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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 2021.

Consolidated Statement of Profit or Loss (Unaudited)

for the six months ended 30 June 2021

	Note	Six months ended 30 June	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	6,155,538	5,784,063
Cost of sales		<u>(5,127,803)</u>	<u>(4,718,359)</u>
Gross profit		1,027,735	1,065,704
Other net income		169,362	83,914
Distribution costs		(514,470)	(580,171)
Administrative expenses		(493,762)	(512,706)
Other operating expenses		<u>(9,104)</u>	<u>(28,283)</u>
Profit from operations		179,761	28,458
Finance costs		(31,205)	(44,951)
Share of profits less losses of associates		<u>35,519</u>	<u>35,458</u>
Profit before taxation	4	184,075	18,965
Income tax expense	5	<u>(105,493)</u>	<u>(65,082)</u>
Profit/(loss) for the period		<u><u>78,582</u></u>	<u><u>(46,117)</u></u>
Attributable to:			
Equity shareholders of the Company		27,094	(75,285)
Non-controlling interests		<u>51,488</u>	<u>29,168</u>
Profit/(loss) for the period		<u><u>78,582</u></u>	<u><u>(46,117)</u></u>
Earnings/(loss) per share	7		
Basic and diluted (cents)		<u><u>1.35</u></u>	<u><u>(3.74)</u></u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
for the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit/(loss) for the period	<u>78,582</u>	<u>(46,117)</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	(1,938)	5,441
Investments designated as at fair value through other comprehensive income: - changes in fair value recognised during the period	<u>(1,362)</u>	<u>(398,162)</u>
	<u>(3,300)</u>	<u>(392,721)</u>
Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of:		
- subsidiaries outside Hong Kong	(221,336)	(211,765)
- associates outside Hong Kong	<u>5,534</u>	<u>(18,954)</u>
	<u>(215,802)</u>	<u>(230,719)</u>
Other comprehensive income for the period	<u>(219,102)</u>	<u>(623,440)</u>
Total comprehensive income for the period	<u><u>(140,520)</u></u>	<u><u>(669,557)</u></u>
Attributable to:		
Equity shareholders of the Company	(112,733)	(689,007)
Non-controlling interests	<u>(27,787)</u>	<u>19,450</u>
Total comprehensive income for the period	<u><u>(140,520)</u></u>	<u><u>(669,557)</u></u>

Consolidated Statement of Financial Position (Unaudited)

at 30 June 2021

		At 30 June 2021 HK\$'000 (Unaudited)	At 31 December 2020 HK\$'000 (Audited)
Non-current assets			
Investment properties		3,644,113	3,707,785
Other property, plant and equipment		5,120,998	5,085,397
Intangible assets		64,533	77,117
Goodwill		36,487	45,772
Interest in associates		886,495	868,010
Other financial assets		54,972	42,380
Hire purchase debtors and instalments receivable		116,419	139,201
Receivables, deposits and prepayments		126,144	135,489
Deferred tax assets		57,628	58,586
		<u>10,107,789</u>	<u>10,159,737</u>
Current assets			
Investments designated as at fair value through other comprehensive income	8	1,758,903	1,771,051
Inventories		1,813,448	1,825,709
Trade debtors	9	1,147,686	1,107,760
Hire purchase debtors and instalments receivable		89,164	97,515
Other debtors, deposits and prepayments		482,265	436,840
Amounts due from related companies		326	970
Cash and bank balances		2,433,795	2,539,772
		<u>7,725,587</u>	<u>7,779,617</u>
Current liabilities			
Unsecured bank overdrafts		101,141	78,169
Bank loans		1,615,183	1,769,374
Trade creditors	10	811,079	813,235
Other creditors and accruals		1,128,686	1,064,385
Amounts due to related companies		11,318	10,607
Lease liabilities		264,525	247,942
Current taxation		132,158	116,156
Provisions		30,508	33,621
		<u>4,094,598</u>	<u>4,133,489</u>
Net current assets		<u>3,630,989</u>	<u>3,646,128</u>
Total assets less current liabilities		<u>13,738,778</u>	<u>13,805,865</u>

Consolidated Statement of Financial Position (Unaudited) (continued)
at 30 June 2021

	At	At
	30 June	31 December
	2021	2020
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Audited)</i>
Non-current liabilities		
Bank loans	854,738	897,764
Lease liabilities	686,015	501,544
Net defined benefit retirement obligations	70,297	76,578
Deferred tax liabilities	100,049	99,015
Provisions	54,784	49,839
	<u>1,765,883</u>	<u>1,624,740</u>
NET ASSETS	<u><u>11,972,895</u></u>	<u><u>12,181,125</u></u>
Capital and Reserves		
Share capital	1,006,655	1,006,655
Reserves	9,676,274	9,848,870
Total equity attributable to equity shareholders of the Company	<u>10,682,929</u>	<u>10,855,525</u>
Non-controlling interests	<u>1,289,966</u>	<u>1,325,600</u>
TOTAL EQUITY	<u><u>11,972,895</u></u>	<u><u>12,181,125</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 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements.

2. Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") to these financial statements for the current accounting period:

- Amendment to IFRS 16, *COVID-19-related rent concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

Other than the amendment to IFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are discussed below:

Amendment to IFRS 16, *COVID-19-related rent concessions beyond 30 June 2021 (2021 amendment)*

The Group previously applied the practical expedient in IFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The Group has early adopted the 2021 amendment in this financial year. There is no impact on the opening balance of equity at 1 January 2021.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities, and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform"). The amendments do not have an impact on these financial statements as the Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.

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	
	2021	2020
	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	2,394,349	2,394,880
- Rendering of services	3,669,850	3,282,713
- Gross proceeds from properties sold	-	18,789
- Agency commission and handling fees	24,000	26,402
- Warranty income	1,503	4,149
Revenue from other sources		
- Gross rentals from investment properties	49,906	40,201
- Hire purchase financing income	15,930	16,929
	<u>6,155,538</u>	<u>5,784,063</u>

	Revenue	
	Six months ended 30 June	2020
	2021	2020
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Disaggregated by geographical location of customers		
- Singapore	845,753	650,354
- PRC	255,254	268,113
- Thailand	403,952	445,278
- Japan	3,453,156	3,087,509
- Taiwan	667,052	686,386
- Others	530,371	646,423
	<u>6,155,538</u>	<u>5,784,063</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 2021 and 2020 is set out below.

	Motor vehicle distribution and dealership business		Heavy commercial vehicle, industrial equipment distribution and dealership business		Property rentals and development		Transportation		Other operations		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Disaggregated by timing of revenue recognition												
Point in time	2,170,872	2,232,619	120,309	58,934	-	18,789	-	-	103,168	103,328	2,394,349	2,413,670
Over time	170,813	159,753	37,795	31,775	46,112	38,219	3,453,156	3,087,509	53,313	53,137	3,761,189	3,370,393
Revenue from external customers	2,341,685	2,392,372	158,104	90,709	46,112	57,008	3,453,156	3,087,509	156,481	156,465	6,155,538	5,784,063
EBITDA	120,118	(697)	(42,990)	(14,731)	27,646	37,780	370,830	259,735	13,412	33,098	489,016	315,185

3. Revenue and Segment Reporting (continued)

(c) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total segment EBITDA	489,016	315,185
Depreciation and amortisation	(316,306)	(295,782)
Interest income	7,051	9,055
Finance costs	(31,205)	(44,951)
Share of profits less losses of associates	35,519	35,458
Consolidated profit before taxation	184,075	18,965

4. Profit before taxation

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Finance costs	31,205	44,951
Depreciation		
- owned property, plant and equipment	154,042	160,434
- right-of-use assets	149,540	135,348
Amortisation of intangible assets	12,724	-
Dividend income	(20,692)	(20,979)
(Gain)/loss on disposal of property, plant and equipment	(112,597)	1,051

5. Income tax expense

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	432	440
Singapore	11,845	12,007
Others	93,216	52,635
	105,493	65,082

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2020: 16.5%) and 30.62% (2020: 30.62%), in the tax jurisdictions in which the Group operates.

6. Dividends

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interim dividend declared of HK\$0.015 (2020: HK\$0.01) per ordinary share	30,200	20,133

7. Earnings/(loss) per share

The calculation of basic earnings per share for the six months ended 30 June 2021 is based on the profit attributable to equity shareholders of the Company of HK\$27,094,000 (2020: loss of HK\$75,285,000) and the weighted average number of shares of 2,013,309,000 (2020: 2,013,309,000) in issue during the period.

Diluted earnings/(loss) per share for the periods ended 30 June 2021 and 2020 is the same as the basic earnings/(loss) 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	At 31 December
	2021	2020
	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	1,758,903	1,771,051

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 2021	At 31 December 2020	Six months ended 30 June	
	HK\$'000	HK\$'000	2021	2020
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Investments in Subaru Corporation (Note)	1,755,969	1,768,510	20,192	20,586
Others	57,906	44,921	500	393
	1,813,875	1,813,431	20,692	20,979

Note:

Fair value loss of HK\$12,541,000 (2020: loss of HK\$385,272,000) was recognised in other comprehensive income for the six months ended 30 June 2021. There was no significant addition nor disposal for this equity security during the period ended 30 June 2021.

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

Note (continued):

Subaru Corporation 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 11,408,000 shares and 1.5% of Subaru Corporation's issued shares respectively. The investment cost is JPY7.5 billion. This investment represents 9.8% 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 2021 HK\$'000 (Unaudited)	At 31 December 2020 HK\$'000 (Audited)
0 - 30 days	690,527	736,097
31 - 90 days	391,583	277,199
Over 90 days	65,576	94,464
	<u>1,147,686</u>	<u>1,107,760</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 2021 HK\$'000 (Unaudited)	At 31 December 2020 HK\$'000 (Audited)
0 - 30 days	526,697	485,945
31 - 90 days	98,838	126,611
91 - 180 days	55,485	109,098
Over 180 days	130,059	91,581
	<u>811,079</u>	<u>813,235</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 exists. Maximum amount of money to be contributed by the subsidiary is JPY500,000,000 (equivalent to HK\$35,814,500) 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 2021, a total of 414,320 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
On 1 July 2020	81,200
	<u>81,200</u>

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

	2021 Number of points	2020 Number of points
Outstanding at the beginning of the period	284,700	227,200
Forfeited during the period	(21,200)	(22,200)
Exercised during the period	-	(1,500)
Granted during the period	-	81,200
Outstanding at the end of the period	<u>263,500</u>	<u>284,700</u>
Exercisable at the end of the period	<u>263,500</u>	<u>284,700</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 2020	1 July 2019
Fair value of points and assumptions		
Fair value at measurement date	JPY726	JPY654
Share price	JPY868	JPY801
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	32.0%	31.8%
Expected option life (expressed as weighted average life used in the modelling under Black-Scholes model)	5.5 years	6.3 years
Expected dividends	3.3%	3.2%
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 1 July 2019 and 1 July 2020 were JPY801 (equivalent to HK\$57) and JPY868 (equivalent to HK\$65) per share respectively.

During the period ended 30 June 2021, the Group recognised a net expense of HK\$1,007,000 (2020: HK\$885,000) as equity settled share based payments in relation to the Program.

INTERIM DIVIDEND

The Board is pleased to declare an interim dividend of HK\$0.015 (2020: HK\$0.01) per ordinary share on the shares in issue amounting to a total of HK\$30,200,000 (2020: HK\$20,133,000), which will be payable on 21 September 2021 to shareholders of the Company whose names appear on the register of members of the Company on 10 September 2021. Dividend warrants will be sent to shareholders of the Company on 21 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 9 September 2021 to 10 September 2021, 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 branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30pm on 8 September 2021.

MANAGEMENT REVIEW

RESULTS

Triggered by the extreme severity brought forth by the outbreak of the coronavirus disease (the “COVID-19”) in the beginning of 2020, the governments of 11 countries in the Asia Pacific region where the Group operates, introduced many unprecedented measures to arrest the spreading of the disease. The extraordinary measures, including anti-pandemic lockdown of social and economic activities curbed and, in some instances, caused almost total suspension of the Group’s business activities and operations in some countries. This situation continued to play out in the first 6 months of 2021 and is expected to continue unabated for the remaining months of 2021. Coupled with geopolitical factors, exacerbated by new variant strains of COVID-19 unfurling its extremity, the business environment will continue to be fluid. The automotive business of the Group remains challenging. However, the performance by the Group’s other non-automotive segment was satisfactory, helped by the disposal gain in one of the Group’s properties in Singapore that the Group no longer requires. The Group’s transportation logistics operations by ZERO CO. LTD in Japan (“ZERO”) registered all-time high revenue and operating profit. Overall, Group’s revenue rose by 6% whilst vehicle sale units declined by 10%.

The Group’s revenue in the first half of 2021 was HK\$ 6.156 billion, an increase of 6% as compared to HK\$5.784 billion in the first half of 2020.

EBITDA increased 55% to HK\$489.0 million from HK\$315.2 million. Profit from operation was HK\$179.8 million with an operating profit margin of 2.9% compared to 0.5% registered in the corresponding period of 2020.

After tax profit was HK\$78.6 million compared to a loss of HK\$46.1 million for the corresponding period of 2020.

The Group’s net gearing ratio computed by dividing the net debt with the total equity was 1.1% as compared to 1.7% for the period ending 31st December 2020.

ROCE, computed by dividing earnings before interest and taxes (EBIT) with total equity plus non-current liabilities, was increased to 1.5% as compared to 0.4% for the first half of 2020.

Net Asset Per Share as of 30th June 2021 was HK\$5.95, a decrease from the HK\$6.05 recorded at the end of December 2020.

The directors have declared an interim dividend of HK\$0.015 per share for the half year of 2021.

SIGNIFICANT INVESTMENTS

As of 30 June 2021, the Group had investments designated as at fair value through other comprehensive income of HK\$1.81 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 investments. The Group recorded an unrealized loss on its investments designated as at fair value through other comprehensive income of HK\$1.4 million as compared to the unrealized loss of HK\$398 million for the corresponding period in 2020. The loss is primarily due to share price changes of its listed investments, which were marked to market and was 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 Subaru business continues to be impacted by stringent vehicle emission surcharges. The Group recorded double-digit decline in sales volume as compared to the corresponding period of last year. The Group expects the second half of 2021 to be equally challenging amid a shrinking Certificate of Entitlement quota. Conversely, the Nissan business registered strong sales growth in passenger cars as compared to the same corresponding period of 2020. Arising from demands by the logistic segment, Nissan commercial vehicles enjoyed healthy sales volume.

In Hong Kong, which is least impacted by COVID-19 amongst all markets of the region, the Subaru business experienced growth in sales volume in the first half of 2021. Second half of the year appears to be positive, given global economic recovery and seemingly well-managed pandemic prevention measures there.

The Group's China car business experienced negative growth in the first half of the year, due mainly to the impact of global microchip shortage. The Group expects recovery of its China business going forward in the second half, brought about by more stable stock supply and better market sentiment.

TAIWAN AND PHILIPPINES

The Group's vehicle sales in Taiwan experienced negative growth in the first half of 2021. The country encountered new waves of COVID-19 infections, and the Group registered a double-digit decline in sales volume. The Group is optimistic about its performance there going forward as Taiwan has managed to bring the COVID-19 situation there under control relatively well.

In Philippines, due to implementation of lockdown and other restrictive measures, the Group recorded slight sales decline during the period under review. With expected easing of COVID-19 restrictions in the foreseeable future, the Group is forecasting an uptrend in its sales volume.

COMPLETE KNOCK-DOWN (“CKD”) MARKETS OF MALAYSIA, THAILAND, VIETNAM AND CAMBODIA

The Group's joint venture plant in Thailand is into its third year of production of Subaru cars. These vehicles are sold through the Group's networks and dealers in Malaysia, Thailand, Vietnam, and Cambodia.

In Malaysia, in the face of increasingly stringent measures taken by local authorities against the worsening COVID-19 situation there, the Group recorded decline in sales as compared to the corresponding period of the previous year.

In Thailand, with its major cities experiencing restrictive rules tethered with curfews to control the COVID-19 situation, the Group's sales there recorded a decline of close to 10% as compared to the corresponding period in 2020.

The Group anticipates that its business in both Malaysia and Thailand will improve in tandem with the expected business recovery during the second half of the year at the back of gradual easing of COVID-19 control measures there.

In Vietnam, though somewhat successful in limiting the effect of COVID-19 during the first quarter of 2021, the rapid rise of resurgent cases has forced the government to introduce restrictive movement control measures in many provinces. As a result, the Group's sales suffered a decline in the first half of 2021. For the second half of the year, recovery is expected to be slow as stringent COVID-19 control measures appear to be continuing in place.

In Cambodia, the sale of Thailand produced cars started only in 2020. However, with more than 400 daily COVID-19 cases reported, the Group expects sales recovery for second half of the year to be tepid.

The truck and industrial machinery operations are continually being scaled down and streamlined to reduce cost and waste.

JAPAN

The revenue and net profit of the Group's transportation logistics operations as represented by ZERO for first half of 2021 increased by 12% and 72% respectively when compared to the corresponding period of last year. The increases were mainly attributed to fees earned for its core business of vehicle transportation due to higher domestic new vehicle sales and used vehicle registrations, steady growth in used car export, as well as general cargo transportation including port clearance and warehousing operations.

Despite the gradual recovery from the impact of COVID-19, ZERO expects sales revenue to decrease in its next financial year. Reduction in automobile production in Japan caused by semiconductor shortage and supply of automobile parts from factories in Southeast Asia because of resurgence of COVID-19 delta variant pandemic may have a negative impact to ZERO's main businesses.

PROSPECTS

The Group foresees increased risks continuing to envelope the region's geopolitical and global trade environment. Together with rapidly changing automotive industry safety, vehicle emissions policies, and swift progression towards 'greener' vehicles, challenges to the Group's main vehicle businesses remain. Another threat that will impact the Group's vehicle sales negatively in the future is the global trend of customers meeting their transportation needs via services provided by ride hailing companies, rather than the outright purchasing or owning of their own vehicles.

While the Group is poised and adapting to meeting the challenges as mentioned above, the unprecedented fluidity of the present COVID-19 situation does not allow the Group to make any meaningful prediction nor assess the full financial impact to its overall performance for year ending 2021. The Group wishes to highlight that a prolonged and severe 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 should be pursued relentlessly in 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 sustainable long-term growth prospect of its businesses in the Asian markets, a huge region that holds vast opportunities offering great business potentials.

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 2021.

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 2021, 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, 24 August 2021

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.