareholders of the Company		444,918	340,774
Minority interests		17	(2,482)
Profit for the year	11 & 29(a)	444,935	338,292
Dividends payable to equity shareholders of the Company attributable to the year:	12		
Interim dividend declared during the year		40,266	30,200
Final dividend proposed after the balance sheet date		90,599	80,532
		130,865	110,732
Earnings per share (cents)	13	22.1	16.9

The notes on pages 31 to 79 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

Tan Chong International Limited

	Note	2005 \$'000	2004 (restated) \$'000
Total equity at 1 January:			
As previously reported:			
- attributable to equity shareholders of the Company		4,158,558	3,754,021
- minority interests		16,290	7,171
	29(a)	4,174,848	3,761,192
Net income and expense recognised directly in equity:			
Exchange differences on translation of financial statements of foreign operations			
- attributable to equity shareholders of the Company		(107,940)	164,429
- minority interests		(409)	17
Net income and expense recognised directly in equity (2004: as restated)	29(a)	(108,349)	164,446
Net profit for the year:			
As previously reported:			
- attributable to equity shareholders of the Company		444,918	340,774
- minority interests		17	(2,482)
Net profit for the year (2004: as restated)	29(a)	444,935	338,292
Total recognised income and expense for the year (2004: as restated)		336,586	502,738
Dividends declared and paid during the year		(120,798)	(100,666)
Movements in equity arising from capital transactions:			
Capital contribution received by non-wholly owned subsidiaries from minority shareholders		14,198	11,584
Total equity at 31 December		4,404,834	4,174,848

The notes on pages 31 to 79 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2005

(Expressed in Hong Kong dollars)

Tan Chong International Limited

	Note	2005 \$'000	2004 (restated) \$'000
Non-current assets			
Investment properties	14	1,220,013	1,266,632
Property under development	15	-	438,010
Property, plant and equipment	16(a)	831,167	739,838
Lease prepayments	17	71,566	75,752
Interest in associates	19	401,282	407,616
Investments	20	76,339	82,399
Hire purchase debtors and instalments receivable	23	158,731	190,413
Deferred tax assets	10(b)	23,697	33,940
		2,782,795	3,234,600
Current assets			
Inventories	21	760,718	552,592
Property held for sale	15	447,164	-
Trade debtors	22	321,549	297,234
Hire purchase debtors and instalments receivable	23	102,711	114,716
Other debtors, deposits and prepayments		205,159	180,436
Cash and cash equivalents	24	1,016,406	913,093
		2,853,707	2,058,071
Current liabilities			
Bank overdrafts (unsecured)	24	44,058	10,643
Bank loans (unsecured)	25	301,034	125,805
Trade creditors	26	284,727	250,631
Other creditors and accruals		266,154	261,784
Amounts due to related companies	27	1,825	1,880
Taxation		154,809	138,860
Provisions	28	9,297	9,625
		1,061,904	799,228
Net current assets		1,791,803	1,258,843
Total assets less current liabilities		4,574,598	4,493,443

CONSOLIDATED BALANCE SHEET (CONTINUED)

at 31 December 2005

(Expressed in Hong Kong dollars)

Tan Chong International Limited

	Note	2005 \$'000	2004 (restated) \$'000
Non-current liabilities			
Deferred tax liabilities	10(b)	11,879	11,466
Bank loans (unsecured)	25	143,568	293,295
Provisions	28	14,317	13,834
		169,764	318,595
NET ASSETS		4,404,834	4,174,848
Representing:			
Capital and reserves			
	29(a)		
Share capital		1,006,655	1,006,655
Reserves		3,368,083	3,151,903
Total equity attributable to equity shareholders of the Company		4,374,738	4,158,558
Minority interests		30,096	16,290
TOTAL EQUITY		4,404,834	4,174,848

Tan Eng Soon
Chairman

Sng Chiew Huat
Finance Director

The notes on pages 31 to 79 form part of these financial statements.

BALANCE SHEET

at 31 December 2005
(Expressed in Hong Kong dollars)

Tan Chong International Limited

	Note	2005 \$'000	2004 \$'000
Non-current assets			
Property, plant and equipment	16(b)	111	172
Investments in subsidiaries	18	2,339,080	2,339,080
		2,339,191	2,339,252
Current assets			
Amounts due from subsidiaries		28,845	9,695
Other debtors, deposits and prepayments		1,112	946
Cash and cash equivalents	24	6,588	6,366
		36,545	17,007
Current liabilities			
Other creditors and accruals		4,317	3,997
Amounts due to subsidiaries		23,481	2,951
Amounts due to related companies	27	-	36
		27,798	6,984
Net current assets		8,747	10,023
NET ASSETS		2,347,938	2,349,275
Representing:			
Capital and reserves			
	29(b)		
Share capital		1,006,655	1,006,655
Reserves		1,341,283	1,342,620
TOTAL EQUITY		2,347,938	2,349,275

Tan Eng Soon
Chairman

Sng Chiew Huat
Finance Director

The notes on pages 31 to 79 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

(Expressed in Hong Kong dollars)

Tan Chong International Limited

	2005	2004
	\$'000	(restated) \$'000
Operating activities		
Profit from operations	545,919	391,646
Adjustments for:		
- Depreciation	61,638	58,384
- Impairment of goodwill	7,008	6,927
- Amortisation of lease prepayments #	2,913	2,881
- Gain on sale of property, plant and equipment	(7,597)	(6,546)
- Gain on sale of unlisted equity securities	(37,646)	-
- Loss on sale of investment properties	921	-
- Valuation losses on investment properties #	17,719	775
- (Increase)/decrease in fair value of listed equity securities	(12,899)	2,121
- Impairment of unlisted debt securities	-	11,587
- Impairment of unlisted equity securities	-	14,916
- Interest income	(19,679)	(14,133)
- Dividend income	(17,686)	(1,757)
- Foreign exchange loss/(gain)	6,959	(2,315)
Operating profit before changes in working capital	547,570	464,486
Decrease/(increase) in amounts due from associates	202	(290)
Decrease/(increase) in hire purchase debtors and instalments receivable	35,339	(845)
(Increase)/decrease in inventories	(222,575)	113,379
Decrease in property held for sale	18,535	-
Increase in trade debtors	(32,465)	(44,071)
Increase in other debtors, deposits and prepayments	(28,928)	(12,064)
Increase in trade creditors	39,816	3,286
Increase in other creditors and accruals	10,623	39,378
(Decrease)/increase in amounts due to related companies	(55)	1,481
Increase in provisions	155	3,330
Cash generated from operations	368,217	568,070
Interest paid	(15,608)	(7,877)
Taxes paid	(86,083)	(78,587)
Effect of exchange differences	(3,719)	(694)
Net cash generated from operating activities	262,807	480,912

The changes in these balances are quantified after taking into account the opening balance adjustments made at 1 January 2005. The opening balance adjustments result from the changes in accounting policies as described in note 2.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

Tan Chong International Limited

	Note	2005 \$'000	2004 (restated) \$'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		21,325	28,721
Proceeds from sale of unlisted equity securities		49,265	-
Proceeds from sale of unlisted debt securities		-	323,876
Dividends received from associates		7,193	4,627
Dividends received from listed equity securities		808	871
Dividends received from unlisted equity securities		16,878	886
Purchase of property, plant and equipment		(183,025)	(130,507)
Additions to property under development		(37,166)	(132,558)
Interest received		19,690	14,093
Proceeds from sale of investment properties		2,761	-
Payment for interest in an associate		(4,056)	(171,808)
Payment for purchase of a subsidiary	34	-	(718,880)
Net cash used in investing activities		(106,327)	(780,679)
Cash flows from financing activities			
Proceeds from drawdown of borrowings		35,110	348,669
Dividends paid to shareholders		(120,798)	(100,666)
Capital contribution from minority shareholders		14,198	11,584
Net cash (used in)/generated from financing activities		(71,490)	259,587
Net increase/(decrease) in cash and cash equivalents		84,990	(40,180)
Cash and cash equivalents at 1 January		902,450	911,663
Effect of foreign exchange rate changes		(15,092)	30,967
Cash and cash equivalents at 31 December	24	972,348	902,450

The notes on pages 31 to 79 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1

1 Significant accounting policies

Tan Chong International Limited (the "Company") is a company incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company was listed on The Stock Exchange of Hong Kong Limited ("HKSE") on 7 July 1998. The place of business of its principal subsidiaries is Singapore.

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The consolidated financial statements were authorised for issue by the Directors on 14 March 2006.

1 (a)

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). Although it is not required to do so under the Bye-laws of the Company, the financial statements of the Company and the Group have been prepared so as to comply with the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

1 (b)

(b) Basis of preparation of the financial statements

The financial statements are presented in Hong Kong dollars, rounded to the nearest thousand, because the Company is listed in Hong Kong although its principal activities are domiciled in Singapore.

The consolidated financial statements are prepared on the historical cost basis except as otherwise explained in the accounting policies set out below.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1

(b) Basis of preparation of the financial statements (continued)

1 (b)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

(c) Basis of consolidation

1 (c)

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

An investment in a subsidiary in the Company's balance sheet is stated at cost less impairment losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1

1 Significant accounting policies (continued)

1 (c)

(c) Basis of consolidation (continued)

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over its management, including participating in the financial and operating policy decisions. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence effectively commences. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate in the Company's balance sheet is stated at cost less impairment losses.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

1 (d)

(d) Translation of foreign currencies

(i) Individual companies

Transactions in foreign currencies are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1

(d) Translation of foreign currencies (continued)

1 (d)

(ii) On consolidation

The results of overseas subsidiaries and associates are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(e) Investment properties

1 (e)

Investment properties are held for their investment potential and rental income. Rental income from investment properties is accounted for as described in accounting policy 1(v). Investment properties are stated at their fair value determined annually. Fair value is based on current prices in an active market for similar properties in the same location and condition. It is the Group's policy to undertake valuations at intervals of not more than three years by independent professional valuers on an open market value basis. In the intervening years investment properties are valued by appropriately qualified persons within the Group on an annual basis. Any gain or loss arising from a change in fair value is recognised in the income statement.

(f) Properties under development

1 (f)

Properties under development are stated at cost less impairment losses. Cost comprises direct costs of development including borrowings costs capitalised as well as professional fees incurred during the development.

(g) Completed property held for sale

1 (g)

Properties held for sale are carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties sold is determined by the apportionment of the total development costs of the development project. The cost of completed property held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1

1 Significant accounting policies (continued)

1 (h)

(h) Property, plant and equipment

Land and buildings other than investment properties are carried at purchase price or at 1984 revalued amount, less accumulated depreciation and impairment losses.

The surplus which arose on the 1984 valuation was taken to capital reserve and may only be transferred to retained profits as and when the relevant property is disposed of. All other gains and losses arising on disposal of property, plant and equipment are charged to the income statement.

Freehold land is not amortised.

All other property, plant and equipment is carried at purchase price less accumulated depreciation and impairment losses. They are depreciated on a straight-line basis to write off the cost, less estimated residual value, if any, of these assets over their estimated useful lives at the following annual rates:

Buildings	2% - 4%
Plant, machinery and equipment	
- engines, construction equipment and forklifts for hire	20% on cost less residual value
- others	10%
Furniture, fixtures, fittings and office equipment	10% - 15%
Motor vehicles	12½% - 40%

The useful life and the amount of residual value of an asset are reviewed annually.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

Construction in progress

Construction in progress represents buildings under construction and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs and professional fees incurred during the periods of construction and installation.

The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's depreciation policies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1

(i) Leased assets

1 (i)

(i) Classification of leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for property held under operating leases that would otherwise meet the definition of an investment property which is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease as set out in note 1(e).

(ii) Assets held for rental

Where the Group rents out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(w).

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(iv) Lease prepayments

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(j) Goodwill

1 (j)

All business combinations are accounted for by applying the purchase method. Goodwill arising on acquisition of subsidiaries and associates, represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment (see note 1(w)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1 (k) Investments

Investments in equity securities classified as financial assets through profit or loss are initially stated at fair value. At each balance sheet date, the fair value is remeasured with any resultant gain or loss being recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

1 (l) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

1 (m) Hire purchase contracts

The amounts due from hirers in respect of hire purchase contracts are recorded in the balance sheet as hire purchase debtors which represent the total rentals receivable under hire purchase contracts less unearned interest income and impairment losses.

1 (n) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No temporary differences are recognised on initial recognition of goodwill and assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1

(o) Inventories

1 (o)

Inventories are stated at the lower of cost and net realisable value. Cost of motor vehicles is determined primarily on an actual cost basis while cost of inventories other than motor vehicles is accounted for on an average cost basis. Cost comprises the purchase price including import duties (where applicable) and other directly attributable costs of acquisition.

Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date or to management estimates based on prevailing market conditions.

(p) Trade and other debtors

1 (p)

Trade and other debtors are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 1(w)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(w)).

(q) Cash and cash equivalents

1 (q)

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(r) Trade and other creditors

1 (r)

Trade and other creditors are initially recognised at fair value and thereafter stated at cost as the effect of discounting is immaterial.

(s) Interest-bearing borrowings

1 (s)

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1 (t) Provisions

A provision is recognised in the balance sheet when the Company or the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1 (u) Warranties

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

1 (v) Recognition of income

- (i) Revenue arising from sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.
- (ii) Services fee is recognised upon the conclusion of the related services provided.
- (iii) Interest and hire purchase financing income is recognised as it accrues using the effective interest method.
- (iv) Rental income from investment properties is recognised in the income statement on a straight-line basis over the periods of the respective leases. Lease incentives granted are recognised as an integral part of the total rental income.
- (v) Sales of properties

Revenue from the sales of properties is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.
- (vi) Dividend income from investments is recognised when the Group's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1

(w) Impairment

1 (w)

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount and its estimated recoverable amount.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and its estimated recoverable amount.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- lease prepayments;
- investments in subsidiaries and associates; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated annually irrespective of whether there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1

1 Significant accounting policies (continued)

1 (w)

(w) Impairment (continued)

(ii) Impairment of other assets (continued)

- Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

1 (x)

(x) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

1 (y)

(y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

1 (z)

(z) Dividends

Dividends are recognised as a liability in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1

(aa) Related parties

1 (aa)

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals.

2 Changes in accounting policies

2

The IASB has issued a number of new and revised IFRSs that are effective for accounting periods beginning on or after 1 January 2005.

Except for the following IFRSs, the adoption of these new and revised IFRSs did not result in significant changes to the Group's and/or Company's accounting policies applied in these financial statements for the years presented.

- IAS 1 "Presentation of financial statements"
- IAS 24 "Related party disclosures"
- IAS 40 "Investment property"

The effects of the adoption of the above IFRSs are set out below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

(a) Changes in presentation (IAS 1, Presentation of financial statements)

2 (a)

- (i) Presentation of shares of associates' taxation (IAS 1, Presentation of financial statements)

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance in IAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax.

As a result of the adoption of IAS 1, the Group's share of profits less losses of associates decreased by \$16,095,000 (2004: \$9,554,000) with a corresponding decrease in income tax by \$16,095,000 (2004: \$9,554,000). There is no effect on the opening retained profits nor the profit or loss for the periods presented.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

2

2 Changes in accounting policies (continued)

2 (a)

(a) Changes in presentation (IAS 1, Presentation of financial statements) (continued)

(ii) Minority interests (IAS 1, Presentation of financial statements) (continued)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with IAS 1, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. Further details of the new policy are set out in note 1(c).

As a result of the adoption of IAS 1, the Group's total equity increased by \$30,096,000 (2004: \$16,290,000). There is no effect to the opening retained profits nor the profit or loss for the periods presented.

2 (b)

(b) Definition of related parties (IAS 24, Related party disclosures)

As a result of the adoption of IAS 24, the definition of related parties as disclosed in note 1(aa) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period.

2 (c)

(c) Investment property (IAS 40, Investment property)

In prior years, the cost of acquiring land in respect of investment property held under an operating lease was classified as a lease prepayment and amortised on a straight-line basis over the period of the lease term. Investment properties are stated at fair value in accordance with the fair value model set out in IAS 40. With introduction of the revised IAS 40 with effect from 1 January 2005, the Group has reclassified and accounted for the cost of acquiring land in respect of investment properties as investment properties stated at fair value. The accounting policy for investment properties is shown in note 1(e).

The Group has applied the new policy retrospectively. As the differences of the carrying value of the cost of acquiring land in respect of investment properties and their fair values were not material in 1 January 2004, there are no adjustments to opening retained profits and net assets at 1 January 2004. The adoption of the new policy has resulted in a redesignation of lease prepayments with carrying value of \$43,575,000, to investment properties at 31 December 2005 (31 December 2004: \$45,693,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

3 Revenue

Revenue represents the sales value of goods sold, services supplied to customers, hire purchase financing income, rental income, income from sale of properties, management service fees, agency commission and handling fees and warranty reimbursements, net of goods and services tax and first registration tax where applicable, analysed as follows:

	2005 \$'000	2004 \$'000
Sale of goods	5,617,826	4,944,094
Rendering of services	218,377	187,275
Hire purchase financing income	43,960	40,291
Gross rentals from investment properties	27,901	24,678
Gross proceeds from properties sold	19,895	-
Rentals from lease of offices and workshops	2,806	5,657
Management service fees	3,390	3,390
Agency commission and handling fees	44,363	32,133
Warranty reimbursements	23,853	14,022
	6,002,371	5,251,540

3

4 Other operating income

	2005 \$'000	2004 \$'000
Bank and other interest income	19,679	14,133
Dividend income		
- listed investments	808	871
- unlisted investments	16,878	886
Gain on sale of unlisted equity securities	37,646	-
Gain on sale of property, plant and equipment	7,597	6,546
Increase in fair value of listed equity securities	12,899	-
Reversal of impairment losses on trade debtors	2,863	2,373
Others	33,845	27,376
	132,215	52,185

4

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

5

5 Other operating expenses

	2005 \$'000	2004 (restated) \$'000
Decrease in fair value of listed equity securities	-	2,121
Impairment of unlisted debt securities	-	11,587
Impairment of unlisted equity securities	-	14,916
Impairment losses on trade debtors	-	3,069
Valuation losses on investment properties	17,719	775
Bank charges	6,147	5,147
Impairment of goodwill	7,008	6,927
Loss on sale of investment properties	921	-
Others	16	356
	31,811	44,898

6

6 Financing costs

	2005 \$'000	2004 \$'000
Interest expense		
- on bank loans wholly repayable within five years	15,348	8,454
- on bank overdrafts	289	665
	15,637	9,119

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

7 Profit before taxation

7

Profit before taxation is arrived at after charging/(crediting):

	2005 \$'000	2004 \$'000
Cost of goods sold	4,835,673	4,266,872
Depreciation	61,638	58,384
Amortisation of lease prepayments	2,913	2,881
Auditors' remuneration	2,208	2,157
Net increase in provision for warranties	155	3,330
Operating lease rental expenses in respect of properties	12,828	13,982
Share of associates' taxation	16,095	9,554
Reversal of impairment losses on hire purchase debtors and instalments receivable	(3,399)	(765)
Rentals receivable from properties less direct outgoings of \$7,488,000 (2004: \$4,400,000)	(23,219)	(25,935)
	<u>4,881,973</u>	<u>4,641,386</u>

8 Personnel expenses

8

	2005 \$'000	2004 \$'000
Wages and salaries	147,458	136,760
Retirement benefit costs	12,250	11,295
Others	6,914	7,147
	<u>166,622</u>	<u>155,202</u>

The number of employees at the end of 2005 was 1,067 (2004: 976).

The Group makes contributions to defined contribution plans pursuant to the rules and regulations applicable to the Group in the countries where the Group operates. The Group has no obligation for the payment of retirement benefits beyond the contributions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

9

9 Directors' and senior executives' remuneration

9 (a)

(a) Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	Total \$'000
2005					
Executive directors					
Dato' Tan Kim Hor (retired)	592	-	-	-	592
Tan Eng Soon	60	4,706	4,146	24	8,936
Joseph Ong Yong Loke	360	2,688	1,084	24	4,156
Tan Kheng Leong	60	2,020	1,072	14	3,166
Neo Ah Chap	60	3,530	2,549	14	6,153
Sng Chiew Huat	60	1,500	1,024	24	2,608
Independent non-executive directors					
Lee Han Yang	85	-	-	-	85
Jeny Lau	71	-	-	-	71
Masatoshi Matsuo	4	-	-	-	4
Liu Kwei Ming (retired)	60	-	-	-	60
	1,412	14,444	9,875	100	25,831
2004	1,331	13,925	7,225	112	22,593

The number of directors whose remuneration falls within the following designated bands is set out below:

	2005	2004
\$Nil - \$1,000,000	5	5
\$2,000,001 - \$2,500,000	-	1
\$2,500,001 - \$3,000,000	1	1
\$3,000,001 - \$3,500,000	1	-
\$4,000,001 - \$4,500,000	1	1
\$5,000,001 - \$5,500,000	-	1
\$6,000,001 - \$6,500,000	1	-
\$7,000,001 - \$7,500,000	-	1
\$8,500,001 - \$9,000,000	1	-
	10	10

9 (b)

(b) Of the five individuals with the highest emoluments, all are directors whose emoluments are disclosed in note 9(a) above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10 Taxation

10

(a) Income tax expense:

10 (a)

	2005 \$'000	2004 (restated) \$'000
Current tax expense		
Provision for the year	103,460	84,719
Under/(over)-provision in prior years	1,470	(138)
	104,930	84,581
Deferred tax expense		
Origination and reversal of temporary differences	10,522	(15,881)
Reduction in tax rate	-	1,003
Benefits of tax losses recognised	134	2,762
	10,656	(12,116)
Total income tax expense in the consolidated income statement	115,586	72,465

An analysis of the income tax expense is as follows:

	2005 \$'000	2004 \$'000
Hong Kong	1,785	398
Singapore	104,953	78,281
Elsewhere	8,848	(6,214)
	115,586	72,465

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 17.5% (2004: 17.5%) and 30% (2004: 30%), prevailing in the relevant tax jurisdictions in which the Group operates.

The statutory corporate income tax rate for the Group's operations in Singapore is 20% in 2005 (2004: 20%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10

10 Taxation (continued)

10 (a)

(a) Income tax expense: (continued)

The following is a reconciliation of income taxes calculated at the applicable tax rates to the income tax expense:

	2005 \$'000	2004 (restated) \$'000
Accounting profit before tax	560,521	410,757
Computed tax using the applicable corporation tax rate		
- in Hong Kong	609	(6,529)
- in Singapore	96,942	70,968
- in other jurisdictions	15,093	17,828
Group companies' tax rate differential relative to Hong Kong tax rate	221	61
Adjustments resulting from:		
- Non-deductible expenses	18,174	13,500
- Non-taxable income	(10,515)	(621)
- Effect of tax losses not recognised	7,301	2,762
- Effect of deductible temporary differences not recognised in prior years	-	(7,173)
- Unrecognised tax losses utilised	(13,709)	(19,196)
- Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	-	1,003
- Under/(over)-provision in respect of prior years	1,470	(138)
Income tax expense	115,586	72,465

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10 Taxation (continued)

(b) Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2005 and 2004 are attributable to the items detailed in the table below:

	2005			2004		
	Assets \$'000	Liabilities \$'000	Net \$'000	Assets \$'000	Liabilities \$'000	Net \$'000
Property, plant and equipment	512	(16,852)	(16,340)	1,747	(15,016)	(13,269)
Inventories	6,451	-	6,451	6,119	-	6,119
Trade debtors	7,745	-	7,745	14,091	-	14,091
Creditors and accruals	5,099	-	5,099	5,971	-	5,971
Provisions	4,038	-	4,038	4,603	-	4,603
Tax value of loss carry-forwards	4,825	-	4,825	4,959	-	4,959
Tax assets/(liabilities)	28,670	(16,852)	11,818	37,490	(15,016)	22,474
Set-off within legal tax units and jurisdictions	(4,973)	4,973	-	(3,550)	3,550	-
Net tax assets/(liabilities)	23,697	(11,879)	11,818	33,940	(11,466)	22,474

The potential deferred tax assets of approximately \$29,840,000 (2004: \$36,248,000) relating to the future benefits of tax losses and deductible temporary differences have not been recognised in the financial statements as it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. The tax losses are subject to a five years time bar.

In addition, distribution of dividends from certain subsidiaries and associates is subject to a withholding tax according to the relevant tax jurisdictions. No provision has been made for the potential deferred tax arising on the future distribution of retained profits of these subsidiaries as the Company controls the dividend policy of these subsidiaries and it is of the opinion that the profits will not be distributed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10

10 Taxation (continued)

10 (c)

(c) Movement in deferred tax assets/(liabilities) during the year:

	Balance at 1 January 2004 \$'000	Recognised in the income statement \$'000	Balance at 31 December 2004 \$'000
Property, plant and equipment	(16,591)	3,322	(13,269)
Inventories	5,508	611	6,119
Trade debtors	6,324	7,767	14,091
Other debtors and prepayments	(24)	24	-
Creditors and accruals	2,992	2,979	5,971
Provisions	4,428	175	4,603
Tax value of loss carry-forwards	7,721	(2,762)	4,959
	<u>10,358</u>	<u>12,116</u>	<u>22,474</u>

	Balance at 1 January 2005 \$'000	Recognised in the income statement \$'000	Balance at 31 December 2005 \$'000
Property, plant and equipment	(13,269)	(3,071)	(16,340)
Inventories	6,119	332	6,451
Trade debtors	14,091	(6,346)	7,745
Creditors and accruals	5,971	(872)	5,099
Provisions	4,603	(565)	4,038
Tax value of loss carry-forwards	4,959	(134)	4,825
	<u>22,474</u>	<u>(10,656)</u>	<u>11,818</u>

11

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$119,461,000 (2004: \$100,904,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

12 Dividends

12

(a) Dividends payable to equity shareholders of the Company attributable to the year

12 (a)

	2005 \$'000	2004 \$'000
Interim dividend paid of 2.0 cents per ordinary share (2004: 1.5 cents per ordinary share)	40,266	30,200
Final dividend proposed after the balance sheet date of 4.5 cents per ordinary share (2004: 4.0 cents) per ordinary share	90,599	80,532
	130,865	110,732

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends paid to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

12 (b)

	2005 \$'000	2004 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 4.0 cents per ordinary share (2004: 3.5 cents per ordinary share)	80,532	70,466

13 Earnings per share

13

The calculation of basic earnings per share is based on net profit for the year attributable to equity shareholders of the Company of \$444,918,000 (2004: \$340,774,000) and the number of ordinary shares outstanding during the year of 2,013,309,000 (2004: 2,013,309,000) shares.

Diluted earnings per share is not presented as there were no dilutive securities outstanding during 2005 and 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

14

14 Investment properties

The Group

	Freehold land and buildings \$'000	Leasehold land and buildings \$'000	Total \$'000
At 1 January 2004 (restated)	263,569	239,076	502,645
Exchange adjustments	40,994	6,396	47,390
Addition through acquisition of a subsidiary (note 34)	717,372	-	717,372
Valuation adjustment	-	(775)	(775)
	<hr/>	<hr/>	<hr/>
At 31 December 2004 (restated)	1,021,935	244,697	1,266,632
	<hr/>	<hr/>	<hr/>
At 1 January 2005 (restated)	1,021,935	244,697	1,266,632
Exchange adjustments	(21,885)	(3,333)	(25,218)
Disposals	-	(3,682)	(3,682)
Valuation adjustment	(4,434)	(13,285)	(17,719)
	<hr/>	<hr/>	<hr/>
At 31 December 2005	995,616	224,397	1,220,013

An analysis of the valuation of freehold and leasehold land and buildings is as follows:

	Freehold land and buildings		Leasehold land and buildings	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 (restated) \$'000
In Hong Kong				
- Long lease	-	-	70,939	71,443
Outside Hong Kong				
- Freehold	995,616	1,021,935	-	-
- Long lease	-	-	139,958	159,297
- Medium term lease	-	-	3,500	6,157
- Short term lease	-	-	10,000	7,800
	<hr/>	<hr/>	<hr/>	<hr/>
	995,616	1,021,935	224,397	244,697

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

14 Investment properties (continued)

14

The Group (continued)

The investment properties of the Group were revalued at 31 December 2005 by a director of the Company, who is an Associate of The Royal Institution of Chartered Surveyors, at their open market value on an existing use basis. At 31 December 2005, a decrease in fair value of \$17,719,000 was dealt with in the income statement for the year ended 31 December 2005 (2004: \$775,000).

Investment properties comprise a number of commercial properties that are leased to external customers. Certain leases contain an initial non-cancellable period of two years. Subsequent renewals are negotiated with the respective lessees. No contingent rents are charged.

15 Property under development

15

	The Group	
	2005 \$'000	2004 \$'000
At 1 January	438,010	292,910
Exchange adjustment	(9,477)	12,542
Additions	37,166	132,558
Transfer to property held for sale on completion	(465,699)	-
At 31 December	-	438,010

Property under development represents the Group's freehold land development at Upper Aljunied Road, Singapore. The project was completed in early 2005 and the costs were transferred to property held for sale.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16

16 Property, plant and equipment

16 (a)

(a) The Group

	Freehold land \$'000	Buildings \$'000	Plant, machinery and equipment \$'000	Furniture, fixtures, fittings and office equipment \$'000	Motor vehicles \$'000	Construction in progress \$'000	Total \$'000
Cost or valuation:							
At 1 January 2005	218,721	394,130	149,434	75,810	153,938	30,663	1,022,696
Exchange adjustments	(5,666)	(8,088)	(4,645)	(1,557)	(3,129)	(656)	(23,741)
Additions	25,229	11,172	34,724	11,934	27,168	72,798	183,025
Disposals	-	(2,691)	(23,216)	(4,198)	(16,925)	-	(47,030)
Transfer from/(out from) construction in progress	-	94,645	-	-	-	(94,645)	-
At 31 December 2005	238,284	489,168	156,297	81,989	161,052	8,160	1,134,950
Representing:							
Cost	55,098	431,580	156,297	81,989	161,052	8,160	894,176
Valuation - 1984	183,186	57,588	-	-	-	-	240,774
	238,284	489,168	156,297	81,989	161,052	8,160	1,134,950
Accumulated depreciation:							
At 1 January 2005	-	103,034	72,719	57,243	49,862	-	282,858
Exchange adjustments	-	(2,065)	(3,161)	(1,189)	(996)	-	(7,411)
Charge for the year	-	14,220	23,320	6,088	18,010	-	61,638
Written back on disposals	-	(764)	(19,129)	(4,084)	(9,325)	-	(33,302)
At 31 December 2005	-	114,425	73,749	58,058	57,551	-	303,783
Net book value:							
At 31 December 2005	238,284	374,743	82,548	23,931	103,501	8,160	831,167

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16 Property, plant and equipment (continued)

16

(a) The Group (continued)

16 (a)

	Freehold land \$'000	Buildings \$'000	Plant, machinery and equipment \$'000	Furniture, fixtures, and office equipment \$'000	Motor vehicles \$'000	Construction in progress \$'000	Total \$'000
Cost or valuation:							
At 1 January 2004	208,551	305,499	132,638	67,667	130,772	82,502	927,629
Exchange adjustments	8,280	10,052	5,165	1,846	5,140	2,959	33,442
Additions							
- through acquisition of a subsidiary (note 34)	-	-	-	82	-	-	82
Additions	1,890	7,136	33,020	8,024	39,947	40,490	130,507
Disposals	-	(11,609)	(21,689)	(1,947)	(21,921)	(788)	(57,954)
Transfer from/(out from) construction in progress	-	83,052	300	138	-	(94,500)	(11,010)
At 31 December 2004	<u>218,721</u>	<u>394,130</u>	<u>149,434</u>	<u>75,810</u>	<u>153,938</u>	<u>30,663</u>	<u>1,022,696</u>
Representing:							
Cost	31,526	332,612	149,434	75,810	153,938	30,663	773,983
Valuation - 1984	187,195	61,518	-	-	-	-	248,713
	<u>218,721</u>	<u>394,130</u>	<u>149,434</u>	<u>75,810</u>	<u>153,938</u>	<u>30,663</u>	<u>1,022,696</u>
Accumulated depreciation:							
At 1 January 2004	-	89,660	65,906	52,351	42,937	-	250,854
Exchange adjustments	-	2,534	3,443	1,408	2,014	-	9,399
Charge for the year	-	13,719	21,609	4,973	18,083	-	58,384
Written back on disposals	-	(2,879)	(18,239)	(1,489)	(13,172)	-	(35,779)
At 31 December 2004	<u>-</u>	<u>103,034</u>	<u>72,719</u>	<u>57,243</u>	<u>49,862</u>	<u>-</u>	<u>282,858</u>
Net book value:							
At 31 December 2004	<u>218,721</u>	<u>291,096</u>	<u>76,715</u>	<u>18,567</u>	<u>104,076</u>	<u>30,663</u>	<u>739,838</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16

16 Property, plant and equipment (continued)

16 (a)

(a) The Group (continued)

(i) An analysis of net book value of land and buildings is as follows:

	Land		Buildings	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
In Hong Kong				
- Medium term lease	-	-	7,255	8,326
Outside Hong Kong				
- Freehold	238,284	218,721	67,498	69,838
- Long lease	-	-	136,309	43,719
- Medium term lease	-	-	156,549	169,213
- Short term lease	-	-	7,132	-
	238,284	218,721	374,743	291,096

(ii) Certain land and buildings were revalued by the directors based on independent professional valuations in 1984. These properties are carried at the respective revalued amounts (or deemed cost) totalling \$240,774,000 (2004: \$248,713,000) as the amount of the adjustments relating to prior periods could not be reasonably determined when International Financial Reporting Standards were adopted for the purpose of preparing financial statements prior to listing. The requirements of IAS 16 "Property, plant and equipment" with respect to carrying assets at amounts other than cost less accumulated depreciation are therefore not applicable.

(iii) The Group rents out certain motor vehicles, machinery and equipment. The rental period typically runs for an initial period of one to three years, with an option to renew after that date at which time all terms are renegotiated. None of the rental agreements includes contingent rentals.

The gross carrying amounts of motor vehicles, machinery and equipment of the Group held for rental were \$232,514,000 (2004: \$224,319,000) and the related accumulated depreciation charges were \$80,588,000 (2004: \$76,384,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16 Property, plant and equipment (continued)

16

(b) The Company

16 (b)

	Office equipment \$'000	Furniture and fittings \$'000	Motor vehicles \$'000	Total \$'000
Cost:				
At 1 January 2005	184	264	239	687
Additions	-	-	-	-
At 31 December 2005	184	264	239	687
Accumulated depreciation:				
At 1 January 2005	160	259	96	515
Charge for the year	11	3	47	61
At 31 December 2005	171	262	143	576
Net book value:				
At 31 December 2005	13	2	96	111
Cost:				
At 1 January 2004	134	264	239	637
Additions	50	-	-	50
At 31 December 2004	184	264	239	687
Accumulated depreciation:				
At 1 January 2004	100	231	48	379
Charge for the year	60	28	48	136
At 31 December 2004	160	259	96	515
Net book value:				
At 31 December 2004	24	5	143	172

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

17

17 Lease prepayments

	The Group	
	2005 \$'000	2004 (restated) \$'000
At 1 January	75,752	65,056
Exchange adjustments	(1,273)	2,567
Transfer from construction in progress	-	11,010
Amortisation	(2,913)	(2,881)
At 31 December	71,566	75,752

All lease prepayments relate to owner-occupied properties. An analysis of lease prepayments is as follows:

	2005	2004
	\$'000	(restated) \$'000
In Hong Kong		
- Medium term lease	2,412	2,476
Outside Hong Kong		
- Long lease	23,038	24,131
- Medium term lease	46,116	49,145
	71,566	75,752

18

18 Investments in subsidiaries

	The Company	
	2005 \$'000	2004 \$'000
Unlisted shares, at cost	2,292,080	2,292,080
Loan to a subsidiary	47,000	47,000
	2,339,080	2,339,080

The loan to a subsidiary is unsecured, interest free and has no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

18 Investments in subsidiaries (continued)

The following list contains particulars of the subsidiaries as at 31 December 2005 which principally affected the results or assets of the Group:

Name	Place of incorporation and operation	Particulars of issued and paid up capital (All being ordinary unless otherwise stated)	Percentage of equity indirectly held through subsidiaries	Principal activities
Tan Chong & Sons Motor Company (Singapore) Private Limited	Republic of Singapore ("Singapore")	SGD100,000,000 Redeemable preference SGD50,000,000	100%	Investment holding
Tan Chong Motor Sales Pte Ltd	Singapore	SGD10,000,000	100%	Distribution of motor vehicles
Singapore Automotive Industries Private Limited	Singapore	SGD2,000,000	100%	Distribution of auto spare parts
Tan Chong Industrial Machinery (Pte) Ltd	Singapore	SGD4,000,000 Redeemable preference SGD12,500,000	100%	Distribution of heavy commercial vehicles and industrial equipment, rental of machinery and provision of workshop services
Motor Image Enterprises Pte Ltd	Singapore	SGD8	100%	Distribution of motor vehicles

18

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

18

18 Investments in subsidiaries (continued)

Name	Place of incorporation and operation	Particulars of issued and paid up capital (All being ordinary unless otherwise stated)	Percentage of equity indirectly held through subsidiaries	Principal activities
Tan Chong Credit Private Ltd	Singapore	SGD34,100,000 Redeemable preference SGD12,500,000	100%	Hire-purchase financing and insurance agency
Tan Chong Realty (Private) Limited	Singapore	SGD32,900,000 Redeemable preference SGD25,000,000	100%	Property holding and development
Brizay Property Pte Ltd	Singapore	SGD2	100%	Property holding and letting
Advance Pacific Holdings Limited	Hong Kong	HK\$8,500,000	100%	Investment holding
Motor Image (H.K.) Limited	Hong Kong	HK\$8,000,000	100%	Distribution of motor vehicles
Nissan Diesel (Thailand) Company Limited	Thailand	BAHT 1,646,456,000 Redeemable preference BAHT 250,000,000	100%	Distribution of heavy commercial vehicles and related products and provision of workshop services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

19 Interest in associates

19

	The Group	
	2005 \$'000	2004 \$'000
Share of net assets	394,200	393,036
Amounts due from associates	88	290
Goodwill	6,994	14,290
	401,282	407,616
Associates listed outside Hong Kong	151,102	181,223
Unlisted associate	250,180	226,393
	401,282	407,616
Market value of listed associates	288,347	-

Details of the major associates are as follows:

Name of company	Place of incorporation and operation	Percentage of equity held by the Group	Principal activities
Orix Car Rentals Pte Ltd	Singapore	50%	Car rental
Tyre Pacific (HK) Limited	Hong Kong	50%	Distribution of tyres
Zero Co., Ltd	Japan	20%	Provision of logistic services

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

19

19 Interest in associates (continued)

Summary financial information on associates:

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
2005					
100 per cent	3,696,555	2,410,046	1,286,509	4,244,174	131,525
Group's effective interest	1,205,553	811,353	394,200	1,017,920	30,239
2004					
100 per cent	3,553,091	2,248,484	1,304,607	1,626,350	71,410
Group's effective interest	1,093,120	700,084	393,036	475,087	28,230

20

20 Investments

Non-current financial assets

	The Group	
	2005 \$'000	2004 \$'000
Equity securities		
- unlisted, at cost less impairment losses	17,309	29,306
- listed outside Hong Kong, at fair value through profit or loss	59,030	53,093
	76,339	82,399

The unlisted equity securities are stated at cost less impairment losses because their fair values cannot be measured reliably. The unlisted equity securities are not traded in an open market.

During the year, the Group disposed of certain equity securities with carrying value of \$11,619,000, resulting in a gain on disposal of \$37,646,000 recognised in the current year's income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

21 Inventories

21

(a) Inventories in the balance sheet comprise:

21 (a)

	The Group	
	2005 \$'000	2004 \$'000
Raw materials	39,060	22,054
Work-in-progress	9,665	12,222
Spare parts and others	100,915	96,141
Finished goods and trading inventories	608,349	417,783
Goods in transit	2,729	4,392
	760,718	552,592

(b) The analysis of the amount of inventories recognised as an expense is as follows:

21 (b)

	The Group	
	2005 \$'000	2004 \$'000
Carrying amount of inventories sold	4,814,827	4,263,466
Write-down of inventories	2,530	3,484
Reversal of write-down of inventories	(219)	(78)
	4,817,138	4,266,872

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

22

22 Trade debtors

Included in trade debtors are debtors (net of impairment losses) with the following ageing analysis:

	The Group	
	2005 \$'000	2004 \$'000
Current	285,623	219,153
1 to 3 months	32,805	67,138
More than 3 months but less than 12 months	3,121	10,943
	321,549	297,234

The Group allows credit periods ranging from 7 days to 6 months.

23

23 Hire purchase debtors and instalments receivable

	The Group	
	2005 \$'000	2004 \$'000
Balance due		
- within one year	170,481	186,825
- between one year and five years	212,763	251,444
- more than five years	5,285	9,193
	388,529	447,462
Hire purchase debtors and instalments receivable	388,529	447,462
Unearned interest charges	(48,700)	(56,286)
	339,829	391,176
Less: impairment losses	(78,387)	(86,047)
	261,442	305,129
	261,442	305,129
Balance due		
- within one year	102,711	114,716
	102,711	114,716
- between one year and five years	154,223	182,390
- more than five years	4,508	8,023
	158,731	190,413
	261,442	305,129

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

24 Cash and cash equivalents

24

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Bank deposits	896,739	844,394	4,063	4,306
Bank balances	119,373	68,129	2,525	2,060
Cash in hand	294	570	-	-
Cash and cash equivalents	1,016,406	913,093	6,588	6,366
Bank overdrafts (unsecured)	(44,058)	(10,643)		
Cash and cash equivalents in the consolidated statement of cash flows	972,348	902,450		

The effective interest rate of deposits ranged from 0.08% to 4.80% (2004: 0.01% to 4.61%) per annum. The tenor of such deposits ranged from 1 day to 3 months.

Bank overdrafts bear interest ranging from 4.25% to 14.00% (2004: 4.25% to 7.50%) per annum.

25 Bank loans (unsecured)

25

At 31 December 2005, the bank loans were payable as follows:

	The Group	
	2005 \$'000	2004 \$'000
Within 1 year	301,034	125,805
After 1 year but within 2 years	143,568	146,671
After 2 years but within 5 years	-	146,624
	143,568	293,295
	444,602	419,100

Bank loans totalling \$7,741,000 (2004: \$11,609,000) bear interest at the Hong Kong Inter Bank Offered Rate plus 1.50% per annum or at the bank's cost of funding plus 1.5% per annum, whichever is the higher. Bank loans totalling \$279,396,000 (2004: \$285,510,000) bear interest at a fixed rate of 2.38% to 2.85% (2004: 2.38% to 2.85%) per annum.

The remaining portion of the bank loans bears interest at floating rates ranging from 2.03% to 6.15% (2004: 1.07% to 7.00%) per annum during the year ended 31 December 2005.

The non-current bank loans are due for repayment in March 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

26

26 Trade creditors

Included in trade creditors are creditors with the following ageing analysis:

	The Group	
	2005 \$'000	2004 \$'000
Due within 1 month or on demand	122,124	135,630
Due after 1 month but within 3 months	119,576	91,527
Due after 3 months but within 6 months	42,251	22,838
Due after 6 months but within 12 months	776	636
	<u>284,727</u>	<u>250,631</u>

27

27 Amounts due to related companies

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Trading balances	<u>1,825</u>	<u>1,880</u>	<u>-</u>	<u>36</u>

28

28 Provisions

	The Group	
	2005 \$'000	2004 \$'000
<i>Provisions for warranties</i>		
Balance at 1 January	23,459	20,129
Provisions made	409	5,115
Provisions used	(254)	(1,785)
Balance at 31 December	<u>23,614</u>	<u>23,459</u>
Current	9,297	9,625
Non-current	14,317	13,834
	<u>23,614</u>	<u>23,459</u>

Provisions for warranties relate mainly to motor vehicles sold which are calculated based on estimates made from historical warranty data associated with similar products and services.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29 Capital and reserves

29

(a) The Group

29 (a)

	Attributable to equity shareholders of the Company		
	Share capital \$'000	Share premium \$'000	Capital reserve \$'000
	Balance at 1 January 2004 (restated)	1,006,655	550,547
Exchange differences on translation of financial statements of overseas operations	-	-	-
Capital contribution received by non-wholly owned subsidiaries from minority shareholders	-	-	-
Profit for the year	-	-	-
Dividends to shareholders	-	-	-
Balance at 31 December 2004 (restated)	1,006,655	550,547	9,549
Balance at 1 January 2005 (restated)	1,006,655	550,547	9,549
Exchange differences on translation of financial statements of overseas operations	-	-	-
Capital contribution received by non-wholly owned subsidiaries from minority shareholders	-	-	-
Profit for the year	-	-	-
Dividends to shareholders	-	-	-
Balance at 31 December 2005	1,006,655	550,547	9,549

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29

29 (a)

Attributable to equity shareholders of the Company					
Translation reserve \$'000	Contributed surplus \$'000	Retained profits \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
(376,504)	377,690	2,186,084	3,754,021	7,171	3,761,192
164,429	-	-	164,429	17	164,446
-	-	-	-	11,584	11,584
-	-	340,774	340,774	(2,482)	338,292
-	-	(100,666)	(100,666)	-	(100,666)
(212,075)	377,690	2,426,192	4,158,558	16,290	4,174,848
(212,075)	377,690	2,426,192	4,158,558	16,290	4,174,848
(107,940)	-	-	(107,940)	(409)	(108,349)
-	-	-	-	14,198	14,198
-	-	444,918	444,918	17	444,935
-	-	(120,798)	(120,798)	-	(120,798)
(320,015)	377,690	2,750,312	4,374,738	30,096	4,404,834

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29 Capital and reserves (continued)

29

(a) The Group (continued)

29 (a)

Capital reserve

The capital reserve mainly comprises a revaluation surplus arising on revaluation in 1984 of land and buildings other than investment properties.

Translation reserve

The translation reserve mainly comprises foreign exchange differences arising from the translation of the financial statements of foreign operations that are not an integral part of the operations of the Group.

(b) The Company

29 (b)

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Retained profits \$'000	Total \$'000
Balance at 1 January 2004	1,006,655	550,547	623,313	168,522	2,349,037
Profit for the year	-	-	-	100,904	100,904
Dividends to shareholders	-	-	-	(100,666)	(100,666)
At 31 December 2004	1,006,655	550,547	623,313	168,760	2,349,275
Balance at 1 January 2005	1,006,655	550,547	623,313	168,760	2,349,275
Profit for the year	-	-	-	119,461	119,461
Dividends to shareholders	-	-	-	(120,798)	(120,798)
At 31 December 2005	1,006,655	550,547	623,313	167,423	2,347,938

Contributed surplus

The excess of the value of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange was credited to the contributed surplus. Under the Companies Act of Bermuda, the contributed surplus is available for distribution to shareholders, except if there are reasonable grounds for believing that:

- (a) the Company is, or would after the payment, be unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29

29 Capital and reserves (continued)

29 (b)

(b) The Company (continued)

The Company's reserves available for distribution to shareholders at 31 December 2005 are as follows:

	2005 \$'000	2004 \$'000
Contributed surplus	623,313	623,313
Retained profits	167,423	168,760
	790,736	792,073

29 (c)

(c) Share capital

	The Group and the Company	
	2005 \$'000	2004 \$'000
<i>Authorised:</i>		
3,000,000,000 ordinary shares of \$0.50 each	1,500,000	1,500,000
<i>Issued and fully paid:</i>		
2,013,309,000 ordinary shares of \$0.50 each	1,006,655	1,006,655

30

30 Financial instruments

Financial assets of the Group include cash and cash equivalents, equity securities and trade, hire purchase and other debtors and amounts due from related companies. Financial liabilities of the Group include bank overdrafts and loans, borrowings, trade and other creditors and amounts due to related companies. Accounting policies for financial assets and liabilities are set out in note 1.

30 (a)

(a) Interest rate risk

The interest rates and terms of repayment of loans and borrowings of the Group are disclosed in notes 24 and 25.

The contractual repricing period for cash and cash equivalents, bank overdrafts and unsecured bank loans are all within 6 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

30 Financial instruments (continued)

30

(b) Credit risk

30 (b)

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted. The Group does not have a significant exposure to any individual customer. The Group invests available cash and cash equivalents with various banks with high credit ratings.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(c) Foreign currency risk

30 (c)

The Group has exposures to foreign currencies as its major operations and income are denominated mainly in Singapore dollars ("SGD"). Depreciation and appreciation of SGD against Hong Kong dollars affects the Group's results.

The Group's operating subsidiaries regularly monitor their exchange exposure and may hedge their position discriminately, depending on the size of the exposure and the future outlook of the particular currency unit. There were no material forward exchange contracts outstanding as at 31 December 2004 and 2005.

(d) Fair value

30 (d)

The fair values of listed investments are shown in notes 19 and 20.

The fair values of cash and cash equivalents, trade, hire purchase and other debtors, amounts due from related companies, trade and other creditors, amounts due to related companies, bank overdrafts and loans and borrowings are not materially different from their carrying amounts.

Fair value has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using current interest rates for similar instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

31

31 Commitments

31 (a)

(a) *Capital commitments outstanding at 31 December 2005 not provided for in the financial statements were as follows:*

	The Group	
	2005 \$'000	2004 \$'000
Authorised and contracted for:		
- construction of properties	68,893	144,393

31 (b)

(b) *Operating lease commitments*

Non-cancellable operating lease rentals are payable as follows:

	The Group	
	2005 \$'000	2004 \$'000
Less than one year	6,722	4,405
Between one and five years	16,031	10,140
More than five years	63,758	37,140
	86,511	51,685

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of between one and six years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

32

32 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

32 (a)

(a) *Key management personnel remuneration*

Remuneration for key management personnel represents amounts paid to the Company's directors as disclosed in note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

32 Material related party transactions (continued)

32

(b) Transactions with related companies

32 (b)

	Note	2005 \$'000	2004 \$'000
Sales of goods and services to the TCMH Group	(i)	3,775	3,481
Sales of goods and services to the Ultima Group	(i)	823	1,575
Services rendered by the Ultima Group	(i)	7,466	5,170
Purchase of inventories from the TCMH Group	(i)	6,158	11,846
Purchase of inventories from the Ultima Group	(i)	-	4,268
Purchase of inventories from the APM Group	(i)	5,918	-
Hire purchase financing income from the Ultima Group	(ii)	695	1,140
Investment in a subsidiary with the TCMH Group		19,270	4,800

Notes:

- (i) Tan Eng Soon is the managing director of Tan Chong Motor Holdings Berhad ("TCMH") and a director of APM Automotive Holdings Berhad ("APM"). The Motor Ultima Pte Ltd ("Ultima") Group is controlled by members of the Tan family and Tan Chong Consolidated Sdn. Bhd. is a substantial shareholder of the TCMH Group and the APM Group.
- (ii) Hire purchase financing income represents interest charges on hire purchase financing on motor vehicles to the Ultima Group. Interest on the hire purchase financing was charged at a fixed interest rate with a fixed repayment term similar to other customers.

33 Segment reporting

33

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

33 Segment reporting (continued)

Business segments

The Group comprises the following main business segments:

(i) Motor vehicle distribution

The Group is the exclusive distributor for Nissan vehicles in Singapore and for Subaru vehicles in Singapore, Hong Kong and the People's Republic of China ("PRC"). It distributes all models of Nissan and Subaru passenger and Nissan light commercial vehicles.

(ii) Heavy commercial vehicle and industrial equipment distribution

The Group is the sole distributor for Nissan Diesel heavy commercial vehicles and Nissan forklift trucks in Singapore, Thailand and Brunei. The Group markets and distributes a wide range of both Nissan Diesel heavy commercial vehicles and industrial equipment.

(iii) Property rentals and development

The Group has significant property interests in Singapore and is engaged in the gradual development of various operating and investment properties in order to meet the property needs of the Group as well as for sales and rental income.

(iv) Other operations

Other operations include investment holding and hire-purchase financing.

Geographical segments

The business segments detailed above operate in three principal geographical areas. Singapore is a major market for the Group's businesses. In Hong Kong, the Group is engaged in the distribution of Subaru vehicles, the provision of workshop services and investment in property in return for rental income and in the PRC, the Group is engaged in the distribution of Subaru vehicles, the manufacture of vehicle seats and shock absorbers.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

33 Segment reporting (continued)

33

	Motor vehicle distribution		Heavy commercial vehicle and industrial equipment distribution	
	2005 \$'000	2004 (restated) \$'000	2005 \$'000	2004 \$'000
Revenue from external customers:				
- sales	4,873,295	4,164,490	691,686	748,994
- services	80,535	84,988	68,412	40,838
- hire purchase financing	-	-	-	-
- rentals	2,535	2,588	159	189
- others	64,216	46,144	3,994	9
Total revenue	5,020,581	4,298,210	764,251	790,030
Segment result				
Profit from operations	413,785	300,944	82,886	86,595
Net financing income/ (costs)	(15,310)	(13,568)	(5,985)	(4,128)
Share of profits less losses of associates	26,310	19,457	-	-
Income tax expense	(83,286)	(59,494)	(13,144)	1,995
Net profit for the year	341,499	247,339	63,757	84,462
Segment assets	1,993,435	1,759,756	668,227	585,722
Interest in associates	192,783	174,285	-	-
Consolidated total assets	2,186,218	1,934,041	668,227	585,722
Consolidated total liabilities	598,015	551,860	237,749	177,376
Capital expenditure	106,944	43,686	50,821	30,270
Depreciation and amortisation expense	12,720	12,314	30,282	28,137
Impairment losses	-	-	-	-
Significant non-cash income/(expenses)	(384)	-	-	-

In addition to the information on business segments based on the structure of the Group, the figures below present information for geographical segments.

	Singapore		Hong Kong	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from external customers	5,252,629	4,553,844	57,533	55,592
Segment assets	4,345,035	4,167,946	224,100	226,243
Capital expenditure	136,145	956,348	341	2,070

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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Property rentals and development		Other operations		Consolidated	
2005	2004 (restated)	2005	2004 (restated)	2005	2004 (restated)
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
19,895	-	52,845	30,610	5,637,721	4,944,094
8,679	8,057	60,751	53,392	218,377	187,275
-	-	43,960	40,291	43,960	40,291
27,901	24,678	112	2,880	30,707	30,335
-	-	3,396	3,392	71,606	49,545
56,475	32,735	161,064	130,565	6,002,371	5,251,540
(7,093)	(9,035)	56,341	13,142	545,919	391,646
(20,454)	(4,265)	26,112	12,842	(15,637)	(9,119)
-	-	3,929	8,773	30,239	28,230
(1,307)	(1,435)	(17,849)	(13,531)	(115,586)	(72,465)
(28,854)	(14,735)	68,533	21,226	444,935	338,292
1,741,475	1,779,018	832,083	760,559	5,235,220	4,885,055
-	-	208,499	233,331	401,282	407,616
1,741,475	1,779,018	1,040,582	993,890	5,636,502	5,292,671
224,011	243,106	171,893	145,481	1,231,668	1,117,823
631	725,253	24,629	181,310	183,025	980,519
1,509	1,289	20,040	19,525	64,551	61,265
-	-	7,008	33,430	7,008	33,430
(17,335)	(775)	12,899	(2,121)	(4,820)	(2,896)

PRC		Others		Consolidated	
2005	2004	2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
153,856	90,117	538,353	551,987	6,002,371	5,251,540
116,498	108,737	549,587	382,129	5,235,220	4,885,055
810	2,104	45,729	19,997	183,025	980,519

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

34 Acquisition of a subsidiary 34

On 15 March 2004, the Group acquired a 100% equity interest in Brizay Property Pte Ltd for a cash consideration of \$718,971,000.

	2004 \$'000
Net assets acquired	
Property, plant and equipment	82
Investment property	717,372
Other debtors, deposits and prepayments	2,810
Cash and cash equivalents	91
Other creditors and accruals	(1,384)
	718,971
Net identifiable assets and liabilities	718,971
Total consideration, satisfied in cash	718,971
Less: cash of the subsidiary acquired	(91)
	718,880

35 Comparative figures 35

Certain comparative figures have been reclassified as a result of the changes in accounting policies, further details of which are disclosed in note 2.

36

36 Significant accounting estimates and judgements

(i) Impairment of hire purchase and trade debtors

Hire purchase and trade debtors are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of the impairment losses. The estimate is based on historical loss experience for debtors with similar credit risk. The methodology and assumptions used are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

(ii) Impairment of goodwill

Goodwill arising on acquisition of associates is subject to an annual impairment test. The recoverable amount of the goodwill is determined based on a number of factors including market values, if available and the industry and sector performance and other available financial information. The use of market and other financial information in the calculation requires the use of estimates and judgement.

(iii) Recognition of deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences, to the extent that they are probable that future taxable profits will be available against which the unused tax credits can be utilised. They are reviewed constantly and adjusted if necessary.

(iv) Warranty provisions

As explained in note 28, the Group makes provisions under the warranties it gives on sale of its motor vehicles taking into account the Group's claim experience which might not be indicative of future claims. Any increase or decrease in the provision would affect profit or loss in future years.

37

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period ended 31 December 2005

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements.

The Group is assessing the impact of these amendments, new standards and new interpretations and will adopt them accordingly where applicable.

FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

Tan Chong International Limited

	Year ended 31 December				
	2001 (restated) \$'000	2002 (restated) \$'000	2003 (restated) \$'000	2004 (restated) \$'000	2005 \$'000
Results					
Turnover	4,969,606	3,856,099	4,220,280	5,196,338	5,927,959
Profit from operations	415,001	282,519	348,654	391,646	545,919
Financing costs	(6,230)	(5,980)	(5,081)	(9,119)	(15,637)
Share of profit less losses of associates	23,777	24,905	25,408	28,230	30,239
Profit before taxation	432,548	301,444	368,981	410,757	560,521
Taxation	(113,884)	(63,630)	(81,276)	(72,465)	(115,586)
Profit for the year	318,664	237,814	287,705	338,292	444,935
Attributable to:					
Equity shareholders of the Company	320,143	238,238	288,993	340,774	444,918
Minority interests	(1,479)	(424)	(1,288)	(2,482)	17
Profit for the year	318,664	237,814	287,705	338,292	444,935
Assets and liabilities					
Investment properties, property under development, property, plant and equipment and lease prepayments	1,265,371	1,420,168	1,537,386	2,520,232	2,122,746
Interest in associates	148,169	176,544	200,416	407,616	401,282
Other assets	317,230	310,485	305,104	306,752	258,767
Net current assets	1,490,240	1,650,356	1,755,527	1,258,843	1,791,803
Total assets less current liabilities	3,221,010	3,557,553	3,798,433	4,493,443	4,574,598
Non-current liabilities	(35,757)	(33,866)	(37,241)	(318,595)	(169,764)
Total equity	3,185,253	3,523,687	3,761,192	4,174,848	4,404,834
Earnings per share - basic (cents)	15.9	11.8	14.4	16.9	22.1

FINANCIAL SUMMARY (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

Notes:

- (1) Turnover of \$5,927,959,000 (2004: \$5,196,338,000) represents sale of goods, rendering of services, hire purchase financing income, gross rentals from investment properties and gross proceeds from properties sold.
- (2) The amount of diluted earnings per share is not presented as there were no dilutive securities outstanding during those years.
- (3) The IASB has issued a number of new and revised IFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRSs is provided in note 2 to the financial statements. Figures for 2004 and 2005 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in note 2. Earlier years have only been restated to the extent that the new accounting policies are adopted retrospectively as disclosed in note 2.

GROUP PROPERTIES

Tan Chong International Limited

Location	Description	Land area (sq. feet)	Tenure	Expiry date	Age of building (years)
1/F Centro-Sound Industrial Building 6 A Kung Ngam Village Road Shau Kei Wan Hong Kong	Offices and workshop (own use)	9,719	Leasehold	22 October 2051	29
Unit A on Ground Floor, Phase 1 Nan Fung Industrial Building 431-487 Avenida do Dr Francisco Vieira Machado and 354-408 Rua dos Pescadores Macau	Showroom and workshop (investment)	8,805	Leasehold	29 November 2012	33
30/F Shui On Centre 6-8 Harbour Road Wanchai Hong Kong	Offices (own use and investment)	13,770	Leasehold	20 May 2060	20
Unit Nos B1701, B1702 and B1703 Level 17, Tower B Vantone New World Plaza 2 Funchengmen Outer Avenue Xicheng District Beijing China	Offices (investment)	3,682	Leasehold	2 November 2043	10
Jiangyin Chengchang-kunpeng Auto Parts Factory Liwangli Village Qingyang Town Jiangyin Jiangsu Province China	Office, factory and warehouse (own use)	268,277	Leasehold	24 March 2046	8
Xijin Minor District Qingyang Town Jiangyin Jiangsu Province China	Residential terraced house (own use)	1,744	Leasehold	unspecified term	8

GROUP PROPERTIES (CONTINUED)

Tan Chong International Limited

Location	Description	Land area (sq. feet)	Tenure	Expiry date	Age of building (years)
911 and 913 Bukit Timah Road Tan Chong Motor Centre Singapore 589622	Showroom, workshop and office (own use)	198,606	Freehold	-	23
14 Upper Aljunied Road Singapore 367843	Property held for sale	222,876	Freehold	-	N/A
700 Woodlands Road Singapore 738664	Workshop and office (own use)	233,188	Freehold	-	20
25 Leng Kee Road Singapore 159097	Showroom, workshop and office (own use)	23,998	Leasehold	10 April 2059	10
15 Queen Street Tan Chong Tower Singapore 188537	Office, showroom and apartments for rental (investment)	22,193	Freehold	-	23
798 & 800 Upper Bukit Timah Road Singapore 678138/139	Factory and warehouse for rental (investment)	44,794 1,141 168,046	Freehold Leasehold Leasehold	- 16 April 2874 6 April 2082	15
210 New Upper Changi Road #01-703 Singapore 460210	Showroom and office (investment)	4,058	Leasehold	1 July 2078	26
23 Jalan Buroh Singapore 619479	Showroom, workshop, office and warehouse (own use)	161,631	Leasehold	1 October 2027	21
The Wilby Residence 25, 27, 29, 31 and 33 Wilby Road Singapore 276300 - 276304	Condominiums for rental (investment)	200,991	Freehold	-	8

GROUP PROPERTIES (CONTINUED)

Tan Chong International Limited

Location	Description	Land area (sq. feet)	Tenure	Expiry date	Age of building (years)
15 Tuas Avenue 3 Singapore 639412	Workshop and office (own use)	110,790	Leasehold	16 November 2013	22
17 Lorong 8, Toa Payoh Singapore 319254	Showroom, workshop and office (own use)	58,737	Leasehold	28 February 2023	10
19 Lorong 8, Toa Payoh Singapore 319255	Showroom, workshop and office (own use)	58,715	Leasehold	28 February 2092	2
19 Ubi Road 4 Singapore 408623	Showroom, workshop and office (own use)	59,379	Leasehold	1 October 2030	3
1 Sixth Lok Yang Road Singapore 628099	Workshop and office (own use)	223,908	Leasehold	15 April 2033	32
59 Moo 1, Rangsit- Pathumthani Road, Banklang, Muang District, Pathumthani Province, Thailand	Showroom, workshop, office and warehouse (own use)	557,754	Freehold	-	18
No. 10, Jalan 51A/223 46109 Petaling Jaya Selangor Darul Ehsan Malaysia	Showroom, workshop and office (own use)	43,575	Leasehold	19 January 2062	2
118 Moo 5, T. Bangsamak A, Bangpakong Chachoengsao 24180 Thailand	Showroom, workshop and office (own use)	31,579	Freehold	-	1