

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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1 Significant accounting policies

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

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

1 (a)

(a) Statement of compliance

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

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

1 (b)

(b) Basis of preparation of the financial statements

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

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

1 (b)

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

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

(c) Basis of consolidation

1 (c)

(i) Subsidiaries

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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1 Significant accounting policies (continued)

1 (c)

(c) Basis of consolidation (continued)

(ii) Associates

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

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

(iii) Transactions eliminated on consolidation

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

1 (d)

(d) Translation of foreign currencies

(i) Individual companies

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

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(d) Translation of foreign currencies (continued)

1 (d)

(ii) On consolidation

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

(e) Investment properties

1 (e)

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

(f) Properties under development

1 (f)

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

(g) Completed property held for sale

1 (g)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

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1 Significant accounting policies (continued)

1 (h)

(h) Property, plant and equipment

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

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

Freehold land is not amortised.

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

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

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

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

Construction in progress

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

(i) Leased assets

(i) Classification of leased assets

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

(ii) Assets held for rental

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

(iii) Operating lease charges

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

(iv) Lease prepayments

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

(j) Goodwill

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

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

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1 (i)

1 (j)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1 (k) Investments

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

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

1 (l) Borrowing costs

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

1 (m) Hire purchase contracts

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

1 (n) Income tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

(o) Inventories

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

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

(p) Trade and other debtors

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

(q) Cash and cash equivalents

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

(r) Trade and other creditors

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

(s) Interest-bearing borrowings

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1 (t) Provisions

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

1 (u) Warranties

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

1 (v) Recognition of income

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1

(w) Impairment

1 (w)

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

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

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

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

(ii) Impairment of other assets

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

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

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

- Calculation of recoverable amount

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

1 (w) Impairment (continued)

(ii) Impairment of other assets (continued)

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

1 (x) Employee benefits

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

1 (y) Segment reporting

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

1 (z) Dividends

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

1 Significant accounting policies (continued)

(aa) Related parties

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

2 Changes in accounting policies

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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2 Changes in accounting policies (continued)

2 (a)

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

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

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

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

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

2 (b)

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

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

2 (c)

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

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

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

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3 Revenue

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

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

4 Other operating income

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

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5 Other operating expenses

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

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6 Financing costs

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

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7 Profit before taxation

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

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

8 Personnel expenses

8

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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9 Directors' and senior executives' remuneration

9 (a)

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

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

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

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

9 (b)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10 Taxation

(a) Income tax expense:

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

An analysis of the income tax expense is as follows:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10

10 Taxation (continued)

10 (a)

(a) Income tax expense: (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10 Taxation (continued)

(b) Deferred tax assets and liabilities

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

10

10 Taxation (continued)

10 (c)

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

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

	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

11

11 Profit attributable to equity shareholders of the Company

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

12 Dividends

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

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

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

13 Earnings per share

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

14

14 Investment properties

The Group

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

14 Investment properties (continued)

14

The Group (continued)

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

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

15 Property under development

15

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16

16 Property, plant and equipment

16 (a)

(a) The Group

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16 Property, plant and equipment (continued)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16

16 Property, plant and equipment (continued)

16 (a)

(a) The Group (continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

16 Property, plant and equipment (continued)

(b) The Company

	Office equipment \$'000	Furniture and fittings \$'000	Motor vehicles \$'000	Total \$'000
Cost:				
At 1 January 2005	184	264	239	687
Additions	-	-	-	-
At 31 December 2005	184	264	239	687
Accumulated depreciation:				
At 1 January 2005	160	259	96	515
Charge for the year	11	3	47	61
At 31 December 2005	171	262	143	576
Net book value:				
At 31 December 2005	13	2	96	111

Cost:

At 1 January 2004	134	264	239	637
Additions	50	-	-	50
At 31 December 2004	184	264	239	687

Accumulated depreciation:

At 1 January 2004	100	231	48	379
Charge for the year	60	28	48	136
At 31 December 2004	160	259	96	515

Net book value:

At 31 December 2004	24	5	143	172
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

17

17 Lease prepayments

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

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

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

18

18 Investments in subsidiaries

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

18 Investments in subsidiaries (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

18

18 Investments in subsidiaries (continued)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

19 Interest in associates

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

Details of the major associates are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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19 Interest in associates (continued)

Summary financial information on associates:

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

20

20 Investments

Non-current financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

21 Inventories

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(a) Inventories in the balance sheet comprise:

21 (a)

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

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

21 (b)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

22

22 Trade debtors

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

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

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

23

23 Hire purchase debtors and instalments receivable

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

24 Cash and cash equivalents

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

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

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

25 Bank loans (unsecured)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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26 Trade creditors

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

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

27

27 Amounts due to related companies

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

28

28 Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29 Capital and reserves

29

(a) The Group

29 (a)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29

29 (a)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29 Capital and reserves (continued)

29

(a) The Group (continued)

29 (a)

Capital reserve

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

Translation reserve

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

(b) The Company

29 (b)

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

Contributed surplus

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

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

29

29 Capital and reserves (continued)

29 (b)

(b) The Company (continued)

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

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

29 (c)

(c) Share capital

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

30

30 Financial instruments

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

30 (a)

(a) Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

30 Financial instruments (continued)

30

(b) Credit risk

30 (b)

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

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

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

(c) Foreign currency risk

30 (c)

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

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

(d) Fair value

30 (d)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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31 Commitments

31 (a)

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

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

31 (b)

(b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

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

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

32

32 Material related party transactions

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

32 (a)

(a) Key management personnel remuneration

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

32 Material related party transactions (continued)

(b) Transactions with related companies

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

Notes:

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

33 Segment reporting

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

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 and the People's Republic of China ("PRC"). It distributes all models of Nissan and Subaru passenger and Nissan light commercial vehicles.

(ii) **Heavy commercial vehicle and industrial equipment distribution**

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

(iii) **Property rentals and development**

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

(iv) **Other operations**

Other operations include investment holding and hire-purchase financing.

Geographical segments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

33 Segment reporting (continued)

33

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

33

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

34 Acquisition of a subsidiary

34

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

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

35 Comparative figures

35

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

Tan Chong International Limited

36

36 Significant accounting estimates and judgements

(i) *Impairment of hire purchase and trade debtors*

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

(ii) *Impairment of goodwill*

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

(iii) *Recognition of deferred tax assets*

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

(iv) *Warranty provisions*

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

37

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

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

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