

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 2004.

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 34 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 15 to 60.

An interim dividend of 1.5 cents (2003: 1.5 cents) per share was paid on 17 September 2004. The directors now recommend a final dividend of 4.0 cents (2003: 3.5 cents) per share in respect of the year ended 31 December 2004.

MAJOR SUPPLIERS AND CUSTOMERS

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

Purchases

- the largest supplier	58%
- five largest suppliers in aggregate	82%

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.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

RESERVES

Movements in the reserves of the Company and the Group are set out in note 29 to the financial statements.

DIRECTORS

The directors during the year were:

Executive directors

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

Non-executive director

Jeny Lau

Independent non-executive directors

Lee Han Yang
Liu Kwei Ming
Masatoshi Matsuo (appointed on 6 December 2004)

In accordance with Bye-law 86, Masatoshi Matsuo retires from the board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Bye-law 87, Dato' Tan Kim Hor, Joseph Ong Yong Loke, and Liu Kwei Ming retire from the board by rotation at the forthcoming Annual General Meeting. Joseph Ong Yong Loke, being eligible, offers himself 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 various connected transactions with the Tan Chong Motor Holdings Berhad ("TCMH") Group and the Motor Ultima Pte Ltd ("Ultima") Group. Tan Eng Soon is the managing director of TCMH and the Ultima Group is controlled by the Tan family.

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

CONNECTED TRANSACTIONS (CONTINUED)

A conditional waiver for disclosure and shareholders' approval requirements for connected transactions with the TCMH Group and the Ultima Group (except term loans to TCMH and technical support given by the TCMH Group) under the Listing Rules was granted by the Stock Exchange of Hong Kong Limited ("HKSE") in August 1998.

The independent non-executive directors have reviewed and confirmed that the connected transactions to which a conditional waiver has been granted by HKSE 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 (where there is no available comparison) on terms that are, in the reasonable opinion of the Company's directors, fair and reasonable so far as the shareholders of the Company are concerned;
- (3) entered into either in accordance with the terms of the agreements governing such transactions (as detailed in the Company's listing document dated 22 June 1998) or, where there are no such agreements, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and
- (4) had an aggregate value not exceeding 3% of the Group's turnover.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

The directors who held office at 31 December 2004 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"):

	<i>Ordinary shares of HK\$0.50 each</i>			<i>Percentage of total issued shares</i>	<i>Total</i>
	<i>Personal interests</i>	<i>Family interests</i>	<i>Corporate interests</i>		
		(Note 1)	(Note 2)		
<i>Executive Directors:</i>					
Dato' Tan Kim Hor	9,224,502	90,972	-	0.46%	9,315,474
Tan Eng Soon	4,200,000	-	101,580,000	5.25%	105,708,000
Joseph Ong Yong Loke	600,000	795,000	940,536	0.12%	2,335,536
Tan Kheng Leong	2,205,000	210,000	-	0.12%	2,415,000
Neo Ah Chap	3,300,000	-	-	0.16%	3,300,000
Sng Chiew Huat	504,000	-	-	0.03%	504,000

Notes:

- (1) These shares are beneficially owned by the spouses of Dato' Tan Kim Hor, 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' 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 2004, 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 SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES 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 2004 amounting to 5% or more of the ordinary shares in issue:

<i>Name</i>	<i>Ordinary shares held</i> (Note)	<i>Percentage of total issued shares</i>
Tan Chong Consolidated Sdn. Bhd.	912,799,986	45.34

Note: The share capital of Tan Chong Consolidated Sdn. Bhd. is held by Dato' Tan Kim Hor as to approximately 10.29 per cent, 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.

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' INTERESTS IN CONTRACTS

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 2004 are set out in notes 23 and 24 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 page 65 of the annual report.

PROPERTIES

Particulars of the Group's properties are shown on pages 61 to 64 of the annual report.

RETIREMENT SCHEMES

Details of retirement schemes to which the Group contributes are set out in note 7 to the financial statements.

CODE OF BEST PRACTICE

The Company has complied throughout the year with the Code of Best Practice as set out by the Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules, except that non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings in accordance with Bye-laws of the Company.

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

Deputy Chairman

Hong Kong,

16 March 2005