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MANAGEMENT DISCUSSION AND ANALYSIS



SUMMARY

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

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

VEHICLE DIVISION

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

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





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

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

INDUSTRIAL MACHINERY DIVISION

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

PROPERTY DIVISION

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

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

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

CHINA DIVISION

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



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Tan Chong International Limited



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

FINANCE

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

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

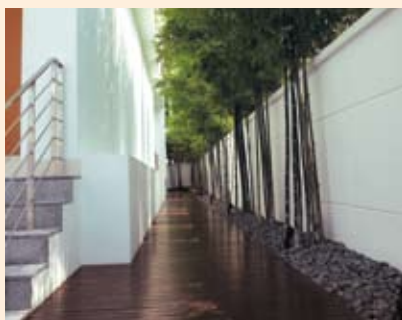
PROSPECTS

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

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

CORPORATE ACTIVITIES

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



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