

INTERIM REPORT 2004

04

TAN CHONG
International



Tan Chong International Limited

MANAGEMENT REVIEW

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Riding on the momentum of year 2003, the Group progressed from strength to strength during the first half of year 2004. Such progress is projected to continue through the remaining part of the year as a result of improving economic performance in most parts of the world and particularly in Asia. Regional expansion is gaining momentum. Motor distribution and Singapore, the flagship sectors by business and by location of the Group, remain the star performers. PRC and Thailand are growing contributors that should bring in improving streams of income.

Interim Group revenue improved 15% and 27% when compared to the 2nd half and 1st half of last year respectively. Likewise profit attributable to shareholders also moved upwards by 12% and 26% respectively. The improved financial performance was the result of focusing on strengthening margins.

Group unit vehicle sales rose 11% and 21% over the respective 2nd and 1st half of last year. Nissan unit sales improved in tandem by 11% and 20% respectively. Despite the slight dip in Subaru sold when compared to the second half of last year, sales volume for the full year is expected to be better than last year. Whilst Subaru sales in Hong Kong remained weak Subaru sales in the PRC were picking up steadily.

Office and residential rentals remained soft. The Group's property sector is expected to face tougher times ahead because of worldwide appreciation of interest rates. Increased interest costs coupled with lethargic demand for rental units will reduce revenue and profit and return on investment. However the refurbished rental units in Tan Chong Tower were bringing in better rental income and improved take-up rates and should cushion the performance of this sector.

Car rental businesses in Singapore although in a consolidation phase is holding well and contributed steadily to Group profit.

Stiff competition is still dampening trucks and forklifts sales and rental volume in Singapore. However Nissan Diesel business in Thailand the backbone of the Industrial Machinery and Equipment Division maintained good contribution to Group results.

ORIX Car Rentals Group was feeling the impact of consolidation in the car rental trade whilst Tyre Pacific (HK) Ltd gained momentum with bottom line improving 17% half year on half year as tyre distribution in China was boosted by improved economic and social status.

Activities in the 50/50 JV in Thailand that is principally engaged in automotive hire purchase business kicked off in June 2004 and are expected to produce positive returns.

The PRC Government introduction of measures to cool down the economy in the early part of the year affected sales at the Hangzhou JV manufacturing trucks which fell 35%. However, whilst car sales in general dropped 20% our nascent Subaru distribution in South China was encouraging. Seat exports from Wuxi were good and plans to invest in additional equipment will improve productivity. The PRC JV with Sumitomo Rubber Industries successfully launched sales of domestically produced tyres in July.

The generally optimistic view of the world economy towards the end of last year has now turned more cautious with measures to cool down the rapid economic expansion in China and a less confident outlook in the United States giving concern. Nevertheless the Group continues to be positive about its future progress and expects to maintain a steady income stream from its various businesses diversified through different products and regions.

CONSOLIDATED INCOME STATEMENT

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for the six months ended 30 June 2004 - unaudited

	Note	2004 HK\$'000	2003 HK\$'000
Revenue	2	2,592,054	2,033,312
Cost of sales		(2,159,497)	(1,680,278)
Gross profit		432,557	353,034
Other operating income		21,699	22,980
Distribution costs		(118,620)	(99,840)
Administrative expenses		(116,920)	(116,492)
Other operating expenses		(17,951)	(4,476)
Profit from operations		200,765	155,206
Financing costs		(3,588)	(2,055)
Share of results of associates		15,351	16,751
Profit before taxation and minority interests	3	212,528	169,902
Income tax expense	4	(42,227)	(34,878)
Profit before minority interests		170,301	135,024
Minority interests		806	568
Profit attributable to shareholders		171,107	135,592
Dividends paid during the period	5	70,466	70,466
Earnings per share (cents)	6	8.5	6.7

The notes on pages 9 to 13 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2004 - unaudited

	Note	2004 HK\$'000	2003 HK\$'000
Shareholders' equity at 1 January		3,754,021	3,514,836
Exchange differences on translation of:			
- the financial statements of foreign entities	11	(23,576)	(37,128)
Net profit for the period	11	171,107	135,592
Dividends paid during the period	5	(70,466)	(70,466)
Shareholders' equity at 30 June		3,831,086	3,542,834

The notes on pages 9 to 13 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

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at 30 June 2004 - unaudited

	Note	At 30 June 2004 HK\$'000	At 31 December 2003 HK\$'000
Non-current assets			
Investment properties		1,166,077	456,760
Property under development		333,800	292,910
Property, plant and equipment		717,606	676,775
Lease prepayments		108,666	110,941
Interest in associates		209,037	200,416
Investments		81,366	96,228
Hire purchase debtors and instalments receivable		171,894	184,279
Deferred tax assets		24,441	24,597
		2,812,887	2,042,906
Current assets			
Investments		-	335,463
Inventories		655,716	640,345
Trade debtors	7	242,697	245,004
Hire purchase debtors and instalments receivable		111,762	108,232
Other debtors, deposits and prepayments		115,073	161,019
Cash and cash equivalents	8	946,456	965,008
		2,071,704	2,455,071
Current liabilities			
Bank overdrafts (unsecured)	8	42,693	53,345
Bank loans (unsecured)		143,539	58,016
Trade creditors	9	224,455	239,317
Other creditors and accruals		194,317	212,020
Amounts due to related companies		2,666	399
Taxes payable		124,259	127,711
Provisions		9,594	8,736
		741,523	699,544
Net current assets		1,330,181	1,755,527
Total assets less current liabilities		4,143,068	3,798,433

CONSOLIDATED BALANCE SHEET (continued)

at 30 June 2004 - unaudited

	<i>Note</i>	<i>At 30 June 2004 HK\$'000</i>	<i>At 31 December 2003 HK\$'000</i>
Non-current liabilities			
Deferred tax liabilities		14,149	14,239
Bank loans (unsecured)		279,787	11,609
Provisions		11,681	11,393
		305,617	37,241
Minority interests			
		6,365	7,171
NET ASSETS			
Representing:			
Share capital	10	1,006,655	1,006,655
Reserves	11	2,824,431	2,747,366
SHAREHOLDERS' EQUITY			
		3,831,086	3,754,021

The notes on pages 9 to 13 form part of these financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2004 - unaudited

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	2004 HK\$'000	2003 HK\$'000
Net cash from operating activities	193,199	200,664
Net cash used in investing activities	(485,994)	(12,992)
Net cash from/(used in) financing activities	289,454	(86,744)
Net (decrease)/increase in cash and cash equivalents	(3,341)	100,928
Cash and cash equivalents at 1 January	911,663	869,401
Effect of exchange differences	(4,559)	(9,785)
Cash and cash equivalents at 30 June	903,763	960,544

The notes on pages 9 to 13 form part of these financial statements.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

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(continued)

3 PROFIT BEFORE TAXATION AND MINORITY INTERESTS

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

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense	3,588	2,055
Amortisation of lease prepayments	1,798	1,682
Depreciation	27,703	24,848
Gain on sale of property, plant and equipment	(4,193)	(3,615)

4 TAXATION

The analysis of income tax expense is as follows:

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	Nil	Nil
Elsewhere	39,002	31,054
Associates	3,225	3,824
	42,227	34,878

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 17.5% (2003: 17.5%) and 20% (2003: 22%), in the tax jurisdictions in which the Group operates.

5 DIVIDENDS

	<i>Six months ended 30 June</i>	
	<i>2004</i>	<i>2003</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
(i) At balance sheet date the following dividend has been approved and declared: Final dividend paid in respect of the prior year	70,466	70,466
(ii) After balance sheet date the following dividend has been declared by the directors. The dividend has not been provided for: Interim dividend of 1.5 cents (2003: 1.5 cents) per share	30,200	30,200

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

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9 TRADE CREDITORS

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

	<i>At 30 June 2004 HK\$'000</i>	<i>At 31 December 2003 HK\$'000</i>
Due within one month or on demand	116,633	145,045
Due after 1 month but within 3 months	74,055	72,556
Due after 3 months but within 6 months	32,697	20,456
Due after 6 months but within 12 months	1,070	1,260
	224,455	239,317

10 SHARE CAPITAL

	<i>At 30 June 2004 HK\$'000</i>	<i>At 31 December 2003 HK\$'000</i>
Authorised:		
3,000,000,000 ordinary shares of HK\$0.50 each	1,500,000	1,500,000
Issued and fully paid:		
2,013,309,000 ordinary shares of HK\$0.50 each	1,006,655	1,006,655

11 RESERVES

	<i>Note</i>	<i>Share premium HK\$'000</i>	<i>Capital reserve HK\$'000</i>	<i>Translation reserve HK\$'000</i>	<i>Contributed surplus HK\$'000</i>	<i>Retained profits HK\$'000</i>	<i>Total HK\$'000</i>
Balance at 1 January 2004		550,547	9,549	(376,504)	377,690	2,186,084	2,747,366
Total recognised gains and losses		-	-	(23,576)	-	171,107	147,531
Dividends to shareholders	5	-	-	-	-	(70,466)	(70,466)
Balance at 30 June 2004		550,547	9,549	(400,080)	377,690	2,286,725	2,824,431

OTHER INFORMATION

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INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of 1.5 cents (2003: 1.5 cents) per share on the shares in issue amounting to a total of HK\$30,200,000 (2003:HK\$30,200,000), which will be payable on 17 September 2004 to shareholders whose names appear on the Register of Members on 26 August 2004. Dividend warrants will be sent to shareholders on 17 September 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 24 August 2004 to 26 August 2004, both days inclusive. During this period, no transfer of shares will be effected and registered.

In order to qualify for the entitlement of the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited, Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4.00pm on 23 August 2004.

DIRECTORS' INTERESTS IN SHARES

The directors who held office at 30 June 2004 had the following interests in the issued share capital of the Company at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the Securities and Futures Ordinance ("SFO"):

<i>Name of director</i>	<i>Ordinary shares of HK\$0.50 each</i>		
	<i>Personal interests</i>	<i>Family interests (Note 1)</i>	<i>Corporate interests (Note 2)</i>
Dato' Tan Kim Hor	9,224,502	90,972	-
Tan Eng Soon	4,200,000	-	101,580,000
Joseph Ong Yong Loke	600,000	795,000	940,536
Tan Kheng Leong	2,205,000	210,000	-
Neo Ah Chap	2,991,000	-	-
Sng Chiew Huat	384,000	-	-

Note 1: These shares are beneficially owned by the spouses of Dato' Tan Kim Hor, Joseph Ong Yong Loke and Tan Kheng Leong, respectively and hence they are deemed to be interested in these shares.

Note 2: These shares are beneficially owned by corporations controlled by Tan Eng Soon and Joseph Ong Yong Loke, respectively.

OTHER INFORMATION (continued)

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AUDIT COMMITTEE

The Audit Committee has reviewed with management the results of the Group for the period ended 30 June 2004.

CODE OF BEST PRACTICE

No director of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, at any time during the six months ended 30 June 2004, acting in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange, except that the independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Bye-Laws.

By Order of the Board
Sng Chiew Huat
Finance Director
Hong Kong, 29 July 2004

Websites: <http://www.tanchonginternational.com>
<http://www.nissan.com.sg>
<http://www.tcil.com.sg>