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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 2020.

Consolidated Statement of Profit or Loss (Unaudited)

for the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	5,784,063	6,911,487
Cost of sales		<u>(4,718,359)</u>	<u>(5,543,194)</u>
Gross profit		1,065,704	1,368,293
Other net income		83,914	84,154
Distribution costs		(580,171)	(640,432)
Administrative expenses		(512,706)	(568,870)
Other operating expenses		<u>(28,283)</u>	<u>(15,361)</u>
Profit from operations		28,458	227,784
Finance costs		(44,951)	(51,205)
Share of profits less losses of associates		<u>35,458</u>	<u>36,100</u>
Profit before taxation	4	18,965	212,679
Income tax expense	5	<u>(65,082)</u>	<u>(69,499)</u>
(Loss)/profit for the period		<u><u>(46,117)</u></u>	<u><u>143,180</u></u>
Attributable to:			
Equity shareholders of the Company		(75,285)	97,137
Non-controlling interests		<u>29,168</u>	<u>46,043</u>
(Loss)/profit for the period		<u><u>(46,117)</u></u>	<u><u>143,180</u></u>
(Loss)/earnings per share	7		
Basic and diluted		<u><u>(HK\$0.04)</u></u>	<u><u>HK\$0.05</u></u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
for the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
(Loss)/profit for the period	<u>(46,117)</u>	<u>143,180</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	5,441	(9,767)
Investments designated as at fair value through other comprehensive income:		
- changes in fair value recognised during the period	<u>(398,162)</u>	<u>255,023</u>
	<u>(392,721)</u>	<u>245,256</u>
Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of:		
- subsidiaries outside Hong Kong	(211,765)	21,961
- associates outside Hong Kong	<u>(18,954)</u>	<u>2,263</u>
	<u>(230,719)</u>	<u>24,224</u>
Other comprehensive income for the period	<u>(623,440)</u>	<u>269,480</u>
Total comprehensive income for the period	<u><u>(669,557)</u></u>	<u><u>412,660</u></u>
Attributable to:		
Equity shareholders of the Company	(689,007)	317,818
Non-controlling interests	<u>19,450</u>	<u>94,842</u>
Total comprehensive income for the period	<u><u>(669,557)</u></u>	<u><u>412,660</u></u>

Consolidated Statement of Financial Position (Unaudited)
at 30 June 2020

	Note	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
Non-current assets			
Investment properties		3,507,227	3,628,592
Other property, plant and equipment		4,916,376	5,150,565
Intangible assets		97,902	106,057
Goodwill		39,698	39,168
Interest in associates		900,332	883,828
Other financial assets		47,188	65,441
Hire purchase debtors and instalments receivable		158,263	206,429
Non-current prepayments		123,558	131,390
Deferred tax assets		63,977	53,280
		9,854,521	10,264,750
Current assets			
Investments designated as at fair value through other comprehensive income	8	1,833,431	2,211,149
Inventories		2,518,371	2,634,350
Properties held for sale		8,912	16,774
Trade debtors	9	1,236,804	1,319,206
Hire purchase debtors and instalments receivable		92,210	112,785
Other debtors, deposits and prepayments		510,170	515,544
Amounts due from related companies		157	171
Cash and bank balances		2,053,603	2,450,254
		8,253,658	9,260,233
Current liabilities			
Unsecured bank overdrafts		133,090	75,780
Bank loans		2,759,072	2,825,895
Trade creditors	10	747,865	1,122,535
Other creditors and accruals		1,321,229	1,390,460
Amounts due to related companies		21,142	14,502
Lease liabilities		251,123	277,832
Current taxation		120,151	94,895
Provisions		53,924	48,831
		5,407,596	5,850,730
Net current assets		2,846,062	3,409,503
Total assets less current liabilities		12,700,583	13,674,253

Consolidated Statement of Financial Position (Unaudited) (continued)
at 30 June 2020

	At	At
	30 June	31 December
	2020	2019
	HKS'000	HKS'000
	<i>(Unaudited)</i>	<i>(Audited)</i>
Non-current liabilities		
Bank loans	305,040	319,975
Lease liabilities	464,959	552,707
Net defined benefit retirement obligations	89,831	109,115
Deferred tax liabilities	94,220	93,315
Provisions	53,873	48,264
	<u>1,007,923</u>	<u>1,123,376</u>
NET ASSETS	<u><u>11,692,660</u></u>	<u><u>12,550,877</u></u>
Capital and Reserves		
Share capital	1,006,655	1,006,655
Reserves	<u>9,440,118</u>	<u>10,309,852</u>
Total equity attributable to equity shareholders of the Company	10,446,773	11,316,507
Non-controlling interests	<u>1,245,887</u>	<u>1,234,370</u>
TOTAL EQUITY	<u><u>11,692,660</u></u>	<u><u>12,550,877</u></u>

Notes:

1. Basis of preparation

The unaudited consolidated 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 consolidated interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements.

2. Changes in accounting policies

The International Accounting Standards Board ("IASB") has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, Amendments to IFRS 16, *Covid-19 Related Rent Concessions* is relevant to the Group's financial statements.

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

Amendments to IFRS 16 which provides relief to lessees from having to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; (iii) there is no substantive change to other terms and conditions of the lease.

3. Revenue and Segment Reporting

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

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or services lines and geographical location of customers is as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or services lines		
- Sale of goods	2,394,880	3,211,910
- Rendering of services	3,282,713	3,584,607
- Gross proceeds from properties sold	18,789	-
- Agency commission and handling fees	26,402	37,429
- Warranty income	4,149	4,331
Revenue from other sources		
- Gross rentals from investment properties	40,201	50,823
- Hire purchase financing income	16,929	22,387
	<u>5,784,063</u>	<u>6,911,487</u>
	<u><u>5,784,063</u></u>	<u><u>6,911,487</u></u>
	Revenue	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Disaggregated by geographical location of customers		
- Singapore	650,354	1,101,488
- PRC	268,113	395,999
- Thailand	445,278	428,124
- Japan	3,087,509	3,340,224
- Taiwan	686,386	830,158
- Others	646,423	815,494
	<u>5,784,063</u>	<u>6,911,487</u>
	<u><u>5,784,063</u></u>	<u><u>6,911,487</u></u>

3. Revenue and Segment Reporting (continued)

(b) Segment results

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods ended 30 June 2020 and 2019 is set out below.

	Motor vehicle distribution and dealership business Six months ended 30 June		Heavy commercial vehicle, industrial equipment distribution and dealership business Six months ended 30 June		Property rentals and development Six months ended 30 June		Transportation Six months ended 30 June		Other operations Six months ended 30 June		Consolidated Six months ended 30 June	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Disaggregated by timing of revenue recognition												
Point in time	2,232,619	2,993,309	58,934	69,466	18,789	-	-	-	103,328	149,134	2,413,670	3,211,909
Over time	159,753	204,035	31,775	38,691	38,219	48,956	3,087,509	3,340,224	53,137	67,672	3,370,393	3,699,578
Revenue from external customers	<u>2,392,372</u>	<u>3,197,344</u>	<u>90,709</u>	<u>108,157</u>	<u>57,008</u>	<u>48,956</u>	<u>3,087,509</u>	<u>3,340,224</u>	<u>156,465</u>	<u>216,806</u>	<u>5,784,063</u>	<u>6,911,487</u>
EBITDA	<u>(697)</u>	<u>71,943</u>	<u>(14,731)</u>	<u>16,427</u>	<u>37,780</u>	<u>72,325</u>	<u>259,735</u>	<u>333,286</u>	<u>33,098</u>	<u>17,320</u>	<u>315,185</u>	<u>511,301</u>

3. Revenue and Segment Reporting (continued)

(c) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total segment EBITDA	315,185	511,301
Depreciation and amortisation	(295,782)	(298,185)
Interest income	9,055	14,668
Finance costs	(44,951)	(51,205)
Share of profits less losses of associates	35,458	36,100
Consolidated profit before taxation	18,965	212,679

4. Profit before taxation

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Finance costs	44,951	51,205
Depreciation		
- owned property, plant and equipment	160,434	172,343
- right-of-use assets	135,348	125,842
Dividend income	(20,979)	(54,032)
Loss/(gain) on disposal of property, plant and equipment	1,051	(2,597)

5. Income tax expense

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	440	325
Singapore	12,007	14,844
Others	52,635	54,330
	65,082	69,499

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2019: 16.5%) and 30.62% (2019: 30.62%), in the tax jurisdictions in which the Group operates.

6. **Dividends**

	Six months ended 30 June 2020	2019
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interim dividend declared of HK\$0.01 (2019: HK\$0.02) per ordinary share	20,133	40,266

7. **(Loss)/earnings per share**

The calculation of basic loss per share for the six months ended 30 June 2020 is based on net loss attributable to equity shareholders of the Company of HK\$75,285,000 (2019: profit of HK\$97,137,000) and the weighted average number of shares of 2,013,309,000 (2019: 2,013,309,000) in issue during the period.

Diluted (loss)/earnings per share for the periods ended 30 June 2020 and 2019 is the same as the basic (loss)/earnings per share as there were no dilutive securities outstanding during the periods presented.

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

	At 30 June 2020	At 31 December 2019
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Audited)</i>
Equity securities		
Listed outside Hong Kong, designated as at fair value through other comprehensive income	1,833,431	2,211,149

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 as listed below. This designation was chosen as the investments are held for strategic purposes.

	Fair value		Dividend income recognised	
	At 30 June 2020	At 31 December 2019	Six months ended 30 June 2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Investments in Subaru Corporation	1,831,059	2,207,942	20,586	53,134
Others	49,560	68,648	393	898
	1,880,619	2,276,590	20,979	54,032

Fair value loss for the six months ended 30 June 2020 is mainly contributed by the HK\$385,272,000 decrease in fair value of the Group's equity investment in Subaru Corporation ("Subaru"). There was no significant addition nor disposal for this equity security during the period ended 30 June 2020.

8. Investments designated as at fair value through other comprehensive income (continued)

Subaru is listed on the Tokyo Stock Exchange, it is mainly operating in two businesses, the Automotive business and the Aerospace business. In the area of Automotive, it is in the business of manufacture, repair and sales of passenger cars and their components. In the area of Aerospace, it is in the manufacture, repair and sales of airplanes aerospace-related machinery and their components. The number of shares and percentage held of this investment are 11,355,000 shares and 1.5% of Subaru's issued shares respectively. The investment cost is JPY7.5 billion. This investment represents 10.1% of the Groups' total assets.

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

9. Trade debtors

As of the end of the reporting period, the ageing analysis of trade debtors, based on invoice date and net of loss allowances, is as follows:

	At 30 June 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
0 - 30 days	642,273	949,923
31 - 90 days	316,093	320,648
Over 90 days	278,438	48,635
	<u>1,236,804</u>	<u>1,319,206</u>

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

10. 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 2020 HK\$'000 (Unaudited)	At 31 December 2019 HK\$'000 (Audited)
0 - 30 days	470,352	686,002
31 - 90 days	165,934	295,549
91 - 180 days	43,937	65,974
Over 180 days	67,642	75,010
	<u>747,865</u>	<u>1,122,535</u>

11. 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\$35,942,500) 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 2020, a total of 333,120 points were granted to selected participants.

(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
On 1 July 2017	57,500
On 1 July 2018	63,000
On 1 July 2019	81,200
	<u>333,120</u>

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

	2020 Number of points	2019 Number of points
Outstanding at the beginning of the period	227,200	160,000
Forfeited during the period	(22,200)	(4,000)
Exercised during the period	(1,500)	(10,000)
Granted during the period	-	81,200
Outstanding at the end of the period	<u>203,500</u>	<u>227,200</u>
Exercisable at the end of the period	<u>203,500</u>	<u>227,200</u>

11. Equity settled share based transactions (continued)

(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.

	1 July 2019	1 July 2018
Fair value of points and assumptions		
Fair value at measurement date	JPY654	JPY954
Share price	JPY801	JPY1,201
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	31.8%	33.9%
Expected option life (expressed as weighted average life used in the modelling under Black-Scholes model)	6.3 years	6.8 years
Expected dividends	3.2%	3.4%
Risk-free interest rate (based on the yield of Japanese government bonds)	0.3%	0.1%

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 1 July 2018 and 1 July 2019 were JPY1,201 (equivalent to HK\$85) and JPY801 (equivalent to HK\$57) per share respectively.

During the period ended 30 June 2020, the Group recognised a net expense of HK\$885,000 (2019: HK\$1,895,000) as equity settled share based payments in relation to the Program.

12. 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\$0.01 (2019: HK\$0.02) per ordinary share on the shares in issue amounting to a total of HK\$20,133,000 (2019: HK\$40,266,000), which will be payable on 23 September 2020 to shareholders of the Company whose names appear on the Register of Members on 14 September 2020. Dividend warrants will be sent to shareholders on 23 September 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 11 September 2020 to 14 September 2020, 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 10 September 2020.

MANAGEMENT REVIEW

RESULTS

The outbreak of the coronavirus disease (the “COVID-19”) in the beginning of 2020 triggered sudden introductions of many extraordinary measures, including anti-pandemic lockdown of social and economic activities by governments of 11 countries in the Asia Pacific region where the Group operates. These measures curbed and, in some instances, caused almost total suspension of the Group’s business activities and operations. Coupled with geopolitical factors playing out to its extremity, the business environment was tremendously challenging. The austere measures by the governments resulted in weak economic outcomes and poor consumers sentiment across the region, severely impacting the Group’s business and performance for the Period. Although the Group’s transportation logistics operations by ZERO CO. LTD in Japan (“ZERO”) registered a slight decline in revenue, the Group’s overall revenue and vehicle sale units decline by 16% and 29% respectively.

The Group’s revenue in the first half of 2020 was HK\$5.784 billion; a 16% decrease as compared to HK\$6.911 billion for the first half of 2019.

EBITDA declined 38% to HK\$315.2 million and after tax loss of HK\$46.1 million as compared to HK\$511.3 million and after tax profit of HK\$143.2 million respectively for the corresponding period of 2019.

The Group’s net gearing ratio computed by dividing the net debt with the total equity was 9.8% as compared to 6.1% for the period ending 31st December 2019.

ROCE, computed by dividing earnings before interest and taxes (EBIT) with total equity plus non-current liabilities, was reduced to 0.4% as compared to 1.7% for the first half of 2019.

Net Asset Per Share at 30th June 2020 was HK\$5.81, a decrease from the HK\$6.23 as recorded at the end of December 2019.

The directors have declared an interim dividend of HK\$0.01 per share for the half year of 2020.

SIGNIFICANT INVESTMENTS

As at 30 June 2020, the Group had investments designated as at fair value through other comprehensive income of HK\$1.88 billion. The investments consist of both 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\$398 million as compared to the unrealized gain of HK\$255 million for the corresponding period in 2019. The loss is due to share price changes 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, the automotive industry was affected by both a decrease in the COE quota and negative impact of COVID-19 pandemic and Circuit Breaker measures. The Group recorded a double-digit decline in sales volume. The Group expects the 2nd half of 2020 to be equally challenging, but with gradual intermittent pace of recovery.

The Hong Kong business experienced a slight downturn in sales volume in the 1st half of 2020. Retail sales fell drastically in June in Hong Kong. With the impact of second wave of COVID-19, the 2nd half of the year looks equally challenging amidst the current tightening of COVID-19 measures and resultant economic impact.

Mainland China automotive market experienced negative growth in the 1st half of the year. The Group’s production capacities in automotive manufacturing in Nanjing and Xiamen were also affected by COVID-19 pandemic in 1st half of 2020. The respective divisions will continue their efforts to broaden their customer base and upgrading of their products line-up.

As the first market that was impacted by COVID-19 pandemic, China’s economy is showing signs of gradual recovery. The Group believes that it is unwise not to be engaged in this large and prospective automotive market. Thus, we will continue to persevere for the long-term benefits that this market of great potential may offer.

TAIWAN AND PHILIPPINES

New vehicle sales in Taiwan experienced negative growth in the 1st half of 2020. The Group registered a double-digit sales decline. The 2nd half of the year looks more promising as Taiwan seems to have controlled COVID-19 situation very well, barring unforeseen domestic situation.

Philippines recorded more than 50% sales decline in the 1st half of 2020 due to COVID-19 pandemic and lockdown along with strict restrictive measures being implemented. As for the 2nd half of 2020, sales is forecasted to be worse as Philippines appears to be the new epicentre for the pandemic in Southeast Asia and the economy has plunged into recession.

CKD MARKETS OF MALAYSIA, THAILAND, VIETNAM AND CAMBODIA

It is the second year since the Group's joint venture plant started production of Subaru cars. These vehicles are sold through the Group's networks and dealers in Malaysia, Thailand and Vietnam. Shipments to Cambodia will commence in the 2nd half of 2020. As the above Asean countries adopt vehicle taxation methodologies based on CKD regimes, businesses in these countries are feasible and competitive only if production complies with local CKD production format.

With the negative impact of COVID-19 in Malaysia, the Group recorded there a decline in sales in the 1st half of 2020 as compared to previous year. This was due to the response measures against COVID-19 implemented. Both Malaysia and Thailand are gradually recovering from the impact of COVID-19 in the 2nd half of 2020.

In Vietnam, after the start of Thailand produced cars, sales increased more than 5 times, admittedly starting from a low base, in the 1st half of 2020. For the 2nd half of the year, the growth is expected to be slower as the second wave of COVID-19 has impacted Vietnam.

In Cambodia, the sale of Thailand produced cars will start in the 2nd half of 2020. The Group expects good sales volume based on initial sales responses.

The Truck and Industrial machinery operations are continually being scaled down and streamlined to reduce cost and waste.

JAPAN

The revenue and net profit for 1st half of 2020 of the Group's transportation logistics operations represented by ZERO decreased by 8% and 38% respectively, as compared to the corresponding period in 2019. The decrease was due to the effect of COVID-19 pandemic which softened both the domestic new automobile sales and used car export markets in the first half of 2020 and affected ZERO's human resource business resulting from customers and clients terminating their temporary staffing contracts in 2nd quarter of 2020.

With the effect of COVID-19 which is predicted to remain prevalent in 2nd half of 2020, ZERO expects that its sales revenue will drop for its next financial year. ZERO will continue to expand its core customer base in both its logistics and human resource businesses, despite many challenges of driver shortages, government labour reform policies and higher compliance costs associated with vehicle restriction laws.

PROSPECTS

The Group envisages increased risks enveloping the geopolitical and global trade environment, coupled with rapidly changing automotive industry safety and vehicle emissions policies. Another threat that will impact vehicle sales negatively in the near future is the global trend of customers meeting their transportation needs via services provided by ride hailing companies rather than purchasing or owning their own vehicles.

Due to the unprecedented fluidity of the current moment, the Group is hesitant to determine the duration and severity of COVID-19 crisis. It is therefore unable to assess the full financial impact for year ending 2020. The Group wishes to highlight that a prolonged COVID-19 crisis will have a material effect on the Group's year end results.

Despite the above risks, the Group firmly believes that focusing on developing a culture of resilience and cost competitiveness continuously is not only the backbone of its operations but central to the management of its retail/distribution and logistics networks. It is also the Group's overall investment philosophy. The Group is optimistic that this will ensure a sustainable long-term growth of our businesses in the Asian markets, an area that holds vast opportunities and a region that offers great promises.

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 unaudited consolidated interim financial statements of the Group for the period ended 30 June 2020.

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 2020, 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.

By Order of the Board

Sng Chiew Huat

Finance Director

Hong Kong, 26 August 2020

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

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