

INTERIM REPORT 2007



TAN CHONG INTERNATIONAL LIMITED

Stock Code: 693





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## Management Review

Group results for the half year ended 30th June 2007 were satisfactory despite the changing dynamics of the car and property businesses in Singapore. Group profit attributable to shareholders of HK\$239 million this first half year is 8% lower than that of HK\$261 million in the first half 2006 and 9% better than that of HK\$220 million in the second half 2006 if the HK\$94 million revaluation gain in investment properties is excluded. Likewise, Group Revenue declined 2% and improved 16% to HK\$3.097 billion when compared with the first and second half 2006 respectively.

Revenue and profit contributions for the first half 2007 were affected by the following factors:

1. Lower unit Nissan car sales in Singapore
2. Increased contributions from better unit Subaru car, truck and forklift sales in Singapore and the region
3. Sale of additional units in properties held for sales
4. Better returns from car and apartment rental businesses.
5. Improved contributions from our associates.

Unit Nissan vehicle sales in Singapore declined 39% from 10045 in first half 2006, 6746 in second half 2006 to 6106 in first half 2007 because of 16% reduction in car quota certificates, invasion of parallel importers who brought in newer and cheaper models, increased pricing by the Principal and no commercial vehicle sales. Unit Subaru car sales in Singapore however rose 67% from 1011 in first half 2006, 1399 in second half 2006 to 1686 in first half 2007. Regionally, unit Subaru car sales escalated 73% from 1836, 2323 to 3185 respectively.

The sale of additional units in properties held for sales accounted for 5.7% of Group Revenue and 13.8% of Profit before Tax. As at 30<sup>th</sup> June 2007, 28 units were sold leaving a balance of 49 units in stock.



The influx of expatriates and new investments into Singapore led to not only a boom in property prices but also higher returns and take up rates of apartments and rental cars. Margins for truck and forklift sales in Singapore were boosted by improved sentiments in the logistics and construction sectors that are riding on the sizzling property market. Share of results of associates were up 48% and 38% respectively when compared to the 2<sup>nd</sup> half 2006 and 1<sup>st</sup> half 2006.

Capital commitment for 3 uncompleted projects in Thailand, Taiwan and car parking system in Singapore stood at HK\$45 million up from HK\$38 million as at end of last year. Head count moved up 11.8% to 1581 from 1414 as at end 2006 mainly due to regional expansion of the Subaru business and increased numbers at the seat manufacturing plant in China to cater to increased production. This is the first time we are including the seat manufacturing plant in Group head count.

Group net cash was reduced to HK\$819 million from HK\$848 million. Cash outflows were mainly for the purchase of additional shares in Japanese securities as strategic investment; increase in car rental fleet size; project costs; and payment of dividends and income taxes.

The Group will continue to tap on its financial strength to expand regionally and to look for new businesses that are synergistic and compatible with Group strategy.

# Consolidated Income Statement

– unaudited

	Note	Six months ended 30 June	
		2007 HK\$'000	2006 HK\$'000
Revenue	2	3,097,291	3,175,205
Cost of sales		(2,489,467)	(2,579,320)
<b>Gross profit</b>		607,824	595,885
Other operating income		37,269	50,480
Distribution costs		(157,294)	(161,175)
Administrative expenses		(177,697)	(157,063)
Other operating expenses		(37,925)	(13,786)
<b>Profit from operations</b>		272,177	314,341
Financing costs		(6,118)	(9,156)
Share of profits less losses of associates		28,424	20,526
<b>Profit before taxation</b>	3	294,483	325,711
Income tax expense	4	(51,317)	(64,577)
<b>Profit for the period</b>		243,166	261,134
Attributable to:			
Equity shareholders of the Company		239,346	260,563
Minority interests		3,820	571
<b>Profit for the period</b>		243,166	261,134
<b>Dividends</b>	5(i)	40,266	40,266
<b>Earnings per share (cents)</b>	6	11.9	12.9

The notes on pages 9 to 14 form part of these financial statements.

## Consolidated Statement of Changes in Equity

– unaudited

		<i>Six months ended 30 June</i>	
	<i>Note</i>	<i>2007</i>	<i>2006</i>
		HK\$'000	HK\$'000
<b>Total equity at 1 January</b>		5,204,258	4,404,834
<b>Net income/(expense) recognized directly in equity</b>			
Exchange differences on translation of the financial statements of foreign operations		47,330	190,389
- attributable to equity shareholders of the Company		1,760	1,708
- minority interests			
	10	49,090	192,097
<b>Net profit for the period</b>	10	243,166	261,134
<b>Total recognised income for the period</b>		292,256	453,231
<b>Dividends paid during the period</b>	5(ii)	(90,599)	(90,599)
<b>Movements in equity arising from capital transactions</b>			
Increase in minority interests through acquisition of subsidiary	10	4,929	-
<b>Total equity at 30 June</b>		5,410,844	4,767,466

The notes on pages 9 to 14 form part of these financial statements.

# Consolidated Balance Sheet

- unaudited

	Note	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
<b>Non-current assets</b>			
Investment properties		1,258,337	1,248,800
Property, plant and equipment		1,118,838	1,089,616
Lease prepayments		207,730	207,440
Interest in associates		459,663	438,821
Investments		343,631	111,781
Hire purchase debtors and instalments receivable		113,760	142,352
Deferred tax assets		19,295	19,094
		<b>3,521,254</b>	<b>3,257,904</b>
<b>Current assets</b>			
Inventories		712,194	746,536
Property held for sale		333,911	454,906
Trade debtors	7	535,909	348,095
Hire purchase debtors and instalments receivable		89,788	101,869
Other debtors, deposits and prepayments		127,348	128,448
Cash and cash equivalents	8	999,167	1,259,330
		<b>2,798,317</b>	<b>3,039,184</b>
<b>Current liabilities</b>			
Bank overdrafts (unsecured)	8	48,693	29,884
Bank loans (unsecured)		79,730	332,160
Trade creditors	9	264,029	235,506
Other creditors and accruals		265,449	224,856
Amounts due to related companies		181	613
Taxation		141,258	163,634
Provisions		10,518	10,356
		<b>809,858</b>	<b>997,009</b>
<b>Net current assets</b>		<b>1,988,459</b>	<b>2,042,175</b>
<b>Total assets less current liabilities</b>		<b>5,509,713</b>	<b>5,300,079</b>



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Consolidated Balance Sheet  
- unaudited

	Note	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities		31,938	31,624
Bank loans (unsecured)		51,254	49,072
Provisions		15,677	15,125
		98,869	95,821
<b>NET ASSETS</b>		5,410,844	5,204,258
Representing:			
<b>Capital and reserves</b>	10		
Share capital		1,006,655	1,006,655
Reserves		4,359,314	4,163,237
<b>Total equity attributable to equity shareholders of the Company</b>		5,365,969	5,169,892
<b>Minority interests</b>		44,875	34,366
<b>TOTAL EQUITY</b>		5,410,844	5,204,258

The notes on pages 9 to 14 form part of these financial statements.

# Condensed Consolidated Cash Flow Statement

- unaudited

	<i>Six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
	HK\$'000	HK\$'000
Net cash generated from operating activities	342,337	323,511
Net cash used in investing activities	(290,583)	(5,566)
Net cash used in financing activities	(340,233)	(152,818)
Net (decrease)/increase in cash and cash equivalents	(288,479)	165,127
Cash and cash equivalents at 1 January	1,229,446	972,348
Effect of exchange differences	9,507	32,680
Cash and cash equivalents at 30 June	950,474	1,170,155

The notes on pages 9 to 14 form part of these financial statements.

# Notes to the Unaudited Financial Statements

## 1 Basis of preparation

The unaudited interim financial statements have been prepared in accordance with the requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board.

The unaudited interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

## 2 Segmental information

	<i>Group Revenue</i>		<i>Profit from operations</i>	
	<i>Six months ended 30 June</i>		<i>Six months ended 30 June</i>	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>By business segments</b>				
Motor vehicle distribution	2,317,395	2,661,339	136,617	238,762
Heavy commercial vehicle and industrial equipment distribution	434,361	373,913	65,364	43,838
Property rentals and development	209,741	39,803	60,514	9,140
Other operations	135,794	100,150	9,682	22,601
	<b>3,097,291</b>	<b>3,175,205</b>	<b>272,177</b>	<b>314,341</b>

	<i>Group Revenue</i>	
	<i>Six months ended 30 June</i>	
	2007	2006
	HK\$'000	HK\$'000
<b>By geographical locations</b>		
Singapore	2,471,438	2,759,149
Hong Kong	45,862	32,515
PRC	195,325	114,340
Others	384,666	269,201
	<b>3,097,291</b>	<b>3,175,205</b>

### 3 Profit before taxation

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

	<i>Six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense	6,118	9,156
Amortisation of lease prepayments	1,667	1,474
Depreciation of property, plant and equipment	41,453	34,908
Gain on sale of property, plant and equipment	(4,420)	(7,419)
Loss on sale of investment properties	-	1,018
Decrease in fair value of listed equity securities	34,464	-
Share of associates' taxation	8,321	6,308

### 4 Taxation

The analysis of income tax expense is as follows:

	<i>Six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	-	-
Elsewhere	51,317	64,577
	<u>51,317</u>	<u>64,577</u>

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 17.5% (2006: 17.5%) and 30% (2006: 30%), in the tax jurisdictions in which the Group operates.

## 5 Dividends

	<i>Six months ended 30 June</i>	
	<i>2007</i>	<i>2006</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
(i) Dividends attributable to the period		
Interim dividend declared of 2.0 cents (2006: 2.0 cents) per ordinary share	40,266	40,266
The interim dividend has not been recognized as a liability at balance sheet date.		
(ii) Dividends paid during the period		
Final dividend approved in respect of prior year of 4.5 cents (2005: 4.5 cents) per ordinary share	90,599	90,599

## 6 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on net profit attributable to equity shareholders of the Company of HK\$239,346,000 (2006: HK\$260,563,000) and the weighted average number of shares of 2,013,309,000 (2006: 2,013,309,000) in issue during the period. The amount of diluted earnings per share is not presented as there were no dilutive securities outstanding during the six months ended 30 June 2007 and 2006.

## 7 Trade debtors

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

	<i>At 30 June</i>	<i>At 31 December</i>
	<i>2007</i>	<i>2006</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	485,777	308,887
31 to 90 days	45,865	33,922
Over 90 days	4,267	5,286
	<u>535,909</u>	<u>348,095</u>

The Group allows credit periods from 7 days to 12 months.

## 8 Cash and cash equivalents

	<i>At 30 June 2007 HK\$'000</i>	<i>At 31 December 2006 HK\$'000</i>
Bank deposits	899,972	1,170,837
Bank balances	98,548	88,177
Cash on hand	647	316
Cash and cash equivalents (exclude bank overdrafts)	999,167	1,259,330
Bank overdrafts (unsecured)	(48,693)	(29,884)
Cash and cash equivalents	950,474	1,229,446

## 9 Trade creditors

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

	<i>At 30 June 2007 HK\$'000</i>	<i>At 31 December 2006 HK\$'000</i>
0-30 days	171,645	124,867
31-90 days	81,261	98,097
91-180 days	10,187	6,969
Over 180 days	936	5,573
	264,029	235,506

## 10 Capital and reserves

	Attributable to equity shareholders of the Company								Minority Interests HK\$'000	Total Equity HK\$'000
	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000			
Balance at 1 January 2007	1,006,655	550,547	9,549	32,072	377,690	3,193,379	5,169,892	34,366	5,204,258	
Exchange differences on translation of financial statements of foreign operations	-	-	-	47,330	-	-	47,330	1,760	49,090	
Acquisition of subsidiary	-	-	-	-	-	-	-	4,929	4,929	
Profit for the period	-	-	-	-	-	239,346	239,346	3,820	243,166	
Dividends to shareholders	-	-	-	-	-	(90,599)	(90,599)	-	(90,599)	
Balance at 30 June 2007	1,006,655	550,547	9,549	79,402	377,690	3,342,126	5,365,969	44,875	5,410,844	

### (a) Share capital

	At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
<b>Authorised:</b>		
3,000,000,000 ordinary shares of HK\$0.50 each	1,500,000	1,500,000
<b>Issued and fully paid:</b>		
2,013,309,000 ordinary shares of HK\$0.50 each	1,006,655	1,006,655

## 11 Capital commitments

Capital commitments outstanding at 30 June 2007 not provided for in the financial statements were as follows:

	<i>At 30 June 2007 HK\$'000</i>	<i>At 31 December 2006 HK\$'000</i>
Authorised and contracted for:		
- Construction of properties	45,233	37,935

## 12 Connected transactions

The following is a summary of significant transactions carried out in the normal course of business between the Group and its related companies during the period:

	<i>Six months ended 30 June</i>	
	<i>2007 HK\$'000</i>	<i>2006 HK\$'000</i>
Sale of goods and services to related companies	5,395	2,802
Purchase of stocks from related companies	569	2,991
Services rendered by related companies	2,359	3,201

All the sales and purchases and services rendered were on normal commercial terms.



## Other Information

### Interim dividend

The Board is pleased to declare an interim dividend of 2.0 cents (2006: 2.0 cents) per ordinary share on the shares in issue amounting to a total of HK\$40,266,000 (2006: HK\$40,266,000), which will be payable on 6 September 2007 to shareholders whose names appear on the Register of Members on 30 August 2007. Dividend warrants will be sent to shareholders on 6 September 2007.

### Closure of Register of Members

The Register of Members will be closed from 28 August 2007 to 30 August 2007, 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, Shops 1712-1716, 17<sup>th</sup> floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30pm on 27 August 2007.

### Directors' interests in shares

The directors who held office at 30 June 2007 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>Long positions</i>	<i>Ordinary shares of HK\$0.50 each</i>			<i>Percentage of total Issued Shares</i>	<i>Total</i>
	<i>Personal interests</i>	<i>Family interests (Note 1)</i>	<i>Corporate interests (Note 2)</i>		
<i>Executive Directors:</i>					
Tan Eng Soon	4,200,000	-	101,580,000	5.25%	105,780,000
Joseph Ong Yong Loke	639,000	795,000	940,536	0.12%	2,374,536
Tan Kheng Leong	2,205,000	210,000	-	0.12%	2,415,000
Neo Ah Chap	3,300,000	-	-	0.16%	3,300,000
Sng Chiew Huat	639,000	-	-	0.03%	639,000

### Directors' interests in shares (continued)

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

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

Save as disclosed above, none of the directors or chief executives, or any of their spouses or children under eighteen years of age, had any beneficial or non beneficial interests or short positions in shares of the Company or any of its associates (within the meaning of the SFO) as at 30 June 2007, and there was no right granted to or exercised by any directors or chief executives of the Company, or any of their spouses or children under eighteen years of age, during the period to subscribe for shares, as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules of the Stock Exchange.

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

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

The Company has been notified of the following interests (other than a director of the Company) in the Company's issued shares at 30 June 2007 amounting to 5% or more of the ordinary shares in issue:

<i>Long positions</i>	<i>Note</i>	<i>Ordinary shares Held</i>	<i>Percentage of total issued shares</i>
Tan Chong Consolidated Sdn. Bhd.	(1)	912,799,986	45.34
Guoco Group Limited	(2)	243,900,700	12.11



## Substantial interests in the share capital of the Company (continued)

*Note 1:* The share capital of Tan Chong Consolidated Sdn. Bhd. is held by Tan Eng Soon as to approximately 16.66 per cent and by Tan Kheng Leong as to approximately 11.21 per cent. The remaining shareholding is held by certain members of the Tan family who are not directors of the Company.

*Note 2:* Pursuant to the SFO, these corporations/individuals namely Quek Leng Chan, HL Holdings Sdn Bhd, Kwek Leng Kee, Davos Investment Holdings Private Limited, Hong Leong Investment Holdings Pte Ltd, Kwek Holdings Pte Ltd and Hong Leong Company (Malaysia) Berhad, are deemed to be interested in all the shares in which Guoco Group Limited has an interest because of their direct/indirect interest in the entire/partial share capital of Guoco Group Limited. However, according to the Company's register, Capital Intelligence Limited, Guoline Capital Assets Limited and Guoline Overseas Limited reported interest is only 5.04%.

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

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

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

### Audit Committee

The Audit Committee has reviewed with management the results of the Group for the period ended 30 June 2007.

### Directors' Securities Transactions

Pursuant to the Model Code requirements as set out in Appendix 10 of the Listing Rules of the Stock Exchange, all directors confirmed that they have complied with the required standard and its code of conduct regarding directors' securities transactions for the accounting period under review.

### Code on Corporate Governance Practices

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 2007, acting in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange. 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. The Chairman had been instrumental in listing the Group. He has in-depth professional knowledge of, and extensive experience in the automobile industry and full cognizance of the workings of the business operations of the Group. In view of this, the Board would like him to continue with some executive functions. The balance of power and authority is ensured by the participation and input of the other Board members who are highly qualified and experienced professionals. The roles of the respective executive directors and senior management who are in charge of different disciplinary functions complement the role of the Chairman and Chief Executive Officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to make and implement decisions promptly and efficiently.

By Order of the Board

**Sng Chiew Huat**

Finance Director

Hong Kong, 31 July 2007

Websites: <http://www.tanchonginternational.com>

<http://www.nissan.com.sg>

<http://www.tcil.com.sg>

*As at the date of this interim report, the directors are Mr. Tan Eng Soon, Mr. Joseph Ong Yong Loke, Mr. Tan Kheng Leong, Mr. Neo Ah Chap and Mdm. Sng Chiew Huat. Independent non-executive directors are Mr. Lee Han Yang, Ms. Jeny Lau and Mr. Masatoshi Matsuo. The Honorary Life Counsellor of the Company is Dato' Tan Kim Hor.*

