NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies

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

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The consolidated financial statements were authorised for issue by the Directors on 27 February 2007.

1 *(a)*

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). Although it is not required to do so under the Bye-laws of the Company, the financial statements of the Company and the Group have been prepared so as to comply with the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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

1 *(b)*

(b) Basis of preparation of the financial statements

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued) 1

(b) Basis of preparation of the financial statements (continued) 1 (b)

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(c) Basis of consolidation 1 (c)

(i) Subsidiaries and minority interests

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 *(c)*

(c) *Basis of consolidation* (continued)

(ii) Associates

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

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

(iii) Transactions eliminated on consolidation

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

1 *(d)*

(d) *Translation of foreign currencies*

(i) Individual companies

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued) 1

(d) Translation of foreign currencies (continued) 1 *(d)*

(ii) On consolidation

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

(e) Investment properties 1 *(e)*

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

(f) Completed property held for sale 1 *(f)*

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

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

(g) Property, plant and equipment 1 *(g)*

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

The surplus which arose on the 1984 valuation was taken to capital reserve and may only be transferred to retained profits as and when the relevant property is disposed of.

Freehold land is not amortised.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 (g)

(g) *Property, plant and equipment* (continued)

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

Buildings	2% - 4%
Plant, machinery and equipment	
- engines, construction equipment and forklifts for hire	20% on cost less residual value
- others	10%
Furniture, fixtures, fittings and office equipment	10% - 15%
Motor vehicles	$12^1/_2$% - 40%

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

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

Construction in progress

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

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

1 (h)

(h) *Leased assets*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued) 1

(h) *Leased assets* (continued) 1 *(h)*

(i) Classification of leased assets

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

(ii) Assets held for rental

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

(iii) Operating lease charges

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

(iv) Lease prepayments

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

(i) *Goodwill* 1 *(i)*

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 (j)

(j) *Investments*

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

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

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

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

1 (k)

(k) *Borrowing costs*

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

1 (l)

(l) *Hire purchase contracts*

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

1 (m)

(m) *Income tax*

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued) 1

(m) Income tax (continued) 1 *(m)*

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they related to income taxes levied by the same taxation authority on the same taxable entity.

(n) Inventories 1 *(n)*

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

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

(o) Trade and other debtors 1 *(o)*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 *(p)*

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and deposits with maturity of less than three months when placed. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

1 *(q)*

(q) Trade and other creditors

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

1 *(r)*

(r) Interest-bearing borrowings

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

1 *(s)*

(s) Provisions

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

1 *(t)*

(t) Warranties

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

1 *(u)*

(u) Recognition of income

(i) Revenue arising from sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

(ii) Services fee is recognised upon the conclusion of the related services provided.

(iii) Interest and hire purchase financing income is recognised as it accrues using the effective interest method.

(iv) Rental income from investment properties is recognised in the income statement on a straight-line basis over the periods of the respective leases. Lease incentives granted are recognised as an integral part of the total rental income.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued) 1

(u) Recognition of income (continued) 1 *(u)*

(v) Revenue from the sales of properties is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(vi) Dividend income from investments is recognised when the Group's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Impairment 1 *(v)*

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

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

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

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

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

(ii) Impairment of other assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1

1 Significant accounting policies (continued)

1 *(v)*

(v) *Impairment* (continued)

(ii) Impairment of other assets (continued)

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

1 *(w)*

(w) *Employee benefits*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

1 Significant accounting policies (continued) 1

(x) Segment reporting 1 *(x)*

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

(y) Dividends 1 *(y)*

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

(z) Related parties 1 *(z)*

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

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals.

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

2 Changes in accounting policies 2

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

Note 1 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group. Except for the Amendments to IAS 21, Net investment in a foreign operation, the adoption of these new and revised IFRSs did not result in significant changes to the Group's and/or Company's accounting policies applied in these financial statements for the years presented.

The effects of the adoption of the IAS 21 are set out below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

2

2 Changes in accounting policies (continued)

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

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

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

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

3

3 Revenue

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

4 Other operating income

4

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

5 Other operating expenses

5

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

6 Financing costs

6

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

7

7 Profit before taxation

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

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

8

8 Personnel expenses

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

9 Directors' and senior executives' remuneration

9

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

9 (a)

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
2006					
Executive directors					
Tan Eng Soon	100	5,242	4,583	23	9,948
Joseph Ong Yong Loke	390	2,513	1,269	23	4,195
Tan Kheng Leong	80	2,186	984	13	3,263
Neo Ah Chap	80	3,932	2,819	13	6,844
Sng Chiew Huat	80	1,671	1,198	23	2,972
Independent non-executive directors					
Lee Han Yang	105	-	-	-	105
Jeny Lau	85	-	-	-	85
Masatoshi Matsuo	60	-	-	-	60
	980	15,544	10,853	95	27,472
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

9
9 (b)
10
10 (a)

9 Directors' and senior executives' remuneration (continued)

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

10 Taxation

(a) Income tax expense:

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

An analysis of the income tax expense is as follows:

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

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

The statutory corporate income tax rate for the Group's operations in Singapore is 20% in 2006 (2005: 20%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

10 Taxation (continued) 10

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

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

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

(b) *Deferred tax assets and liabilities* 10 (b)

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

10

10 (b)

10 (c)

10 Taxation (continued)

(b) Deferred tax assets and liabilities (continued)

Potential deferred tax assets of approximately $29,967,000 (2005: $29,840,000) relating to the future benefits of tax losses and deductible temporary differences have not been recognised in the financial statements as it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom before the ability to realise such potential benefits expires. The tax losses are subject to a five year time bar.

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

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

	Balance at 1 January 2005 $'000	Recognised in the income statement $'000	Balance at 31 December 2005 $'000
Property, plant and equipment	(13,269)	(3,071)	(16,340)
Inventories	6,119	332	6,451
Trade debtors	14,091	(6,346)	7,745
Creditors and accruals	5,971	(872)	5,099
Provisions	4,603	(565)	4,038
Tax value of loss carry-forwards	4,959	(134)	4,825
	22,474	(10,656)	11,818

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

11 Profit attributable to equity shareholders of the Company 11

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

12 Dividends 12

(a) Dividends payable to equity shareholders of the Company attributable to the year 12 (a)

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

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends paid to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year 12 (b)

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

13 Earnings per share 13

The calculation of basic earnings per share is based on net profit for the year attributable to equity shareholders of the Company of $573,932,000 (2005: $444,918,000) and the number of ordinary shares outstanding during the year of 2,013,309,000 (2005: 2,013,309,000) shares.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

14

14 Investment properties

The Group

	Freehold land and buildings $'000	Leasehold land and buildings $'000	Total $'000
At 1 January 2005	1,021,935	244,697	1,266,632
Exchange adjustments	(21,885)	(3,333)	(25,218)
Disposals	-	(3,682)	(3,682)
Valuation adjustment	(4,434)	(13,285)	(17,719)
At 31 December 2005	995,616	224,397	1,220,013
At 1 January 2006	995,616	224,397	1,220,013
Exchange adjustments	84,622	1,684	86,306
Transfer to property, plant and equipment and lease prepayment	(41,013)	(124,222)	(165,235)
Disposals	-	(3,500)	(3,500)
Valuation adjustment	65,748	45,468	111,216
At 31 December 2006	1,104,973	143,827	1,248,800

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

14 Investment properties (continued)

The Group (continued)

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

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

14

15 Property, plant and equipment

15

(a) The Group

15 (a)

	Freehold land $'000	Buildings $'000	Plant, machinery and equipment $'000	Furniture, fixtures, fittings and office equipment $'000	Motor vehicles $'000	Construction in progress $'000	Total $'000
Cost or valuation:							
At 1 January 2006	238,284	489,168	156,297	81,989	161,052	8,160	1,134,950
Exchange adjustments	26,269	37,544	17,336	6,240	13,355	980	101,724
Additions	62,294	43,852	45,288	12,644	47,759	27,209	239,046
Disposals	-	(2,307)	(36,170)	(1,443)	(21,803)	-	(61,723)
Transfer from investment properties	41,013	-	-	-	-	-	41,013
Transfer	-	7,718	-	1,422	-	(9,140)	-
At 31 December 2006	367,860	575,975	182,751	100,852	200,363	27,209	1,455,010
Representing:							
Cost	168,828	521,728	182,751	100,852	200,363	27,209	1,201,731
Valuation - 1984	199,032	54,247	-	-	-	-	253,279
	367,860	575,975	182,751	100,852	200,363	27,209	1,455,010
Accumulated depreciation:							
At 1 January 2006	-	114,425	73,749	58,058	57,551	-	303,783
Exchange adjustments	-	8,832	11,229	4,465	5,054	-	29,580
Charge for the year	-	17,119	25,719	8,900	21,192	-	72,930
Written back on disposals	-	(597)	(24,414)	(1,400)	(14,488)	-	(40,899)
At 31 December 2006	-	139,779	86,283	70,023	69,309	-	365,394
Net book value:							
At 31 December 2006	367,860	436,196	96,468	30,829	131,054	27,209	1,089,616

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

15

15 *(a)*

15 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 2005	218,721	394,130	149,434	75,810	153,938	30,663	1,022,696
Exchange adjustments	(5,666)	(8,088)	(4,645)	(1,557)	(3,129)	(656)	(23,741)
Additions	25,229	11,172	34,724	11,934	27,168	72,798	183,025
Disposals	-	(2,691)	(23,216)	(4,198)	(16,925)	-	(47,030)
Transfer	-	94,645	-	-	-	(94,645)	-
At 31 December 2005	238,284	489,168	156,297	81,989	161,052	8,160	1,134,950
Representing:							
Cost	55,098	439,240	156,297	81,989	161,052	8,160	901,836
Valuation - 1984	183,186	49,928	-	-	-	-	233,114
	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)

15 Property, plant and equipment (continued)

(a) *The Group* (continued)

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

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

(ii) Certain land and buildings were revalued by the directors based on independent professional valuations in 1984. These properties are carried at the respective revalued amounts (or deemed cost) totalling $253,279,000 (2005: $233,114,000) as the amount of the adjustments relating to prior periods could not be reasonably determined when International Financial Reporting Standards were adopted for the purpose of preparing financial statements prior to listing. The requirements of IAS 16 "Property, plant and equipment" with respect to carrying assets at amounts other than cost less accumulated depreciation are therefore not applicable.

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

The gross carrying amounts of motor vehicles, machinery and equipment of the Group held for rental were $282,889,000 (2005: $232,514,000) and the related accumulated depreciation charges were $98,914,000 (2005: $80,588,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

15

15 (b)

15 Property, plant and equipment (continued)

(b) The Company

	Office equipment $'000	Furniture and fittings $'000	Motor vehicles $'000	Total $'000
Cost:				
At 1 January 2006	184	264	239	687
Additions	-	24	-	24
At 31 December 2006	184	288	239	711
Accumulated depreciation:				
At 1 January 2006	171	262	143	576
Charge for the year	8	3	48	59
At 31 December 2006	179	265	191	635
Net book value:				
At 31 December 2006	5	23	48	76
Cost:				
At 1 January 2005	184	264	239	687
Additions	-	-	-	-
At 31 December 2005	184	264	239	687
Accumulated depreciation:				
At 1 January 2005	160	259	96	515
Charge for the year	11	3	47	61
At 31 December 2005	171	262	143	576
Net book value:				
At 31 December 2005	13	2	96	111

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

16 Lease prepayments

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

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

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

17 Investments in subsidiaries

	The Company	
	2006	2005
	$'000	$'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)

17 Investments in subsidiaries (continued)

The following list contains particulars of the subsidiaries as at 31 December 2006 which principally affected the results or assets of the Group:

Name	Place of incorporation and operation	Particulars of issued and paid up capital (All being ordinary unless otherwise stated)	Percentage of equity indirectly held through subsidiaries	Principal activities
Tan Chong & Sons Motor Company (Singapore) Private Limited	Republic of Singapore ("Singapore")	SGD150,000,000 Redeemable preference SGD50,000,000	100%	Investment holding
Tan Chong Motor Sales Pte Ltd	Singapore	SGD10,000,000	100%	Distribution of motor vehicles
Singapore Automotive Industries Private Limited	Singapore	SGD2,000,000	100%	Distribution of auto spare parts
Tan Chong Industrial Machinery (Pte) Ltd	Singapore	SGD4,000,000 Redeemable preference SGD12,500,000	100%	Distribution of heavy commercial vehicles and industrial equipment, rental of machinery and provision of workshop services
Motor Image Enterprises Pte Ltd	Singapore	SGD8	100%	Distribution of motor vehicles
Tan Chong Credit Private Ltd	Singapore	SGD34,100,000 Redeemable preference SGD12,500,000	100%	Hire-purchase financing and insurance agency
Tan Chong Realty (Private) Limited	Singapore	SGD82,900,000 Redeemable preference SGD25,000,000	100%	Property holding and development
Brizay Property Pte Ltd	Singapore	SGD2	100%	Property holding and letting
Advance Pacific Holdings Limited	Hong Kong	HK$8,500,000	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

17 Investments in subsidiaries (continued)

Name	Place of incorporation and operation	Particulars of issued and paid up capital (All being ordinary unless otherwise stated)	Percentage of equity indirectly held through subsidiaries	Principal activities
Motor Image (H.K.) Limited	Hong Kong	HK$8,000,000	100%	Distribution of motor vehicles
Nissan Diesel (Thailand) Company Limited	Thailand	BAHT 1,646,456,000 Redeemable preference BAHT 250,000,000	100%	Distribution of heavy commercial vehicles and related products and provision of workshop services

18 Interest in associates

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

18

18 Interest in associates (continued)

Details of the major associates are as follows:

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

Summary financial information on associates:

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Profit $'000
2006					
100 per cent	4,190,129	2,886,427	1,303,702	4,079,152	79,255
Group's effective interest	1,529,278	1,090,514	438,764	1,000,228	39,731
2005					
100 per cent	3,696,555	2,410,046	1,286,509	4,244,174	131,525
Group's effective interest	1,205,553	811,353	394,200	1,017,920	30,239

19

19 Investments

Non-current financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

20 Inventories 20

(a) Inventories in the balance sheet comprise: 20 (a)

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

(b) The analysis of the amount of inventories recognised as an expense is as follows: 20 (b)

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

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

21 Properties held for sale 21

	The Group	
	2006 $'000	2005 $'000
Completed properties held for sale	454,906	447,164

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

	The Group	
	2006 $'000	2005 $'000
Carrying amount of completed properties sold	31,407	18,535

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

22

22 Trade debtors

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

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

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

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23 Hire purchase debtors and instalments receivable

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

24 Cash and cash equivalents

24

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

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

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

25 Bank loans (unsecured)

25

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

26

26 Trade creditors

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

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

27

27 Amounts due to related companies

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

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28 Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

29 Capital and reserves

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 2005	1,006,655	550,547	9,549
Exchange differences on translation of financial statements of overseas operations	-	-	-
Capital contribution received by non-wholly owned subsidiaries from minority shareholders	-	-	-
Profit for the year	-	-	-
Dividends to shareholders	-	-	-
Balance at 31 December 2005	1,006,655	550,547	9,549
Balance at 1 January 2006	1,006,655	550,547	9,549
Exchange differences on translation of financial statements of overseas operations	-	-	-
Profit for the year	-	-	-
Dividends to shareholders	-	-	-
Balance at 31 December 2006	1,006,655	550,547	9,549

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

29

29 *(a)*

	Attributable to equity shareholders of the Company					
	Translation reserve $'000	Contributed surplus $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
	(212,075)	377,690	2,426,192	4,158,558	16,290	4,174,848
	(107,940)	-	-	(107,940)	(409)	(108,349)
	-	-	-	-	14,198	14,198
	-	-	444,918	444,918	17	444,935
	-	-	(120,798)	(120,798)	-	(120,798)
	(320,015)	377,690	2,750,312	4,374,738	30,096	4,404,834
	(320,015)	377,690	2,750,312	4,374,738	30,096	4,404,834
	352,087	-	-	352,087	3,599	355,686
	-	-	573,932	573,932	671	574,603
	-	-	(130,865)	(130,865)	-	(130,865)
	32,072	377,690	3,193,379	5,169,892	34,366	5,204,258

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

29 Capital and reserves (continued)

(b) The Company

	Share capital $'000	Share premium $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
Balance at 1 January 2005	1,006,655	550,547	623,313	168,760	2,349,275
Profit for the year	-	-	-	119,461	119,461
Dividends to shareholders	-	-	-	(120,798)	(120,798)
At 31 December 2005	1,006,655	550,547	623,313	167,423	2,347,938
Balance at 1 January 2006	1,006,655	550,547	623,313	167,423	2,347,938
Profit for the year	-	-	-	124,365	124,365
Dividends to shareholders	-	-	-	(130,865)	(130,865)
At 31 December 2006	1,006,655	550,547	623,313	160,923	2,341,438

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:

(a) the Company is, or would after the payment, be unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

29

29 Capital and reserves (continued)

29 (c)

(c) *Share capital*

	The Group and the Company	
	2006 $'000	2005 $'000
Authorised:		
3,000,000,000 ordinary shares of $0.50 each	1,500,000	1,500,000
Issued and fully paid:		
2,013,309,000 ordinary shares of $0.50 each	1,006,655	1,006,655

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

30

30 Financial instruments

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

30 (a)

(a) *Interest rate risk*

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

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

30 (b)

(b) *Credit risk*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

30 Financial instruments (continued) 30

(c) *Foreign currency risk* 30 (c)

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

The Group's operating subsidiaries regularly monitor their exchange exposure and may hedge their position discriminately, depending on the size of the exposure and the future outlook of the particular currency unit. There were no material forward exchange contracts outstanding as at 31 December 2005 and 2006.

(d) *Liquidity management* 30 (d)

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

(e) *Fair value* 30 (e)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

31

31 (a)

31 (b)

32

32 (a)

31 Commitments

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

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

(b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

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

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

32 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.

(a) Key management personnel remuneration

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

32 Material related party transactions (continued) 32

(b) Transactions with related companies 32 (b)

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

Notes:

(i) Tan Eng Soon is the managing director of Tan Chong Motor Holdings Berhad ("TCMH") and a director of APM Automotive Holdings Berhad ("APM"). The Motor Ultima Pte Ltd ("Ultima") Group is controlled by members of the Tan family and Tan Chong Consolidated Sdn. Bhd. is a substantial shareholder of the TCMH Group and the APM Group.

(ii) Hire purchase financing income represents interest charges on hire purchase financing on motor vehicles to the Ultima Group. Interest on the hire purchase financing was charged at a fixed interest rate with a fixed repayment term similar to other customers.

33 Segment reporting 33

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)

33 Segment reporting (continued)

Business segments

The Group comprises the following main business segments:

(i) Motor vehicle distribution

The Group is the exclusive distributor for Nissan vehicles in Singapore and for Subaru vehicles in Singapore, Hong Kong, the Philippines and certain provinces of the People's Republic of China ("PRC"). It distributes all models of Nissan and Subaru passenger and Nissan light commercial vehicles.

(ii) Heavy commercial vehicle and industrial equipment distribution

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

(iii) Property rentals and development

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

(iv) Other operations

Other operations include investment holding and hire-purchase financing.

Geographical segments

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

33 Segment reporting (continued)

	Motor vehicle distribution		Heavy commercial vehicle and industrial equipment distribution	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue from external customers:				
- sales	4,643,673	4,873,295	706,260	691,686
- services	103,566	80,535	69,181	68,412
- hire purchase financing	-	-	-	-
- rentals	2,590	2,535	402	159
- others	68,610	64,216	1,977	3,994
Total revenue	4,818,439	5,020,581	777,820	764,251
Segment result				
Profit from operations	390,058	413,785	103,472	82,886
Net financing income/ (costs)	(26,294)	(15,310)	(5,754)	(5,985)
Share of profits less losses of associates	29,248	26,310	-	-
Income tax expense	(80,088)	(83,286)	(18,833)	(13,144)
Net profit for the year	312,924	341,499	78,885	63,757
Segment assets	2,459,526	1,993,435	644,810	668,227
Interest in associates	235,571	192,783	-	-
Consolidated total assets	2,695,097	2,186,218	644,810	668,227
Consolidated total liabilities	726,300	598,015	130,221	237,749
Capital expenditure	144,987	106,944	51,260	50,821
Depreciation and amortisation expense	16,516	12,720	35,380	30,282
Impairment losses	-	-	-	-
Significant non-cash income/(expenses)	(2,000)	(384)	-	-

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

	Singapore		Hong Kong	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue from external customers	4,998,003	5,252,629	60,711	57,533
Segment assets	4,768,486	4,345,035	300,297	224,100
Capital expenditure	118,239	136,145	636	341

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

34 Significant accounting estimates and judgements

(i) Impairment of hire purchase and trade debtors

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

(ii) Impairment of goodwill

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

(iii) Recognition of deferred tax assets

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

(iv) Warranty provisions

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

(v) Valuation of investment properties

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(Expressed in Hong Kong dollars)

35

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

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2006 and which have not been adopted in these financial statements.

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