



Tan Chong International Limited

Annual Report 2006





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Form of Proxy



Continuing world wide geopolitical uncertainties, unpredictable interest rate trend and high fuel prices will likely dampen financial performance.

MANAGEMENT DISCUSSION & ANALYSIS

The Group faced many challenges in year 2006. New cars and new models were introduced in Singapore. Nissan's share of the market was however reduced because of:

- Keen competition from new entrants and existing parallel importers and cheaper cars from the regional countries
- No new models to bring in more customers
- With the introduction of the Euro 4 Emission Standard in Singapore that took effect from the last quarter 2006 there were no sales of commercial vehicles.

On the other hand bottom line has been cushioned by cheaper car quota prices, the strengthening of the Singapore dollar and Asian currencies and the relative weakness of the Japanese Yen against the US dollar. Continuing world wide geopolitical uncertainties, unpredictable interest rate trend and high fuel prices will likely dampen financial performance. Consumers' confidence is still trending towards smaller and cheaper cars. Sales volumes of Subaru cars in Singapore, China and Hong Kong improved year on year but bottom line was thinner. After-sales servicing of vehicles strengthened in volume and profitability.

Group Revenue year on year dropped 2.5% to HKD5.853 billion dampened by reduced Nissan and Nissan Diesel unit sales volumes which dipped 18.9% and 20.5% to 16,796 and 1,412 respectively although cushioned somewhat by the 64.3% increased unit sales volume to 4,082 from Subaru sales in Singapore, PRC, Hong Kong and the region.

Group profits attributable to shareholders year on year would have dropped 7.6% if they were not boosted by the HKD163 million bonus from increased value of investment properties, write-backs, higher net interest income and dividend received and higher foreign exchange gain. Overall group profits attributable to shareholders were up 29.0% year on year. Expenses from Singapore Motor Show 2006 had resulted in higher distribution and administrative costs but other overheads and financing costs were well contained. Share of earnings of associates moved up 31.4%.



Other than increased value of investment properties, financial performance of the Property Division improved over last year with better occupancy and rental rates helped by the influx of expatriates into Singapore. The situation is expected to improve further. Nevertheless continuing high interest costs may override the better revenue.

Over at the Industrial Machinery Division, truck sales in Singapore declined despite better sentiments in the logistics and construction sectors. With the introduction of the Euro 4 Emission Standard in Singapore since the last quarter of 2006 there were no medium-sized truck sales. Margins rose because of contributions from the first three quarters of the year. Although truck sales volume in Thailand declined, profits improved because of better margins and foreign exchange gain.

Capital commitments dropped to HKD38 million from HKD69 million as at end of last year. These commitments are the balances from various completed and completing projects. Continuing expansion in sales activities regionally increased head count to 1,180.

During the year our Vantone offices in Beijing China were sold and our property at Tan Chong Industrial Park was reclassified from investment property to fixed assets because it was used within the Group. The number of investment properties is therefore reduced from 7 to 5.

With its solid financial standing the Group will continue its expansion into the region. It will proceed to borrow more long term debt to meet infrastructural and investment needs if interest rates are conducive.

The Group has adopted the changes in reporting standards as required by the Stock Exchange of Hong Kong and the International Accounting Standards Board.

Financial performance of the Property Division improved over last year with better occupancy and rental rates.



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 2006. 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 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.

CORPORATE GOVERNANCE

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												
Mr. Tan Eng Soon	C	4	4	-	-	-	-	-	-	C	1	1
Mr. Joseph Ong Yong Loke	M	4	3	-	-	-	-	-	-	-	-	-
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
Mdm. Jeny Lau	M	4	3	M	1	1	M	2	1	M	1	1
Mr. Masatoshi Matsuo	M	4	4	-	-	-	M	2	2	M	1	1

Denotes:

C-Chairman, M-Member

Number of meetings held/attended during the financial year/period from 1 January 2006 (or date of appointment, where applicable) to 31 December 2006



CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman 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.



CORPORATE GOVERNANCE

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 2006 is HK\$2,382,000. There were no non-audit services.

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. 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 Annual Report is sent to all shareholders and/or its nominees and is 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.



Overall group profits attributable to shareholders were up 29.0% year on year.

CORPORATE INFORMATION

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

Mr. Navin Aggarwal

AUDITORS

KPMG

8/F, Prince's Building

10 Chater Road

Central, Hong Kong

SOLICITORS

Kirkpatrick & Lockhart 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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DIRECTORS AND SENIOR MANAGEMENT PROFILE

CHAIRMAN

Mr. Tan Eng Soon, age 58, 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 58, 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 64, 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 44 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 63, 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 Institute of Certified Public Accountants of Singapore and CPA Australia.

Mdm. Sng Chiew Huat, age 59, 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 the Institute of Certified Public Accountants of Singapore as well as CPA Australia, and a member of the Association of Chartered Certified Accountants (ACCA).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Han Yang, age 75, B.A (S’pore) of Lincoln’s Inn, Barrister-at-law was appointed as an independent director of the Company in April 1998. Mr. Lee is a practicing lawyer in Messrs Peter Low Partnership. He sits on the board of directors of several private and of two public companies, Wing Tai Holdings Limited and Low Keng Huat Holdings Ltd. Mr. Lee is a member of the Board of National Council of Social Service. For many years he also chaired a Criminal Law Appeals Committee. In August 2006 he was awarded the Public Service Star (BBM). Mr. Lee is an active member of the Law Society of Singapore.



Mdm. Jeny Lau, age 48, 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 and Hong Kong Securities Institute.

Mr. Masatoshi Matsuo, age 63, has over 18 years' experience in manufacturing and technical activities and another 18 years' experience in corporate and commercial activities in Overseas Market 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 53, 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.

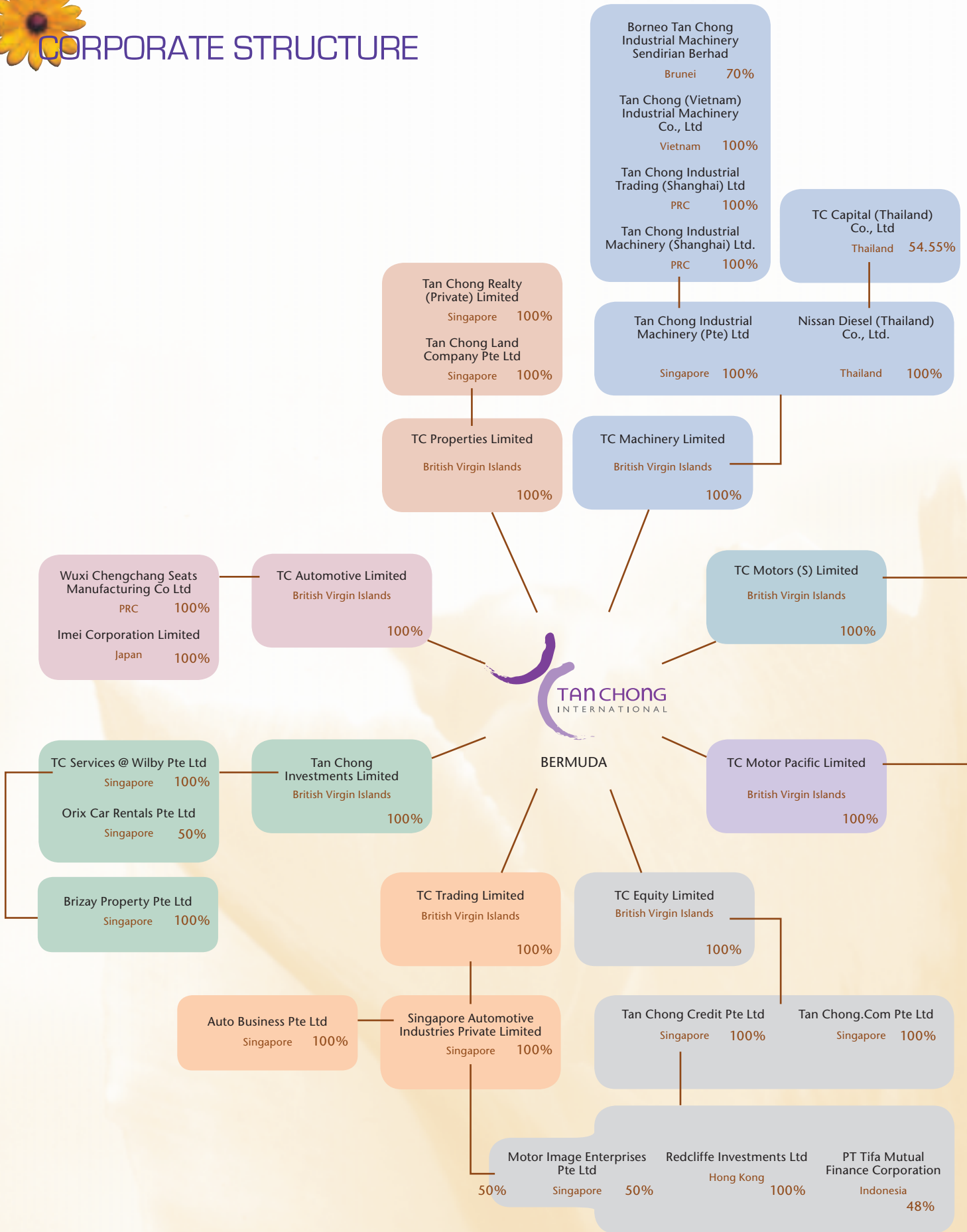
Mr. Chow Sheng Choy, age 59, is a Director of the heavy commercial vehicles and industrial equipment division of the Group. Mr. Chow joined the Group in 1989. He holds a Bachelor of Engineering degree from the University of Singapore.

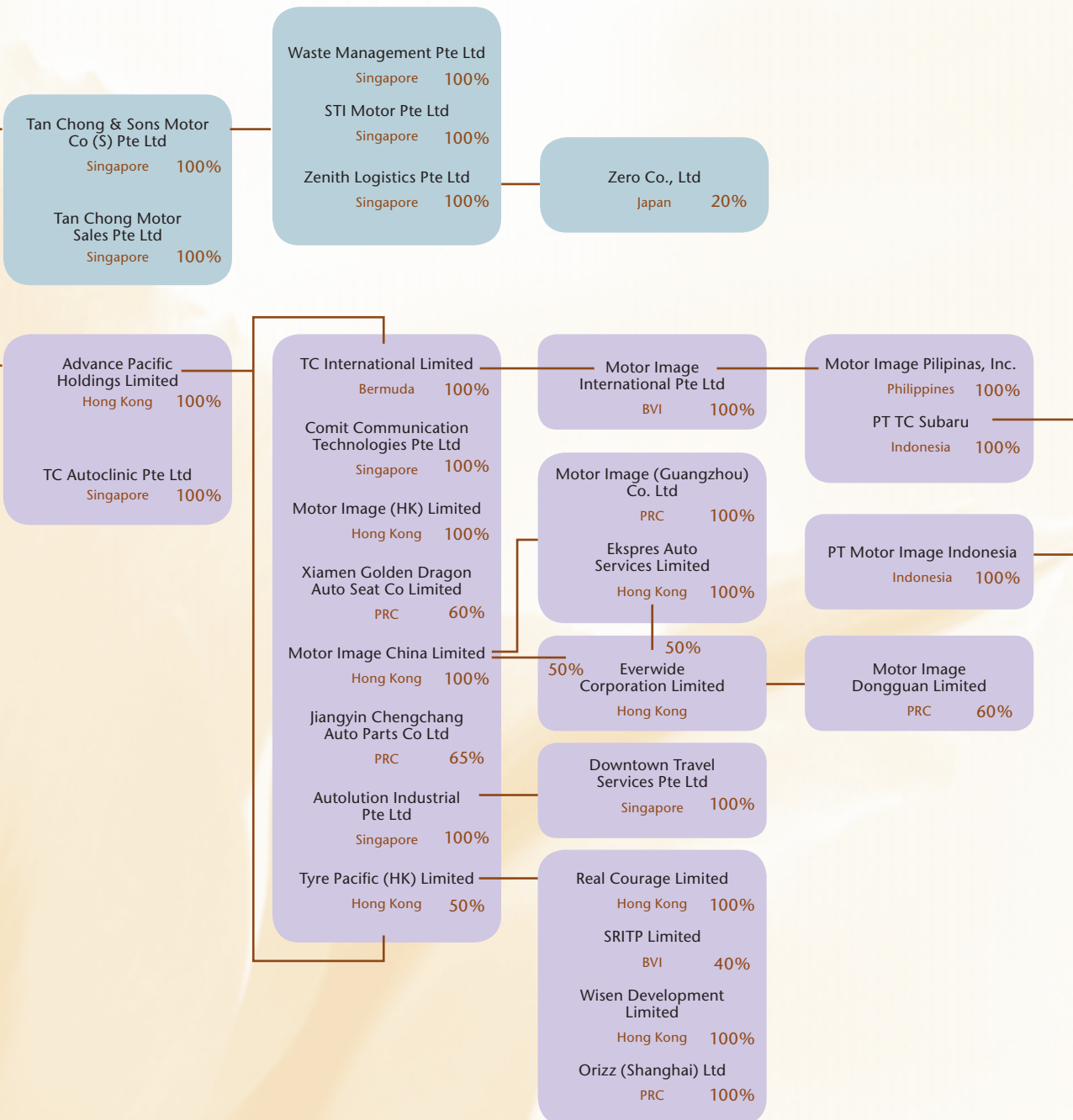
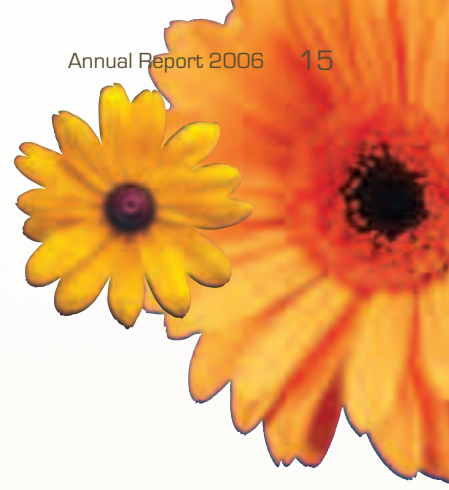
Mr. Hiew Bon Yock, age 55, is the General Manager (Sales) of the Nissan motor operations in Singapore. Mr. Hiew joined the Group in 1984. He holds Diplomas in Mechanical Engineering, Business Administration and Marketing Management.

Mr. Yeong Yue Sun, age 53, is the President of Nissan Diesel (Thailand) Co., Ltd.. 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 Melbourne Institute of Technology in Australia.



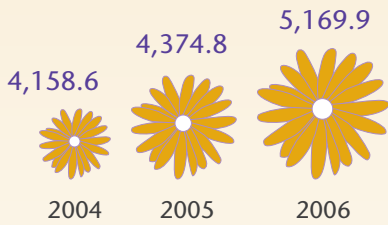
CORPORATE STRUCTURE



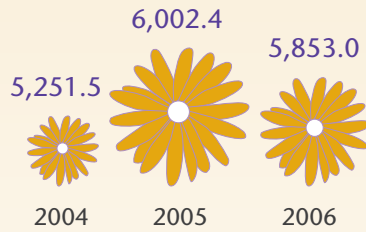


FINANCIAL HIGHLIGHTS

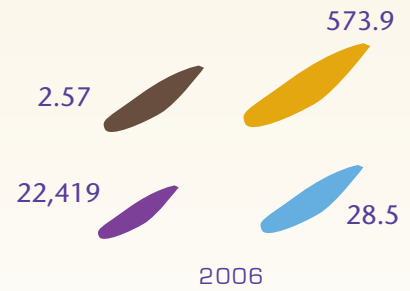
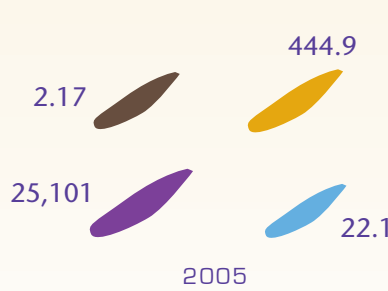
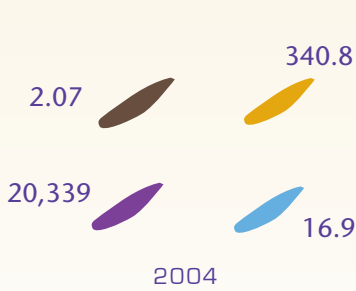
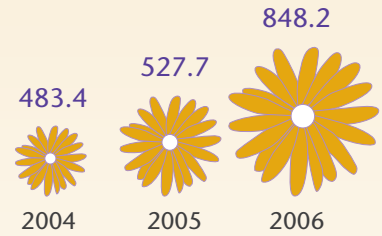
SHAREHOLDERS' FUND
(HK\$ MILLIONS)



REVENUE
(HK\$ MILLIONS)

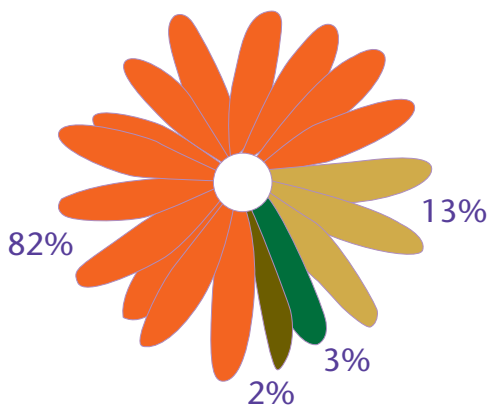


NET CASH
(HK\$ MILLIONS)



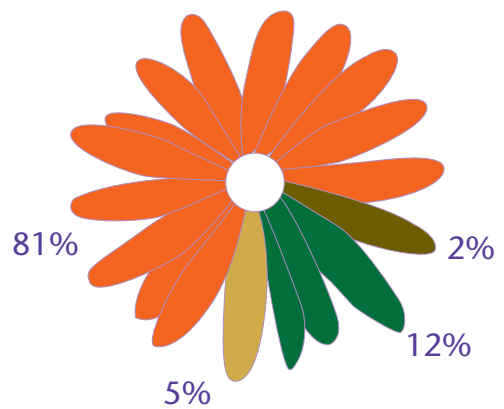
- Units Sold
- Net Asset Value per Share (HK\$)
- Earnings per Share (HK cents)
- Profit Attributable to Shareholders (HK\$' millions)

REVENUE BY BUSINESS TYPE



- Motor Vehicle Distribution
- Heavy Coml. Vehicle & Indl. Equipmt. Distrib.
- Property Rentals
- Others

SEGMENT ASSETS BY LOCATION



- Singapore
- Hong Kong
- PRC
- Others

DIRECTORS' REPORT

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 2006.

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 17 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 2006 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 75.

Transfer to reserves

Profits attributable to shareholders, before dividends, of HK\$573,932,000 (2005: HK\$444,918,000) 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 (2005: HK2.0 cents) per share was paid on 6 September 2006. The directors now recommend a final dividend of HK4.5 cents (2005: HK4.5 cents) per share in respect of the year ended 31 December 2006.

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	54%
- five largest suppliers in aggregate	84%

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.

DIRECTORS' REPORT (continued)

Property, plant and equipment

Movements in property, plant and equipment during the year are set out in note 15 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	

Independent non-executive directors

Lee Han Yang
Jeny Lau
Masatoshi Matsuo

In accordance with Bye-law 87, Tan Kheng Leong, Neo Ah Chap and Jeny Lau 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.

DIRECTORS' REPORT (continued)

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 2006 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				Total
	Personal interests	Family interests (Note 1)	Corporate interests (Note 2)	Percentage of total issued shares	
<i>Executive Directors:</i>					
Tan Eng Soon	4,200,000	-	101,580,000	5.25%	105,780,000
Joseph Ong Yong Loke	639,000	795,000	940,536	0.12%	2,374,536
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	639,000	-	-	0.03%	639,000

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.

DIRECTORS' REPORT (continued)

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 2006, 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 2006 amounting to 5% or more of the ordinary shares in issue:

Name	Note	Ordinary shares held	Percentage of total issued shares
Tan Chong Consolidated Sdn. Bhd.	(1)	912,799,986	45.34
Guoco Group Limited	(2)	202,567,000	10.06

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%.

On 3 January 2007, the Company received a notification from Guoco Group Limited that its shareholdings in the Company have been increased to 221,882,700 shares on 29 December 2006 representing 11.02% of the Company's total issued shares.

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.

DIRECTORS' REPORT (continued)

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 2006 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 76 and 77 of the annual report.

DIRECTORS' REPORT (continued)

Properties

Particulars of the Group's properties are shown on pages 78 to 80 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.

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,
27 February 2007

INDEPENDENT AUDITOR'S REPORT

to the shareholders of Tan Chong International Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Tan Chong International Limited (the "Company") set out on pages 24 to 75, which comprise the consolidated and company balance sheets as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosures requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
27 February 2007

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Revenue	3	5,853,032	6,002,371
Cost of sales		(4,777,190)	(5,023,810)
Gross profit		1,075,842	978,561
Other operating income	4	224,398	132,215
Distribution costs		(293,754)	(281,004)
Administrative expenses		(297,581)	(252,042)
Other operating expenses	5	(17,548)	(31,811)
Profit from operations		691,357	545,919
Financing costs	6	(19,710)	(15,637)
Share of profits less losses of associates		39,731	30,239
Profit before taxation	7	711,378	560,521
Income tax expense	10(a)	(136,775)	(115,586)
Profit for the year		574,603	444,935
Attributable to:			
Equity shareholders of the Company		573,932	444,918
Minority interests		671	17
Profit for the year	11 & 29(a)	574,603	444,935
Dividends payable to equity shareholders of the Company attributable to the year:	12		
Interim dividend declared during the year		40,266	40,266
Final dividend proposed after the balance sheet date		90,599	90,599
		130,865	130,865
Earnings per share (cents)	13	28.5	22.1

The notes on pages 31 to 75 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Total equity at 1 January	29(a)	4,404,834	4,174,848
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		352,087	(107,940)
- minority interests		3,599	(409)
Net income and expense recognised directly in equity	29(a)	355,686	(108,349)
Net profit for the year		574,603	444,935
Total recognised income and expense for the year		930,289	336,586
Dividends declared and paid during the year		(130,865)	(120,798)
Movements in equity arising from capital transactions:			
Capital contribution received by non-wholly owned subsidiaries from minority shareholders		-	14,198
Total equity at 31 December		5,204,258	4,404,834

The notes on pages 31 to 75 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Non-current assets			
Investment properties	14	1,248,800	1,220,013
Property, plant and equipment	15(a)	1,089,616	831,167
Lease prepayments	16	207,440	71,566
Interest in associates	18	438,821	401,282
Investments	19	111,781	76,339
Hire purchase debtors and instalments receivable	23	142,352	158,731
Deferred tax assets	10(b)	19,094	23,697
		3,257,904	2,782,795
Current assets			
Inventories	20	746,536	760,718
Properties held for sale	21	454,906	447,164
Trade debtors	22	348,095	321,549
Hire purchase debtors and instalments receivable	23	101,869	102,711
Other debtors, deposits and prepayments		128,448	205,159
Cash and cash equivalents	24	1,259,330	1,016,406
		3,039,184	2,853,707
Current liabilities			
Bank overdrafts (unsecured)	24	29,884	44,058
Bank loans (unsecured)	25	332,160	301,034
Trade creditors	26	235,506	284,727
Other creditors and accruals		224,856	266,154
Amounts due to related companies	27	613	1,825
Taxation		163,634	154,809
Provisions	28	10,356	9,297
		997,009	1,061,904
Net current assets		2,042,175	1,791,803
Total assets less current liabilities		5,300,079	4,574,598

CONSOLIDATED BALANCE SHEET (continued)

at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Non-current liabilities			
Deferred tax liabilities	10(b)	31,624	11,879
Bank loans (unsecured)	25	49,072	143,568
Provisions	28	15,125	14,317
		95,821	169,764
NET ASSETS			
		5,204,258	4,404,834
Representing:			
Capital and reserves			
	29(a)		
Share capital		1,006,655	1,006,655
Reserves		4,163,237	3,368,083
		5,169,892	4,374,738
Total equity attributable to equity shareholders of the Company			
		5,169,892	4,374,738
Minority interests			
		34,366	30,096
TOTAL EQUITY			
		5,204,258	4,404,834

Tan Eng Soon
Chairman

Sng Chiew Huat
Finance Director

The notes on pages 31 to 75 form part of these financial statements.

BALANCE SHEET

at 31 December 2006

(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Non-current assets			
Property, plant and equipment	15(b)	76	111
Investments in subsidiaries	17	2,339,080	2,339,080
		2,339,156	2,339,191
Current assets			
Amounts due from subsidiaries		31,364	28,845
Other debtors, deposits and prepayments		913	1,112
Cash and cash equivalents	24	3,934	6,588
		36,211	36,545
Current liabilities			
Other creditors and accruals		5,458	4,317
Amounts due to subsidiaries		28,471	23,481
		33,929	27,798
Net current assets			
		2,282	8,747
NET ASSETS			
		2,341,438	2,347,938
Representing:			
Capital and reserves			
	29(b)		
Share capital		1,006,655	1,006,655
Reserves		1,334,783	1,341,283
TOTAL EQUITY			
		2,341,438	2,347,938

Tan Eng Soon
Chairman

Sng Chiew Huat
Finance Director

The notes on pages 31 to 75 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006

(Expressed in Hong Kong dollars)

	2006 \$'000	2005 \$'000
Operating activities		
Profit from operations	691,357	545,919
Adjustments for:		
- Depreciation	72,930	61,638
- Impairment of goodwill	7,370	7,008
- Amortisation of lease prepayments	4,773	2,913
- Gain on sale of property, plant and equipment	(11,600)	(7,597)
- Gain on sale of unlisted equity securities	-	(37,646)
- Loss on sale of investment properties	1,018	921
- Valuation (gain)/losses on investment properties	(111,216)	17,719
- Decrease /(increase) in fair value of listed equity securities	2,822	(12,899)
- Interest income	(42,781)	(19,679)
- Dividend income	(21,065)	(17,686)
- Foreign exchange losses	297	6,959
Operating profit before changes in working capital	593,905	547,570
Decrease in amounts due from associates	31	202
Decrease in hire purchase debtors and instalments receivable	43,310	35,339
Decrease/(increase) in inventories	84,092	(222,575)
Decrease in properties held for sale	29,960	18,535
Decrease/(increase) in trade debtors	5,870	(32,465)
Decrease/(increase) in other debtors, deposits and prepayments	94,227	(28,928)
(Decrease)/increase in trade creditors	(76,332)	39,816
(Decrease)/increase in other creditors and accruals	(66,617)	10,623
Decrease in amounts due to related companies	(1,212)	(55)
Increase in provisions	1,867	155
Cash generated from operations	709,101	368,217
Interest paid	(17,854)	(15,608)
Taxes paid	(116,748)	(86,083)
Effect of exchange differences	15,426	(3,719)
Net cash generated from operating activities	589,925	262,807

CONSOLIDATED CASH FLOW STATEMENT (continued)

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		32,424	21,325
Proceeds from sale of unlisted equity securities		-	49,265
Dividends received from associates		9,040	7,193
Dividends received from listed equity securities		801	808
Dividends received from unlisted equity securities		20,264	16,878
Purchase of property, plant and equipment		(239,046)	(183,025)
Additions to property under development		-	(37,166)
Interest received		42,619	19,690
Proceeds from sale of investment properties		2,482	2,761
Payment for interest in an associate		-	(4,056)
Payment for purchase of equity securities		(33,195)	-
Net cash used in investing activities		(164,611)	(106,327)
Cash flows from financing activities			
Repayment of borrowings		(151,273)	-
Proceeds from drawdown of borrowings		50,356	35,110
Dividends paid to shareholders		(130,865)	(120,798)
Capital contribution from minority shareholders		-	14,198
Net cash used in financing activities		(231,782)	(71,490)
Net increase in cash and cash equivalents		193,532	84,990
Cash and cash equivalents at 1 January		972,348	902,450
Effect of foreign exchange rate changes		63,566	(15,092)
Cash and cash equivalents at 31 December	24	1,229,446	972,348

The notes on pages 31 to 75 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

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 2006 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 27 February 2007.

1 (a)

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued 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. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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)

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 34.

(c) Basis of consolidation

1 (c)

(i) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet within 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)

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)

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(u). 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) Completed property held for sale

1 (f)

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

(g) Property, plant and equipment

1 (g)

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.

Freehold land is not amortised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 (g)

(g) Property, plant and equipment (continued)

All other property, plant and equipment is carried at purchase price less accumulated depreciation and impairment losses and is 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.

1 (h)

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement regardless of whether the arrangement takes the legal form of a lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

(h) Leased assets (continued)

(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(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(v).

(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.

(i) Goodwill

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(v)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates.

1

1 (h)

1 (i)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 (j)

(j) Investments

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that have quoted market prices are classified as financial assets through profit or loss. 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 (k)

(k) 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 (l)

(l) 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 (m)

(m) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

1

(m) Income tax (continued)

1 (m)

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.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they related to income taxes levied by the same taxation authority on the same taxable entity.

(n) Inventories

1 (n)

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.

(o) Trade and other debtors

1 (o)

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(v)), 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(v)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

- 1 Significant accounting policies (continued)**
- 1 (p) Cash and cash equivalents**
- Cash and cash equivalents comprise cash balances, call deposits and deposits with maturity of less than three months when placed. 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.
- 1 (q) Trade and other creditors**
- Trade and other creditors are initially recognised at fair value and thereafter stated at cost as the effect of discounting is immaterial.
- 1 (r) Interest-bearing borrowings**
- 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 the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.
- 1 (s) 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 (t) 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 (u) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

1

(u) Recognition of income (continued)

1 (u)

- (v) 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.

(v) Impairment

1 (v)

(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 carried at cost, the impairment loss is measured as the difference between the carrying amount and its estimated recoverable amount. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 (v)

(v) Impairment (continued)

(ii) Impairment of other assets (continued)

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.

- 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 (w)

(w) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued)

1

(x) Segment reporting

1 (x)

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.

(y) Dividends

1 (y)

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

(z) Related parties

1 (z)

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2 Changes in accounting policies

2

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group.

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. Except for the Amendments to IAS 21, Net investment in a foreign operation, 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.

The effects of the adoption of the IAS 21 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 35).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

2

2 Changes in accounting policies (continued)

Net investment in a foreign operation (Amendments to IAS 21, Net investment in a foreign operation)

In prior years, exchange differences arising from borrowings between fellow subsidiaries where settlements were neither planned nor likely to occur in the foreseeable future were recognised in the consolidated income statement.

With effect from 1 January 2006, in order to comply with the amendments to IAS 21, the Group has changed its accounting policy relating to exchange differences arising from these borrowings. Under the new policy, such exchange differences are recognised initially in a separate component of equity and transferred to the consolidated income statement upon disposal of the relevant subsidiary.

As a result of the adoption of the amendments to IAS 21, the Group's profit for the year increased by \$14,169,000 with a corresponding decrease in Group's exchange reserves by same amount. There is no material effect to the consolidated income statement for 2005 and it is not practicable to determine the effect of the change in prior years.

3

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:

	2006 \$'000	2005 \$'000
Sale of goods	5,403,085	5,617,826
Rendering of services	250,866	218,377
Hire purchase financing income	44,607	43,960
Gross rentals from investment properties	39,881	27,901
Gross proceeds from properties sold	37,501	19,895
Rentals from lease of offices and workshops	3,110	2,806
Management service fees	3,390	3,390
Agency commission and handling fees	44,870	44,363
Warranty reimbursements	25,722	23,853
	5,853,032	6,002,371

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

4 Other operating income

4

	2006 \$'000	2005 \$'000
Bank and other interest income	42,781	19,679
Dividend income		
- listed investments	801	808
- unlisted investments	20,264	16,878
Gain on sale of unlisted equity securities	-	37,646
Gain on sale of property, plant and equipment	11,600	7,597
Increase in fair value of listed equity securities	-	12,899
Reversal of impairment losses on trade and other debtors	5,803	2,863
Valuation gains on investment properties	111,216	-
Others	31,933	33,845
	<u>224,398</u>	<u>132,215</u>

5 Other operating expenses

5

	2006 \$'000	2005 \$'000
Decrease in fair value of listed equity securities	2,822	-
Valuation losses on investment properties	-	17,719
Bank charges	6,324	6,147
Impairment of goodwill	7,370	7,008
Loss on sale of investment properties	1,018	921
Others	14	16
	<u>17,548</u>	<u>31,811</u>

6 Financing costs

6

	2006 \$'000	2005 \$'000
Interest expense		
- on bank loans wholly repayable within five years	19,240	15,348
- on bank overdrafts	470	289
	<u>19,710</u>	<u>15,637</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

7

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

	2006 \$'000	2005 \$'000
Cost of goods sold	4,603,705	4,835,673
Depreciation	72,930	61,638
Amortisation of lease prepayments	4,773	2,913
Auditors' remuneration	2,382	2,208
Net increase in provision for warranties	1,867	155
Operating lease rental expenses in respect of properties	14,413	12,828
Share of associates' taxation	14,835	16,095
Reversal of impairment losses on hire purchase debtors and instalments receivable	(12,456)	(3,399)
Rentals receivable from investment properties less direct outgoings of \$8,218,000 (2005: \$7,488,000)	(31,663)	(20,413)

8

8 Personnel expenses

	2006 \$'000	2005 \$'000
Wages and salaries	160,460	147,458
Retirement benefit costs	13,389	12,250
Others	10,581	6,914
	184,430	166,622

The number of employees at the end of 2006 was 1,180 (2005: 1,067).

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)

9 Directors' and senior executives' remuneration

(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
2006					
<i>Executive directors</i>					
Tan Eng Soon	100	5,242	4,583	23	9,948
Joseph Ong Yong Loke	390	2,513	1,269	23	4,195
Tan Kheng Leong	80	2,186	984	13	3,263
Neo Ah Chap	80	3,932	2,819	13	6,844
Sng Chiew Huat	80	1,671	1,198	23	2,972
<i>Independent non-executive directors</i>					
Lee Han Yang	105	-	-	-	105
Jeny Lau	85	-	-	-	85
Masatoshi Matsuo	60	-	-	-	60
	980	15,544	10,853	95	27,472
2005					
<i>Executive directors</i>					
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
<i>Independent non-executive directors</i>					
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

9

9 (a)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

9

9 Directors' and senior executives' remuneration (continued)

9 (b)

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

10

10 Taxation

10 (a)

(a) Income tax expense:

	2006 \$'000	2005 \$'000
Current tax expense		
Provision for the year	116,068	103,460
(Over)/under-provision in prior years	(3,641)	1,470
	112,427	104,930
Deferred tax expense		
Origination and reversal of temporary differences	22,012	10,522
Benefits of tax losses recognised	2,336	134
	24,348	10,656
Total income tax expense in the consolidated income statement	136,775	115,586

An analysis of the income tax expense is as follows:

	2006 \$'000	2005 \$'000
Hong Kong	697	1,785
Singapore	124,985	104,953
Elsewhere	11,093	8,848
	136,775	115,586

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 17.5% (2005: 17.5%) and 30% (2005: 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 2006 (2005: 20%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

10 Taxation (continued)**(a) Income tax expense: (continued)**

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

	2006 \$'000	2005 \$'000
Accounting profit before tax	711,378	560,521
Computed tax using the applicable corporation tax rate		
- in Hong Kong	7,665	609
- in Singapore	116,806	96,942
- in other jurisdictions	13,579	15,314
Adjustments resulting from:		
- Non-deductible expenses	10,366	18,174
- Non-taxable income	(8,127)	(10,515)
- Effect of tax losses not recognised	7,887	7,301
- Unrecognised tax losses/deductible temporary differences utilised	(7,760)	(13,709)
- (Over)/under-provision in respect of prior years	(3,641)	1,470
Income tax expense	136,775	115,586

(b) Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2006 and 2005 are attributable to the items detailed in the table below:

	2006			2005		
	Assets \$'000	Liabilities \$'000	Net \$'000	Assets \$'000	Liabilities \$'000	Net \$'000
Property, plant and equipment	45	(19,249)	(19,204)	512	(16,852)	(16,340)
Investment properties	-	(17,582)	(17,582)	-	-	-
Inventories	6,295	-	6,295	6,451	-	6,451
Trade debtors	4,867	-	4,867	7,745	-	7,745
Creditors and accruals	6,217	-	6,217	5,099	-	5,099
Provisions	4,388	-	4,388	4,038	-	4,038
Tax value of loss carry-forwards	2,489	-	2,489	4,825	-	4,825
Tax assets/(liabilities)	24,301	(36,831)	(12,530)	28,670	(16,852)	11,818
Set-off within legal tax units and jurisdictions	(5,207)	5,207	-	(4,973)	4,973	-
Net tax assets/(liabilities)	19,094	(31,624)	(12,530)	23,697	(11,879)	11,818

10

10 (a)

10 (b)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

10

10 Taxation (continued)

10 (b)

(b) *Deferred tax assets and liabilities* (continued)

Potential deferred tax assets of approximately \$29,967,000 (2005: \$29,840,000) 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 before the ability to realise such potential benefits expires. The tax losses are subject to a five year time bar.

In addition, distributions of dividends from certain subsidiaries are subject to withholding taxes 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.

10 (c)

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

	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
	22,474	(10,656)	11,818

	Balance at 1 January 2006 \$'000	Recognised in the income statement \$'000	Balance at 31 December 2006 \$'000
Property, plant and equipment	(16,340)	(2,864)	(19,204)
Investment properties	-	(17,582)	(17,582)
Inventories	6,451	(156)	6,295
Trade debtors	7,745	(2,878)	4,867
Creditors and accruals	5,099	1,118	6,217
Provisions	4,038	350	4,388
Tax value of loss carry-forwards	4,825	(2,336)	2,489
	11,818	(24,348)	(12,530)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

11 Profit attributable to equity shareholders of the Company

11

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$124,365,000 (2005: \$119,461,000) which has been dealt with in the financial statements of the Company.

12 Dividends

12

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

12 (a)

	2006 \$'000	2005 \$'000
Interim dividend paid of 2.0 cents per ordinary share (2005: 2.0 cents per ordinary share)	40,266	40,266
Final dividend proposed after the balance sheet date of 4.5 cents per ordinary share (2005: 4.5 cents) per ordinary share	90,599	90,599
	<u>130,865</u>	<u>130,865</u>

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)

	2006 \$'000	2005 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 4.5 cents per ordinary share (2005: 4.0 cents per ordinary share)	90,599	80,532

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 \$573,932,000 (2005: \$444,918,000) and the number of ordinary shares outstanding during the year of 2,013,309,000 (2005: 2,013,309,000) shares.

Diluted earnings per share is not presented as there were no dilutive securities outstanding during the years presented.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

14

14 Investment properties

The Group

	Freehold land and buildings \$'000	Leasehold land and buildings \$'000	Total \$'000
At 1 January 2005	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)
At 31 December 2005	995,616	224,397	1,220,013
At 1 January 2006	995,616	224,397	1,220,013
Exchange adjustments	84,622	1,684	86,306
Transfer to property, plant and equipment and lease repayment	(41,013)	(124,222)	(165,235)
Disposals	-	(3,500)	(3,500)
Valuation adjustment	65,748	45,468	111,216
At 31 December 2006	1,104,973	143,827	1,248,800

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

	Freehold land and buildings		Leasehold land and buildings	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
In Hong Kong				
- Long lease	-	-	108,000	70,939
Outside Hong Kong				
- Freehold	1,104,973	995,616	-	-
- Long lease	-	-	25,827	139,958
- Medium term lease	-	-	-	3,500
- Short term lease	-	-	10,000	10,000
	1,104,973	995,616	143,827	224,397

The investment properties of the Group were revalued at 31 December 2006 on an open market value basis in their existing state and use by reference to comparable market transactions and where appropriate on the basis of capitalisation of net rental income allowing for reversionary income potential. The valuation were carried out by independent firms of surveyors, Landscape Surveyors Limited and CB Richard Ellis (Pte) Limited, who have among their staff Members of the Hong Kong Institute of Surveyors and Fellows of the Singapore Institute of Surveyors and Valuers respectively. Both surveyors have amongst them staff with the appropriate qualification and experience.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

14 Investment properties (continued)

14

The Group (continued)

At 31 December 2006, an increase in fair value of \$111,216,000 was dealt with in the income statement for the year ended 31 December 2006 (2005: decrease in fair value of \$17,719,000).

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, plant and equipment

15

(a) The Group

15 (a)

	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 2006	238,284	489,168	156,297	81,989	161,052	8,160	1,134,950
Exchange adjustments	26,269	37,544	17,336	6,240	13,355	980	101,724
Additions	62,294	43,852	45,288	12,644	47,759	27,209	239,046
Disposals	-	(2,307)	(36,170)	(1,443)	(21,803)	-	(61,723)
Transfer from investment properties	41,013	-	-	-	-	-	41,013
Transfer	-	7,718	-	1,422	-	(9,140)	-
At 31 December 2006	367,860	575,975	182,751	100,852	200,363	27,209	1,455,010
Representing:							
Cost	168,828	521,728	182,751	100,852	200,363	27,209	1,201,731
Valuation - 1984	199,032	54,247	-	-	-	-	253,279
	367,860	575,975	182,751	100,852	200,363	27,209	1,455,010
Accumulated depreciation:							
At 1 January 2006	-	114,425	73,749	58,058	57,551	-	303,783
Exchange adjustments	-	8,832	11,229	4,465	5,054	-	29,580
Charge for the year	-	17,119	25,719	8,900	21,192	-	72,930
Written back on disposals	-	(597)	(24,414)	(1,400)	(14,488)	-	(40,899)
At 31 December 2006	-	139,779	86,283	70,023	69,309	-	365,394
Net book value:							
At 31 December 2006	367,860	436,196	96,468	30,829	131,054	27,209	1,089,616

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

15

15 Property, plant and equipment (continued)

15 (a)

(a) The Group (continued)

	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	-	94,645	-	-	-	(94,645)	-
At 31 December 2005	<u>238,284</u>	<u>489,168</u>	<u>156,297</u>	<u>81,989</u>	<u>161,052</u>	<u>8,160</u>	<u>1,134,950</u>
Representing:							
Cost	55,098	439,240	156,297	81,989	161,052	8,160	901,836
Valuation - 1984	183,186	49,928	-	-	-	-	233,114
	<u>238,284</u>	<u>489,168</u>	<u>156,297</u>	<u>81,989</u>	<u>161,052</u>	<u>8,160</u>	<u>1,134,950</u>
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	<u>-</u>	<u>114,425</u>	<u>73,749</u>	<u>58,058</u>	<u>57,551</u>	<u>-</u>	<u>303,783</u>
Net book value:							
At 31 December 2005	<u>238,284</u>	<u>374,743</u>	<u>82,548</u>	<u>23,931</u>	<u>103,501</u>	<u>8,160</u>	<u>831,167</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

15 Property, plant and equipment (continued)

(a) The Group (continued)

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

	Land		Buildings	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
In Hong Kong				
- Medium term lease	-	-	7,051	7,255
Outside Hong Kong				
- Freehold	367,860	238,284	82,556	67,498
- Long lease	-	-	177,534	136,309
- Medium term lease	-	-	162,750	156,549
- Short term lease	-	-	6,305	7,132
	<u>367,860</u>	<u>238,284</u>	<u>436,196</u>	<u>374,743</u>

- (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 \$253,279,000 (2005: \$233,114,000) 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 \$282,889,000 (2005: \$232,514,000) and the related accumulated depreciation charges were \$98,914,000 (2005: \$80,588,000).

15

15 (a)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

15

15 Property, plant and equipment (continued)

15 (b)

(b) The Company

	Office equipment \$'000	Furniture and fittings \$'000	Motor vehicles \$'000	Total \$'000
Cost:				
At 1 January 2006	184	264	239	687
Additions	-	24	-	24
At 31 December 2006	184	288	239	711
Accumulated depreciation:				
At 1 January 2006	171	262	143	576
Charge for the year	8	3	48	59
At 31 December 2006	179	265	191	635
Net book value:				
At 31 December 2006	5	23	48	76
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

16 Lease prepayments

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	The Group	
	2006 \$'000	2005 \$'000
At 1 January	71,566	75,752
Exchange adjustments	16,425	(1,273)
Transfer from investment properties	124,222	-
Amortisation	(4,773)	(2,913)
At 31 December	<u>207,440</u>	<u>71,566</u>

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

	2006 \$'000	2005 \$'000
In Hong Kong		
- Medium term lease	2,348	2,412
Outside Hong Kong		
- Long lease	157,117	23,038
- Medium term lease	47,975	46,116
	<u>207,440</u>	<u>71,566</u>

17 Investments in subsidiaries

17

	The Company	
	2006 \$'000	2005 \$'000
Unlisted shares, at cost	2,292,080	2,292,080
Loan to a subsidiary	47,000	47,000
	<u>2,339,080</u>	<u>2,339,080</u>

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)

17

17 Investments in subsidiaries (continued)

The following list contains particulars of the subsidiaries as at 31 December 2006 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")	SGD150,000,000 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
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	SGD82,900,000 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

17 Investments in subsidiaries (continued)

17

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
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

18 Interest in associates

18

	The Group	
	2006 \$'000	2005 \$'000
Share of net assets	438,764	394,200
Amounts due from associates	57	88
Goodwill	-	6,994
	<u>438,821</u>	<u>401,282</u>
Associates listed outside Hong Kong	142,058	151,102
Unlisted associate	296,763	250,180
	<u>438,821</u>	<u>401,282</u>
Market value of listed associates	<u>99,676</u>	<u>288,347</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

18

18 Interest in associates (continued)

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

Summary financial information on associates:

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
2006					
100 per cent	4,190,129	2,886,427	1,303,702	4,079,152	79,255
Group's effective interest	1,529,278	1,090,514	438,764	1,000,228	39,731
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

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19 Investments**Non-current financial assets**

	The Group	
	2006 \$'000	2005 \$'000
Equity securities		
- unlisted, at cost less impairment losses	25,976	17,309
- listed outside Hong Kong, at fair value through profit or loss	85,805	59,030
	111,781	76,339

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

20 Inventories

(a) Inventories in the balance sheet comprise:

	The Group	
	2006 \$'000	2005 \$'000
Raw materials	16,202	39,060
Work-in-progress	8,250	9,665
Spare parts and others	112,838	100,915
Finished goods and trading inventories	605,032	608,349
Goods in transit	4,214	2,729
	<u>746,536</u>	<u>760,718</u>

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

	The Group	
	2006 \$'000	2005 \$'000
Carrying amount of inventories sold	4,573,659	4,814,827
Write-down of inventories	3,302	2,530
Reversal of write-down of inventories	(4,663)	(219)
	<u>4,572,298</u>	<u>4,817,138</u>

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain goods as a result of changes in market conditions.

21 Properties held for sale

	The Group	
	2006 \$'000	2005 \$'000
Completed properties held for sale	<u>454,906</u>	<u>447,164</u>

The analysis of the amount completed properties held for sale recognised as an expense is as follows:

	The Group	
	2006 \$'000	2005 \$'000
Carrying amount of completed properties sold	<u>31,407</u>	<u>18,535</u>

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20 (a)

20 (b)

21

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

22

22 Trade debtors

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

	The Group	
	2006 \$'000	2005 \$'000
0-30 days	308,887	285,623
31-90 days	33,922	32,805
Over 90 days	5,286	3,121
	348,095	321,549

The Group allows credit periods ranging from seven days to six months.

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23 Hire purchase debtors and instalments receivable

	The Group	
	2006 \$'000	2005 \$'000
Balance due		
- within one year	153,457	170,481
- between one year and five years	191,344	212,763
- more than five years	3,810	5,285
	348,611	388,529
Hire purchase debtors and instalments receivable	348,611	388,529
Unearned interest charges	(46,046)	(48,700)
	302,565	339,829
Less: impairment losses	(58,344)	(78,387)
	244,221	261,442
Balance due		
- within one year	101,869	102,711
	139,109	154,223
- between one year and five years	139,109	154,223
- more than five years	3,243	4,508
	142,352	158,731
	244,221	261,442

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

24 Cash and cash equivalents

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Bank deposits	1,170,837	896,739	1,131	4,063
Bank balances	88,177	119,373	2,803	2,525
Cash in hand	316	294	-	-
Cash and cash equivalents	1,259,330	1,016,406	3,934	6,588
Bank overdrafts (unsecured)	(29,884)	(44,058)		
Cash and cash equivalents in the consolidated statement of cash flows	1,229,446	972,348		

The effective interest rate of deposits ranged from 0.25% to 5.86% (2005: 0.08% to 4.80%) per annum. The tenor of such deposits placed ranges from one day to three months.

Bank overdrafts bear interest at rates ranging from 4.25% to 19.00% (2005: 4.25% to 14.00%) per annum.

25 Bank loans (unsecured)

At 31 December 2006, the bank loans were payable as follows:

	The Group	
	2006 \$'000	2005 \$'000
Within 1 year	332,160	301,034
After 1 year but within 2 years	1,283	143,568
After 2 years but within 5 years	47,789	-
	49,072	143,568
	381,232	444,602

Bank loans totalling \$5,903,000 (2005: \$7,741,000) bear interest at the Hong Kong Inter Bank Offered Rate plus 1.50% per annum or at the bank's cost of funding plus 1.50% per annum, whichever is the higher. Bank loans totalling \$303,564,000 (2005: \$279,396,000) bear interest at a fixed rate of 2.85% to 4.00% (2005: 2.38% to 2.85%) per annum.

The remaining portion of the bank loans bears interest at floating rates which ranged from 1.05% to 9.25% (2005: 2.03% to 6.15%) per annum during the year ended 31 December 2006.

The non-current bank loans are due for repayment from November 2009 to March 2011.

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25

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

26

26 Trade creditors

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

	The Group	
	2006 \$'000	2005 \$'000
0-30 days	124,867	122,124
31-90 days	98,097	119,576
91-180 days	6,969	42,251
Over 180 days	5,573	776
	<u>235,506</u>	<u>284,727</u>

27

27 Amounts due to related companies

	The Group		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trading balances	613	1,825	-	-

28

28 Provisions

	The Group	
	2006 \$'000	2005 \$'000
<i>Provisions for warranties</i>		
Balance at 1 January	23,614	23,459
Provisions made	2,112	409
Provisions used	(245)	(254)
Balance at 31 December	<u>25,481</u>	<u>23,614</u>
Current	10,356	9,297
Non-current	15,125	14,317
	<u>25,481</u>	<u>23,614</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)

29 Capital and reserves**(a) The Group**

	Attributable to equity shareholders of the Company		
	Share capital \$'000	Share premium \$'000	Capital reserve \$'000
Balance at 1 January 2005	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	<u>1,006,655</u>	<u>550,547</u>	<u>9,549</u>
Balance at 1 January 2006	1,006,655	550,547	9,549
Exchange differences on translation of financial statements of overseas operations	-	-	-
Profit for the year	-	-	-
Dividends to shareholders	-	-	-
Balance at 31 December 2006	<u>1,006,655</u>	<u>550,547</u>	<u>9,549</u>

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.

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29 (a)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

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
(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
(320,015)	377,690	2,750,312	4,374,738	30,096	4,404,834
352,087	-	-	352,087	3,599	355,686
-	-	573,932	573,932	671	574,603
-	-	(130,865)	(130,865)	-	(130,865)
32,072	377,690	3,193,379	5,169,892	34,366	5,204,258

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

29 Capital and reserves (continued)**(b) The Company**

	Share capital \$'000	Share premium \$'000	Contributed surplus \$'000	Retained profits \$'000	Total \$'000
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	<u>1,006,655</u>	<u>550,547</u>	<u>623,313</u>	<u>167,423</u>	<u>2,347,938</u>
Balance at 1 January 2006	1,006,655	550,547	623,313	167,423	2,347,938
Profit for the year	-	-	-	124,365	124,365
Dividends to shareholders	-	-	-	(130,865)	(130,865)
At 31 December 2006	<u>1,006,655</u>	<u>550,547</u>	<u>623,313</u>	<u>160,923</u>	<u>2,341,438</u>

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:

- the Company is, or would after the payment, be unable to pay its liabilities as they become due; or
- 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.

The Company's reserves available for distribution to shareholders at 31 December 2006 are as follows:

	2006 \$'000	2005 \$'000
Contributed surplus	623,313	623,313
Retained profits	160,923	167,423
	<u>784,236</u>	<u>790,736</u>

29

29 (b)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

29

29 Capital and reserves (continued)

29 (c)

(c) Share capital

	The Group and the Company	
	2006	2005
	\$'000	\$'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

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

30

30 Financial instruments

Financial assets of the Group include cash and cash equivalents, equity securities, 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 six months.

30 (b)

(b) Credit risk

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

30 Financial instruments (continued)

30

(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 2005 and 2006.

(d) Liquidity management

30 (d)

The treasury function of the Group is arranged centrally to cover expected cash demands. The Group’s policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(e) Fair value

30 (e)

The fair values of listed investments are shown in notes 18 and 19.

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)

31

31 Commitments

31 (a)

(a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group	
	2006 \$'000	2005 \$'000
Authorised and contracted for:		
- construction of properties	37,935	68,893

31 (b)

(b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	The Group	
	2006 \$'000	2005 \$'000
Less than one year	8,679	6,722
Between one and five years	19,298	16,031
More than five years	91,038	63,758
	119,015	86,511

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 at which point all terms will be re-negotiated. 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)

32 Material related party transactions (continued)

(b) Transactions with related companies

	Note	2006 \$'000	2005 \$'000
Sales of goods and services to the TCMH Group	(i)	5,376	3,775
Sales of goods and services to the Ultima Group	(i)	315	823
Services rendered by the Ultima Group	(i)	6,277	7,466
Purchase of inventories from the TCMH Group	(i)	1,457	6,158
Purchase of inventories from the APM Group	(i)	4,772	5,918
Hire purchase financing income from the Ultima Group	(ii)	382	695
Investment in a subsidiary with the TCMH Group		-	19,270

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

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.

32

32 (b)

33

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

33

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, the Philippines and certain provinces of 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)

33 Segment reporting (continued)

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	Motor vehicle distribution		Heavy commercial vehicle and industrial equipment distribution	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from external customers:				
- sales	4,643,673	4,873,295	706,260	691,686
- services	103,566	80,535	69,181	68,412
- hire purchase financing	-	-	-	-
- rentals	2,590	2,535	402	159
- others	68,610	64,216	1,977	3,994
Total revenue	4,818,439	5,020,581	777,820	764,251
Segment result				
Profit from operations	390,058	413,785	103,472	82,886
Net financing income/ (costs)	(26,294)	(15,310)	(5,754)	(5,985)
Share of profits less losses of associates	29,248	26,310	-	-
Income tax expense	(80,088)	(83,286)	(18,833)	(13,144)
Net profit for the year	312,924	341,499	78,885	63,757
Segment assets	2,459,526	1,993,435	644,810	668,227
Interest in associates	235,571	192,783	-	-
Consolidated total assets	2,695,097	2,186,218	644,810	668,227
Consolidated total liabilities	726,300	598,015	130,221	237,749
Capital expenditure	144,987	106,944	51,260	50,821
Depreciation and amortisation expense	16,516	12,720	35,380	30,282
Impairment losses	-	-	-	-
Significant non-cash income/(expenses)	(2,000)	(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	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from external customers	4,998,003	5,252,629	60,711	57,533
Segment assets	4,768,486	4,345,035	300,297	224,100
Capital expenditure	118,239	136,145	636	341

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

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Property rentals and development		Other operations		Consolidated	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
37,501	19,895	53,152	52,845	5,440,586	5,637,721
12,379	8,679	65,740	60,751	250,866	218,377
-	-	44,607	43,960	44,607	43,960
39,883	27,901	116	112	42,991	30,707
-	-	3,395	3,396	73,982	71,606
89,763	56,475	167,010	161,064	5,853,032	6,002,371
140,035	(7,093)	57,792	56,341	691,357	545,919
(27,914)	(20,454)	40,252	26,112	(19,710)	(15,637)
-	-	10,483	3,929	39,731	30,239
(16,623)	(1,307)	(21,231)	(17,849)	(136,775)	(115,586)
95,498	(28,854)	87,296	68,533	574,603	444,935
1,986,175	1,741,475	767,756	832,083	5,858,267	5,235,220
-	-	203,250	208,499	438,821	401,282
1,986,175	1,741,475	971,006	1,040,582	6,297,088	5,636,502
98,229	224,011	138,080	171,893	1,092,830	1,231,668
1,154	631	41,645	24,629	239,046	183,025
3,717	1,509	22,090	20,040	77,703	64,551
-	-	7,370	7,008	7,370	7,008
113,216	(17,335)	(2,822)	12,899	108,394	(4,820)

PRC		Others		Consolidated	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
248,653	153,856	545,665	538,353	5,853,032	6,002,371
115,375	116,498	674,109	549,587	5,858,267	5,235,220
2,359	810	117,812	45,729	239,046	183,025

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

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34 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.

(v) *Valuation of investment properties*

As described in note 14, investment properties are stated at fair value based on the valuation performed by independent firms of professional valuers. In determining the fair value, the valuers have used a method of valuation which involves certain estimates including current market rental rates for similar properties, appropriate discount rates and expected future rental rates. Management has exercised their judgement in their reliance of the valuation reports.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

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35 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period ended 31 December 2006

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 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations and will adopt them accordingly where applicable.

FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	Year ended 31 December				
	2002 (restated) \$'000	2003 (restated) \$'000	2004 (restated) \$'000	2005 \$'000	2006 \$'000
Results					
Turnover	3,856,099	4,220,280	5,196,338	5,927,959	5,775,940
Profit from operations	282,519	348,654	391,646	545,919	691,357
Financing costs	(5,980)	(5,081)	(9,119)	(15,637)	(19,710)
Share of profit less losses of associates	24,905	25,408	28,230	30,239	39,731
Profit before taxation	301,444	368,981	410,757	560,521	711,378
Taxation	(63,630)	(81,276)	(72,465)	(115,586)	(136,775)
Profit for the year	237,814	287,705	338,292	444,935	574,603
Attributable to:					
Equity shareholders of the Company	238,238	288,993	340,774	444,918	573,932
Minority interests	(424)	(1,288)	(2,482)	17	671
Profit for the year	237,814	287,705	338,292	444,935	574,603
Assets and liabilities					
Investment properties, property under development, property, plant and equipment and lease prepayments	1,420,168	1,537,386	2,520,232	2,122,746	2,545,856
Interest in associates	176,544	200,416	407,616	401,282	438,821
Other assets	310,485	305,104	306,752	258,767	273,227
Net current assets	1,650,356	1,755,527	1,258,843	1,791,803	2,042,175
Total assets less current liabilities	3,557,553	3,798,433	4,493,443	4,574,598	5,300,079
Non-current liabilities	(33,866)	(37,241)	(318,595)	(169,764)	(95,821)
Total equity	3,523,687	3,761,192	4,174,848	4,404,834	5,204,258
Earnings per share - basic (cents)	11.8	14.4	16.9	22.1	28.5

FINANCIAL SUMMARY (continued)

(Expressed in Hong Kong dollars)

Notes:

- (1) Turnover of \$5,775,940,000 (2005: \$5,927,959,000) 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 the years presented.
- (3) In order to comply with IAS 1, Presentation of financial statements, the Group changed its presentation relating to the presentation of shares of associates' taxation and minority interests with effects from 1 January 2005. Figures for years earlier than 2005 have been restated for comparison purposes.

GROUP PROPERTIES

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	30
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	34
30/F Shui On Centre 6-8 Harbour Road Wanchai Hong Kong	Offices (own use and investment)	13,770	Leasehold	20 May 2060	21
Xijin Minor District Qingyang Town Jiangyin Jiangsu Province China	Residential terraced house (own use)	1,744	Leasehold	unspecified term	9
911 and 913 Bukit Timah Road Tan Chong Motor Centre Singapore 589622	Showroom, workshop and office (own use)	198,606	Freehold	-	24
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	-	21

GROUP PROPERTIES (continued)

Location	Description	Land area (sq. feet)	Tenure	Expiry date	Age of building (years)
25 Leng Kee Road Singapore 159097	Showroom, workshop and office (own use)	23,998	Leasehold	10 April 2059	11
15 Queen Street Tan Chong Tower Singapore 188537	Office, showroom and apartments for rental (investment)	22,193	Freehold	-	24
798 & 800 Upper Bukit Timah Road Singapore 678138/139	Factory and warehouse (own use)	44,794 1,141 168,046	Freehold Leasehold Leasehold	- 16 April 2874 6 April 2082	16
210 New Upper Changi Road #01-703 Singapore 460210	Showroom and office (investment)	4,058	Leasehold	1 July 2078	27
23 Jalan Buroh Singapore 619479	Showroom, workshop, office and warehouse (own use)	161,631	Leasehold	1 October 2027	22
The Wilby Residence 25, 27, 29, 31 and 33 Wilby Road Singapore 276300 - 276304	Condominiums for rental (investment)	200,991	Freehold	-	9
15 Tuas Avenue 3 Singapore 639412	Workshop and office (own use)	110,790	Leasehold	16 November 2013	23
17 Lorong 8, Toa Payoh Singapore 319254	Showroom, workshop and office (own use)	58,737	Leasehold	28 February 2023	11
19 Lorong 8, Toa Payoh Singapore 319255	Showroom, workshop and office (own use)	58,715	Leasehold	28 February 2092	3

GROUP PROPERTIES (continued)

Location	Description	Land area (sq. feet)	Tenure	Expiry date	Age of building (years)
19 Ubi Road 4 Singapore 408623	Showroom, workshop and office (own use)	59,379	Leasehold	1 October 2030	4
1 Sixth Lok Yang Road Singapore 628099	Workshop and office (own use)	223,908	Leasehold	15 April 2033	33
59 Moo 1, Rangsit-Pathumthani Road, Bangklang, Muang District, Pathumthani Province, Thailand	Showroom, workshop, office and warehouse (own use)	557,754	Freehold	-	19
No. 10, Jalan 51A/223 46109 Petaling Jaya Selangor Darul Ehsan Malaysia	Showroom, workshop and office (own use)	43,575	Leasehold	19 January 2062	3
118 Moo 5, T. Bangsamak A, Bangpakong Chachoengsao 24180 Thailand	Showroom, workshop and office (own use)	31,579	Freehold	-	2
Neihu District, Jiuzhong Section Plot 0010-0003 & 0010-0004 Taiwan	Showroom, workshop and office (own use)	23,290	Freehold	-	N/A
187 Edsa North Greenhills San Juan Metro Manila 1503 Philippines	Showroom, workshop office and warehouse (own use)	18,891	Freehold	-	1
12/17 Moo 2, Seri Thai Road Khlung Kum Sub-District Bueng Kum District Bangkok 10240, Thailand	Showroom, workshop and office (own use)	94,722	Freehold	-	N/A