

# DIRECTORS' REPORT

*Tan Chong International Limited*

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

## **Principal activities**

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

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

## **Financial statements**

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

## **Transfer to reserves**

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

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

## **Major suppliers and customers**

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

### **Purchases**

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

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

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

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### **Property, plant and equipment**

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

### **Directors**

The directors during the year were:

#### *Executive directors*

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

#### *Independent non-executive directors*

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

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

### **Directors' service contracts**

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

### **Connected transactions**

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

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

## Connected transactions (continued)

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

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

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

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

## Directors' interests and short positions in shares

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

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

### Notes:

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

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### Directors' interests and short positions in shares (continued)

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

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

### Substantial interests in the share capital of the Company

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

| 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)  | 121,392,000          | 6.03                              |

Notes:

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

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

### Emolument policy

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

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

## **Sufficiency of public float**

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

## **Directors' interests in contracts**

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

## **Pre-emptive rights**

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

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

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

## **Bank loans and other borrowings**

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

## **Financial summary**

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

## **Properties**

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

## **Retirement schemes**

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

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## **Confirmation of independence**

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

## **Auditors**

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

For and on behalf of the Board

**Tan Eng Soon**

Chairman

Hong Kong,

14 March 2006