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Tan Chong International Limited

陳唱國際有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 693)

INTERIM RESULTS

The board of directors (the “Board”) of Tan Chong International Limited (the “Company”) wishes to announce the following unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017.

Consolidated Statement of Profit or Loss (Unaudited)

for the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017	2016
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	2	8,026,437	8,856,624
Cost of sales		<u>(6,435,566)</u>	<u>(7,368,226)</u>
Gross profit		1,590,871	1,488,398
Other net income		151,643	127,510
Distribution costs		(632,744)	(728,065)
Administrative expenses		(523,277)	(525,337)
Other operating expenses		<u>(33,421)</u>	<u>(18,216)</u>
Profit from operations		553,072	344,290
Finance costs		(40,431)	(60,085)
Share of profits less losses of associates		<u>37,172</u>	<u>38,583</u>
Profit before taxation	3	549,813	322,788
Income tax	4	<u>(139,018)</u>	<u>(138,767)</u>
Profit for the period		<u><u>410,795</u></u>	<u><u>184,021</u></u>
Attributable to:			
Equity shareholders of the Company		330,275	118,999
Non-controlling interests		<u>80,520</u>	<u>65,022</u>
Profit for the period		<u><u>410,795</u></u>	<u><u>184,021</u></u>
Earnings per share	6		
Basic and diluted		<u><u>HK\$0.16</u></u>	<u><u>HK\$0.06</u></u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
for the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit for the period	<u>410,795</u>	<u>184,021</u>
Other comprehensive income for the period (after tax and reclassification adjustments)		
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit liability	6,881	(19,319)
Investments designated as at fair value through other comprehensive income:		
- changes in fair value recognised during the period	<u>(566,931)</u>	<u>(676,923)</u>
	<u>(560,050)</u>	<u>(696,242)</u>
Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of:		
- subsidiaries outside Hong Kong	373,424	395,381
- associates outside Hong Kong	<u>44,510</u>	<u>9,138</u>
	<u>417,934</u>	<u>404,519</u>
Other comprehensive income for the period	<u>(142,116)</u>	<u>(291,723)</u>
Total comprehensive income for the period	<u><u>268,679</u></u>	<u><u>(107,702)</u></u>
Attributable to:		
Equity shareholders of the Company	151,805	(176,308)
Non-controlling interests	<u>116,874</u>	<u>68,606</u>
Total comprehensive income for the period	<u><u>268,679</u></u>	<u><u>(107,702)</u></u>

Consolidated Statement of Financial Position (Unaudited)

at 30 June 2017

		At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
Non-current assets			
Investment properties		3,264,772	3,106,105
Other property, plant and equipment		3,758,740	3,539,999
Interest in leasehold land		75,255	76,428
Intangible assets		111,261	108,315
Goodwill		33,160	23,375
Interest in associates		812,381	752,203
Other financial assets		132,017	106,906
Hire purchase debtors and instalments receivable		287,138	253,223
Non-current prepayments		176,041	151,419
Deferred tax assets		48,481	36,631
		<u>8,699,246</u>	<u>8,154,604</u>
Current assets			
Investments designated as at fair value through other comprehensive income	7	2,944,265	3,529,207
Inventories		2,953,209	2,923,136
Properties held for sale		39,824	53,523
Trade debtors	8	1,199,715	1,271,548
Hire purchase debtors and instalments receivable		137,216	138,022
Other debtors, deposits and prepayments		628,025	526,292
Amount due from related companies		218	620
Fixed deposits at banks with maturity over three months		396,295	9,413
Cash and cash equivalents		2,701,644	2,891,325
		<u>11,000,411</u>	<u>11,343,086</u>
Current liabilities			
Unsecured bank overdrafts		109,460	85,205
Bank loans		3,625,770	3,377,341
Trade creditors	9	979,795	1,243,402
Other creditors and accruals		1,203,233	1,160,712
Amounts due to related companies		4,107	23,538
Obligations under finance leases		38,694	37,207
Unsecured medium term note		-	632,538
Current taxation		153,911	150,120
Provisions		69,225	68,256
		<u>6,184,195</u>	<u>6,778,319</u>
Net current assets		<u>4,816,216</u>	<u>4,564,767</u>
Total assets less current liabilities		<u>13,515,462</u>	<u>12,719,371</u>

Consolidated Statement of Financial Position (Unaudited) (continued)
at 30 June 2017

	At	At
	30 June	31 December
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Bank loans	559,781	36,234
Obligations under finance leases	157,081	152,826
Net defined benefit retirement obligations	144,816	151,924
Deferred tax liabilities	79,018	68,968
Provisions	26,646	20,719
	<u>967,342</u>	<u>430,671</u>
NET ASSETS	<u>12,548,120</u>	<u>12,288,700</u>
Capital and Reserves		
Share capital	1,006,655	1,006,655
Reserves	<u>10,532,543</u>	<u>10,521,040</u>
Total equity attributable to equity shareholders of the Company	11,539,198	11,527,695
Non-controlling interests	<u>1,008,922</u>	<u>761,005</u>
TOTAL EQUITY	<u>12,548,120</u>	<u>12,288,700</u>

Notes:

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 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 2016 annual financial statements.

2. Segment Reporting

(a) Segment results

	Revenue		EBITDA	
	Six months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Business lines				
Motor vehicle distribution and dealership business	4,636,755	5,348,395	335,335	209,958
Heavy commercial vehicle, industrial equipment distribution and dealership business	141,941	318,160	(12,667)	(34,711)
Property rentals and development	81,693	47,008	76,828	(20,437)
Transportation	2,830,846	2,738,297	238,143	225,402
Other operations	335,202	404,764	41,802	69,366
	<u>8,026,437</u>	<u>8,856,624</u>	<u>679,441</u>	<u>449,578</u>

	Revenue	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Geographical areas		
Singapore	2,178,215	2,575,589
Hong Kong	77,987	95,963
PRC	657,882	776,994
Thailand	268,321	633,759
Japan	2,830,846	2,738,297
Others	2,013,186	2,036,022
	<u>8,026,437</u>	<u>8,856,624</u>

(b) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total segment EBITDA	679,441	449,578
Depreciation and amortisation	(140,945)	(134,840)
Interest income	14,576	29,552
Finance costs	(40,431)	(60,085)
Share of profits less losses of associates	37,172	38,583
Consolidated profit before taxation	<u>549,813</u>	<u>322,788</u>

3. Profit before taxation

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

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Finance costs	40,431	60,085
Amortisation of interest in leasehold land	3,676	3,838
Depreciation of property, plant and equipment	137,269	131,002
Dividend income	(93,107)	(52,754)
Gain on disposal of property, plant and equipment	(6,077)	(2,575)
	<u> </u>	<u> </u>

4. Income tax

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong	548	564
Singapore	25,585	30,786
Others	112,885	107,417
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2016: 16.5%) and 30.86% (2016: 30.86%), in the tax jurisdictions in which the Group operates.

5. Dividends

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interim dividend declared of HK\$0.025 (2016: HK\$0.02) per ordinary share	50,333	40,266
	<u> </u>	<u> </u>

6. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on net profit attributable to equity shareholders of the Company of HK\$330,275,000 (2016: HK\$118,999,000) and the weighted average number of shares of 2,013,309,000 (2016: 2,013,309,000) in issue during the period.

Diluted earnings per share for the periods ended 30 June 2017 and 2016 is the same as the basic earnings per share as there were no dilutive securities outstanding during the periods presented.

7. **Investments designated as at fair value through other comprehensive income**

	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
Equity securities		
Listed outside Hong Kong, designated as at fair value through other comprehensive income	2,944,265	3,529,207

Financial assets at fair value through other comprehensive income

The Group designated all of its investments in equity securities as at fair value through other comprehensive income under IFRS 9 (2009) as listed below. This designation was chosen as the investments are held for strategic purposes.

	Fair value		Dividend income recognised	
	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)	Six months ended 30 June 2017 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)
Investments in Subaru Corporation	2,939,639	3,524,751	50,314	51,707
Investments in SM Development Pte. Ltd.	20,408	19,298	36,391	387
Others	60,390	38,983	6,402	660
	<u>3,020,437</u>	<u>3,583,032</u>	<u>93,107</u>	<u>52,754</u>

Subaru Corporation (“Subaru”), listed on the Tokyo Stock Exchange, manufactures passenger cars, buses, motor vehicle parts and industrial machinery and the Company also produces aircraft parts. SM Development Pte. Ltd., an unlisted Singapore Company, is principally engaged in investments and joint ventures.

Fair value loss for the six months ended 30 June 2017 is mainly contributed by the HK\$583,530,000 decrease in fair value of the Group’s equity investment in Subaru. There was no significant addition nor disposal for this equity security during the period ended 30 June 2017.

There were no transfers of any cumulative gain or loss within equity during the period.

Reclassifications

There were no reclassifications of financial assets since the date of initial application of IFRS 9 (2009), being 1 January 2015.

8. Trade debtors

As of the end of the reporting period, the ageing analysis of trade debtors, based on invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2017	At 31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0 - 30 days	932,455	970,868
31 - 60 days	150,666	124,550
61 - 90 days	86,417	74,706
Over 90 days	30,177	101,424
	<u>1,199,715</u>	<u>1,271,548</u>

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

9. Trade creditors

As of the end of the reporting period, the ageing analysis of trade creditors, based on the invoice date, is as follows:

	At 30 June 2017	At 31 December 2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
0 - 30 days	556,601	823,501
31 - 90 days	299,790	269,195
91 - 180 days	65,905	94,343
Over 180 days	57,499	56,363
	<u>979,795</u>	<u>1,243,402</u>

10. Equity settled share based transactions

The Group has a stock compensation program (the "Program") which was adopted on 26 November 2015. The Program is operated through a trustee which is independent of the Group. This is a performance-based scheme whereby on 18 December 2015, shares of a listed subsidiary are acquired by the trustee using money contributed as funds by the subsidiary. The shares are distributed by the trustee in accordance with the Rules on Distributions of Board Benefits of the subsidiary based on points given to each of the entitled employees in view of their positions and performance. Incidentally, the shares of the subsidiary shall be distributed to the entitled employees as a general rule when they leave their positions. Each point granted can be converted into one share of the subsidiary at distribution. No vesting condition is required after the points are granted.

The maximum number of points which may be awarded to selected participants under the Program shall not exceed 500,000. The trust fund shall not have a definite expiration date and continue as long as the Program exist. Maximum amount of money to be contributed by the subsidiary is JPY500,000,000 (equivalent to HK\$34,724,000) and further contribution to the trust fund is subject to approval by the board of the subsidiary.

The first grant date is 26 November 2015, in the years after, point is granted to the eligible recipient annually on 30 June. However, if the eligible recipient retires during the fiscal period, the point will be granted on the date of retirement in proportion.

Up to 30 June 2017, a total of 131,420 points were granted to selected participants.

10. Equity settled share based transactions (continued)

(a) The terms and conditions of the grants are as follows:

	Number of points
Points granted to employees:	
On 26 November 2015	71,420
On 1 July 2016	60,000

(b) The movements of number of points granted are as follows:

	2017 Number of points	2016 Number of points
Outstanding at the beginning of the period	85,000	71,420
Exercised during the period	-	(29,500)
Forfeited during the period	(19,000)	(16,920)
Granted during the period	-	60,000
Outstanding at the end of the period	<u>66,000</u>	<u>85,000</u>
Exercisable at the end of the period	<u>66,000</u>	<u>85,000</u>

(c) Fair value of points and assumptions

The fair value of services received in return for points granted is measured by reference to the fair value of points granted. The estimate of the fair value of the points granted is measured based on a Black-Scholes model.

	26 November 2015	1 July 2016
Fair value of points and assumptions		
Fair value at measurement date	JPY1,111	JPY991
Share price	JPY1,405	JPY1,312
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	41.3%	41.3%
Expected option life (expressed as weighted average life used in the modelling under Black-Scholes model)	6.3 years	7.2 years
Expected dividends	3.7%	3.9%
Risk-free interest rate (based on the yield of Japanese government bonds)	0.1%	0.3%

The expected volatility is based on the historic volatility (calculated based on the historical daily stock price of the period corresponding to the expected remaining period), adjusted for any expected changes to future volatility based on publicly available information. Changes in the subjective input assumptions could materially affect the fair value estimate.

The closing prices of the subsidiary's shares immediately before the grant of the points on 26 November 2015 and 1 July 2016 were JPY1,405 (equivalent to HK\$87) and JPY1,312 (equivalent to HK\$99) per share respectively.

During the period ended 30 June 2017, the Group recognised a net expense of HK\$1,185,000 (2016: HK\$4,336,000) as equity settled share based payments in relation to the Program.

11. Comparative figures

Certain comparative figures have been reclassified to conform with current period's presentation.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK\$0.025 (2016: HK\$0.02) per ordinary share on the shares in issue amounting to a total of HK\$50,333,000 (2016: HK\$40,266,000), which will be payable on 21 September 2017 to shareholders of the Company whose names appear on the Register of Members on 13 September 2017. Dividend warrants will be sent to shareholders on 21 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 12 September 2017 to 13 September 2017, 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, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30pm on 11 September 2017.

MANAGEMENT REVIEW

Results

The first six months of 2017 continued to be challenging. The Group recorded 9% decline in revenue, which was primarily affected by slowdown in vehicle sales volume. The Group's transportation logistics operations by ZERO CO. LTD in Japan ("Zero") continue to provide stable revenue and earnings streams.

Since the last quarter of 2016, the Group had initiated a progressive review in a number of areas that have both long and short-term significance for the Group.

In February 2017, the Group invested in a Subaru vehicle production plant located in Thailand that caters to the growing Asean CKD markets. This positions the Group for positive and competitive growth in the long term.

Starting last year, the Group had embarked on a concerted effort to reduce cost while improving productivity at all levels of the organization with the view to continually eliminate Non Value Added Activities. These actions have improved the company's financial positions in the current period, ensuring our long-term competitiveness and sustainability.

The Group's revenue was HK\$8.03 billion; a 9% decrease as compared to HK\$8.86 billion for the first half of 2016. However, EBITDA and Profit registered positive increases to HK\$679 million and HK\$411 million respectively, due largely to improve operating profit margin of 6.9% when compared to 3.9% achieved in the first half of 2016. These positive results are attributable to the significant reduction in distribution costs and administrative expenses, in addition to healthy increases in other operating incomes.

Revenue and vehicle sales for the period reached HK\$8.03 billion and 16,435 units respectively as compared to HK\$8.86 billion and 20,038 units for the corresponding period of 2016.

EBITDA of HK\$679 million and Profit for the period of HK\$411 million, increased by 51% and 123% respectively as compared to the first half of 2016.

The Group's net gearing ratio, computed by dividing the net debt by the total equity was 9.5% as compared to 10.0% for the period ending 31 December 2016.

ROCE, computed by dividing earnings before interest and taxes (EBIT) by total equity plus non-current liabilities, improved to 4.26% for the period ending June 2017, as compared to 2.66% for the first six months of 2016.

Net Asset Per Share at 30 June 2017 was HK\$6.23, an increase from the HK\$6.10 as recorded at the end of December 2016. The directors have declared an interim dividend of HK\$0.025 per share for the half year of 2017.

MANAGEMENT REVIEW (continued)

Significant Investments

As at 30 June 2017, the Group had investments designated as at fair value through other comprehensive income of HK\$2.94 billion. The investments are listed and unlisted equity securities. The vast majority of these investments are equity securities listed on the Tokyo Stock Exchange that were accumulated over the years as strategic long-term investments. The Group recorded an unrealized loss on its investments designated as at fair value through other comprehensive income of HK\$567 million as compared to the unrealized loss of HK\$677 million for the corresponding period in 2016. The loss is due to share prices decline of its listed investments, which are marked to market, and is reported in other comprehensive income statement for the period. It is not expected that such unrealized fair value loss on its investments will be reclassified to the Group's consolidated statement of profit or loss.

Singapore and China

In Singapore, with COE pressure and pending Euro 6 emission implementation, our margins faced some compression. Together with the shift in focus from Nissan passenger vehicles to Nissan commercial vehicles, exacerbated by differing COE cycles, the revenue and profitability were adversely affected. Model change timings also affected the supply of new vehicles in light of pending new emission standards.

The China domestic market continued to face further slowdown in growth due to the continued tightening of government automotive policies. Our Subaru passenger sales faced further competition from larger incentives offered by other automotive brands. The Group's seat manufacturing operations in Nanjing has started to experience a slower order volume as well, affected by the increasingly onerous conditions in the domestic automotive market.

Taiwan and Philippines

In the first half of 2017, despite a more challenging sales environment, both Taiwan and Philippines experienced stronger earnings as a result of our re-alignment of the product range and introduction of new models like Subaru Impreza, which is based on the new Subaru Global Platform. Taiwan continues to be one of the key markets for our Group.

CKD Markets

Passenger vehicle sales in Thailand and Malaysia have started to gain traction and experienced an improvement in margins. Albeit uneven sales growth, better brand visibility and widened distribution network has led to improved confidence in the Subaru brand.

In February 2017, subsidiary of the Group, Tan Chong Subaru Automotive (Thailand) Co., Ltd ("TCSAT") established a joint venture with Subaru Corporation, to commence Subaru vehicle production in Thailand for export into the ASEAN markets. The Group is focused on working closely with Subaru Corporation to commence the start of production of Subaru vehicles at TCSAT in 2019. The Group expects to continue as planned with the necessary investments to realize the goal of building the Subaru brand in the CKD markets and maintains its positive long-term view of the business opportunities within the CKD territories.

Japan

While the Japanese automobile market had recovered slightly in the first half of 2017, it continues to face long-term recurring headwinds caused by shrinking domestic demand and aging population. Zero maintained its consistent performance despite the challenging market situation there.

Prospects

The Group will continue to focus on improving cost efficiencies, and has started to see visible results from its efforts. The Group will also persist on pursuing the development of necessary infrastructure and distribution networks to strengthen the Group's foundation, while keeping close monitoring of the prevailing uncertainties in the Asian markets.

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 2017.

CORPORATE GOVERNANCE CODE

No Director 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 2017, acting in compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules of the Stock Exchange. The non-executive Director and 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.

The Board is currently carrying out the responsibilities of the nomination committee until it appoints suitable members to this committee.

By Order of the Board

Sng Chiew Huat

Finance Director

Hong Kong, 25 August 2017

Website: <http://www.tanchong.com>

As at the date of this announcement, the executive Directors are Mr. Tan Eng Soon, Mr. Tan Kheng Leong, Mdm. Sng Chiew Huat and Mr. Glenn Tan Chun Hong. Non-executive Director is Mr. Joseph Ong Yong Loke. Independent Non-executive Directors are Mr. Ng Kim Tuck, Mr. Azman Bin Badrillah, Mr. Prechaya Ebrahim and Mr. Teo Ek Kee.