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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") wishes to announce the following unaudited results of the Group for the six months ended 30 June 2014.

#### Consolidated Income Statement

|   | Notes | Six months ended 30 June |                         |
|---|-------|--------------------------|-------------------------|
|   |       | 2014                     | 2013                    |
|   |       | HK\$'000                 | HK\$'000                |
| Revenue                                   | 2     | 3,963,006                | 4,725,285               |
| Cost of sales                             |       | <u>(3,144,571)</u>       | <u>(3,778,440)</u>      |
| Gross profit                              |       | 818,435                  | 946,845                 |
| Other operating income                    |       | 100,778                  | 1,294,579               |
| Distribution costs                        |       | (311,829)                | (340,221)               |
| Administrative expenses                   |       | (379,116)                | (308,926)               |
| Other operating expenses                  |       | <u>(115,668)</u>         | <u>(5,169)</u>          |
| Profit from operations                    |       | 112,600                  | 1,587,108               |
| Financing costs                           |       | (25,739)                 | (13,112)                |
| Share of profit less losses of associates |       | <u>43,704</u>            | <u>33,925</u>           |
| Profit before taxation                    | 3     | 130,565                  | 1,607,921               |
| Income tax expense                        | 4     | <u>(57,771)</u>          | <u>(62,831)</u>         |
| <b>Profit for the period</b>              |       | <u><u>72,794</u></u>     | <u><u>1,545,090</u></u> |
| Attributable to:                          |       |                          |                         |
| Equity shareholders of the Company        |       | 57,600                   | 1,531,570               |
| Non-controlling interests                 |       | <u>15,194</u>            | <u>13,520</u>           |
| <b>Profit for the period</b>              |       | <u><u>72,794</u></u>     | <u><u>1,545,090</u></u> |
| <b>Earnings per share (cents)</b>         | 6     |                          |                         |
| Basic and diluted                         |       | <u><u>2.9</u></u>        | <u><u>76.1</u></u>      |

## Consolidated Statement of Comprehensive Income

|   | <b>Six months ended 30 June</b> |                         |
|---|---------------------------------|-------------------------|
|   | <b>2014</b>                     | <b>2013</b>             |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i>         |
| <b>Profit for the period</b>  | <u>72,794</u>                   | <u>1,545,090</u>        |
| <b>Other comprehensive income for the period that may be reclassified subsequently to profit or loss (after tax and reclassification adjustments)</b> |                                 |                         |
| Exchange differences on translation of financial statements of:   |                                 |                         |
| - overseas subsidiaries   | 39,422                          | (192,816)               |
| - associates  | <u>10,697</u>                   | <u>(46,774)</u>         |
|   | 50,119                          | (239,590)               |
| Available-for-sale securities:  |                                 |                         |
| - changes in fair value recognised during the period  | <u>1,282</u>                    | <u>(3,674)</u>          |
| <b>Other comprehensive income for the period</b>  | <u><u>51,401</u></u>            | <u><u>(243,264)</u></u> |
| <b>Total comprehensive income for the period</b>  | <u><u>124,195</u></u>           | <u><u>1,301,826</u></u> |
| <b>Attributable to:</b>   |                                 |                         |
| Equity shareholders of the company  | 109,341                         | 1,289,053               |
| Non-controlling interests   | <u>14,854</u>                   | <u>12,773</u>           |
| <b>Total comprehensive income for the period</b>  | <u><u>124,195</u></u>           | <u><u>1,301,826</u></u> |

## Consolidated Balance Sheet

|   | Notes | At<br>30 June<br>2014<br>HK\$'000 | At<br>31 December<br>2013<br>HK\$'000 |
|---|-------|-----------------------------------|---------------------------------------|
| <b>Non-current assets</b>                                   |       |                                   |                                       |
| Investment properties                                       |       | 2,999,768                         | 2,654,853                             |
| Other property, plant and equipment                         |       | 3,212,466                         | 2,451,794                             |
| Interest in leasehold land                                  |       | 471,967                           | 261,897                               |
| Intangible assets   |       | 132,008                           | -                                     |
| Interest in associates                                      |       | 694,399                           | 914,435                               |
| Other financial assets                                      |       | 157,941                           | 97,114                                |
| Hire purchase debtors and instalments receivable            |       | 228,344                           | 198,528                               |
| Non-current prepayments                                     |       | 109,221                           | 23,053                                |
| Deferred tax assets   |       | 88,652                            | 37,431                                |
|   |       | <u>8,094,766</u>                  | <u>6,639,105</u>                      |
| <b>Current assets</b>                                       |       |                                   |                                       |
| Investments designated at fair value through profit or loss |       | 2,483,126                         | 2,576,625                             |
| Inventories   |       | 2,471,327                         | 1,959,204                             |
| Properties held for sale                                    |       | 62,035                            | 61,256                                |
| Trade debtors   | 7     | 1,138,747                         | 905,522                               |
| Hire purchase debtors and instalments receivable            |       | 104,655                           | 91,795                                |
| Other debtors, deposits and prepayments                     |       | 559,906                           | 337,594                               |
| Amount due from related companies                           |       | 5,078                             | 3,641                                 |
| Cash and cash equivalents                                   |       | 2,367,668                         | 2,228,857                             |
|   |       | <u>9,192,542</u>                  | <u>8,164,494</u>                      |
| <b>Current liabilities</b>                                  |       |                                   |                                       |
| Unsecured bank overdrafts                                   |       | 46,446                            | 370                                   |
| Bank loans  |       | 2,434,403                         | 2,098,553                             |
| Finance lease liabilities                                   |       | 31,937                            | -                                     |
| Trade creditors   | 8     | 853,782                           | 767,551                               |
| Other creditors and accruals                                |       | 914,882                           | 581,916                               |
| Amounts due to related companies                            |       | 155,200                           | 14,046                                |
| Current taxation  |       | 98,615                            | 114,778                               |
| Provisions  |       | 52,821                            | 28,271                                |
| Other current liabilities                                   |       | 7,970                             | -                                     |
|   |       | <u>4,596,056</u>                  | <u>3,605,485</u>                      |
| <b>Net current assets</b>                                   |       | <u>4,596,486</u>                  | <u>4,559,009</u>                      |
| <b>Total assets less current liabilities</b>                |       | <u>12,691,252</u>                 | <u>11,198,114</u>                     |
| <b>Non-current liabilities</b>                              |       |                                   |                                       |
| Bank loans  |       | 680,485                           | 103,947                               |
| Finance lease liabilities                                   |       | 126,616                           | -                                     |
| Employee benefits   |       | 217,064                           | -                                     |
| Deferred tax liabilities                                    |       | 116,264                           | 23,966                                |
| Provisions  |       | 37,618                            | 46,796                                |
| Other non-current liabilities                               |       | 9,513                             | -                                     |
|   |       | <u>1,187,560</u>                  | <u>174,709</u>                        |
| <b>NET ASSETS</b>   |       | <u>11,503,692</u>                 | <u>11,023,405</u>                     |

|  |                          |                          |
|--|--------------------------|--------------------------|
| <b>Capital and Reserve</b>   |                          |                          |
| Share capital  | 1,006,655                | 1,006,655                |
| Reserves   | 9,849,509                | 9,901,232                |
| <b>Total equity attributable to equity shareholders of the Company</b> | <u>10,856,164</u>        | <u>10,907,887</u>        |
| <b>Non-controlling interests</b>                                       | <u>647,528</u>           | <u>115,518</u>           |
| <b>TOTAL EQUITY</b>  | <u><u>11,503,692</u></u> | <u><u>11,023,405</u></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.

2. **Segment Reporting**

|  |                                 |                  |                                 |                  |
|--|---------------------------------|------------------|---------------------------------|------------------|
| <i>(a) Segment results</i>                                     | <b>Group Revenue</b>            |                  | <b>EBITDA</b>                   |                  |
|  | <b>Six months ended 30 June</b> |                  | <b>Six months ended 30 June</b> |                  |
|  | <b>2014</b>                     | <b>2013</b>      | <b>2014</b>                     | <b>2013</b>      |
|  | <i>HK\$'000</i>                 | <i>HK\$'000</i>  | <i>HK\$'000</i>                 | <i>HK\$'000</i>  |
| <b>Business lines</b>  |                                 |                  |                                 |                  |
| Motor vehicle distribution                                     | 3,334,510                       | 3,419,495        | 204,335                         | 335,855          |
| Heavy commercial vehicle and industrial equipment distribution | 299,222                         | 931,346          | 18,450                          | 143,397          |
| Property rentals and development                               | 59,714                          | 105,777          | 17,759                          | 49,051           |
| Other operations   | 269,560                         | 268,667          | (34,379)                        | 1,140,208        |
|  | <u>3,963,006</u>                | <u>4,725,285</u> | <u>206,165</u>                  | <u>1,668,511</u> |

|                           |                                 |                  |
|---------------------------|---------------------------------|------------------|
| <b>Geographical areas</b> | <b>Group Revenue</b>            |                  |
|                           | <b>Six months ended 30 June</b> |                  |
|                           | <b>2014</b>                     | <b>2013</b>      |
|                           | <i>HK\$'000</i>                 | <i>HK\$'000</i>  |
| Singapore                 | 1,009,493                       | 687,195          |
| Hong Kong                 | 79,409                          | 63,993           |
| PRC                       | 899,230                         | 1,586,645        |
| Thailand                  | 439,781                         | 1,173,453        |
| Others                    | 1,535,093                       | 1,213,999        |
|                           | <u>3,963,006</u>                | <u>4,725,285</u> |

*(b) Reconciliation of reportable segment profit or loss*

|  |                                 |                  |
|--|---------------------------------|------------------|
|  | <b>Six months ended 30 June</b> |                  |
|  | <b>2014</b>                     | <b>2013</b>      |
|  | <i>HK\$'000</i>                 | <i>HK\$'000</i>  |
| Total segment EBITDA                       | 206,165                         | 1,668,511        |
| Depreciation and amortisation              | (113,262)                       | (91,698)         |
| Interest income                            | 19,697                          | 10,295           |
| Finance costs                              | (25,739)                        | (13,112)         |
| Share of profits less losses of associates | 43,704                          | 33,925           |
| <b>Consolidated profit before taxation</b> | <u>130,565</u>                  | <u>1,607,921</u> |

3. **Profit before taxation**

|  | <b>Six months ended 30 June</b> |                             |
|--|---------------------------------|-----------------------------|
|  | <b>2014</b>                     | <b>2013</b>                 |
|  | <i>HK\$'000</i>                 | <i>HK\$'000</i>             |
| Profit before taxation is arrived at after charging/(crediting): |                                 |                             |
| Interest expense   | 25,739                          | 13,112                      |
| Amortisation of interest in leasehold land                       | 17,421                          | 4,146                       |
| Depreciation of property, plant and equipment                    | 95,841                          | 87,552                      |
| Gain on disposal of property, plant and equipment                | (5,728)                         | (6,720)                     |
| Decrease/(increase) in fair value of listed investments          | 94,273                          | (1,080,169)                 |
| Gain on a bargain purchase                                       | (14,693)                        | -                           |
|  | <u>                    </u>     | <u>                    </u> |

4. **Taxation**

|           | <b>Six months ended 30 June</b> |                             |
|-----------|---------------------------------|-----------------------------|
|           | <b>2014</b>                     | <b>2013</b>                 |
|           | <i>HK\$'000</i>                 | <i>HK\$'000</i>             |
| Hong Kong | 1,094                           | -                           |
| Singapore | 8,225                           | 12,720                      |
| Elsewhere | 48,452                          | 50,111                      |
|           | <u>                    </u>     | <u>                    </u> |
|           | <u>57,771</u>                   | <u>62,831</u>               |

Taxes on profits have been provided for at the applicable rates of taxation on the estimated assessable profits arising in the relevant jurisdictions for the period.

5. **Dividends**

|   | <b>Six months ended 30 June</b> |                             |
|---|---------------------------------|-----------------------------|
|   | <b>2014</b>                     | <b>2013</b>                 |
|   | <i>HK\$'000</i>                 | <i>HK\$'000</i>             |
| Interim dividend declared of HK\$0.025 (2013: HK\$0.025) per ordinary share | 50,333                          | 50,333                      |
|   | <u>                    </u>     | <u>                    </u> |

6. **Earnings per share**

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on net profit attributable to equity shareholders of the Company of HK\$57,600,000 (2013: HK\$1,531,570,000) and the weighted average number of shares of 2,013,309,000 (2013: 2,013,309,000) in issue during the period.

Diluted earnings per share for the periods ended 30 June 2014 and 2013 is the same as the basic earnings per share as there were no dilutive securities outstanding during the periods presented.

7. **Trade debtors**

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

|              | <b>At 30 June<br/>2014</b> | <b>At 31 December<br/>2013</b> |
|--------------|----------------------------|--------------------------------|
|              | <i>HK\$'000</i>            | <i>HK\$'000</i>                |
| 0 - 30 days  | 835,462                    | 727,777                        |
| 31 - 90 days | 173,747                    | 90,950                         |
| Over 90 days | 129,538                    | 86,795                         |
|              | <u>1,138,747</u>           | <u>905,522</u>                 |

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

8. **Trade creditors**

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

|               | <b>At 30 June<br/>2014</b> | <b>At 31 December<br/>2013</b> |
|---------------|----------------------------|--------------------------------|
|               | <i>HK\$'000</i>            | <i>HK\$'000</i>                |
| 0 - 30 days   | 649,641                    | 581,890                        |
| 31 - 90 days  | 128,929                    | 124,730                        |
| 91 - 180 days | 55,580                     | 42,734                         |
| Over 180 days | 19,632                     | 18,197                         |
|               | <u>853,782</u>             | <u>767,551</u>                 |

9. **Business acquisition**

In June 2014, a subsidiary of the Group acquired 27.97% equity interest in Zero Co., Ltd ("Zero"). Zero was an associate of the Group prior to the acquisition. Its principal businesses are in vehicle logistics, general cargo transportation and human resource management. After the acquisition, the Group now holds in aggregate approximately 50.88% of the Common Shares through its indirect wholly-owned subsidiaries, Zenith Logistics Limited (as to approximately 27.97%) and Zenith Logistics Pte Ltd (as to approximately 22.91%).

The Group did not have material acquisition during the period ended 30 June 2013.

Details of the estimated fair values of the identifiable assets and liabilities of Zero and gain on a bargain purchase in respect of acquisition at the acquisition date were as follows:

|                                      | <i>HK\$'000</i> |
|--------------------------------------|-----------------|
| Purchase consideration               |                 |
| Cash consideration                   | 305,268         |
| Fair value of interest in associates | 209,497         |
| Total consideration                  | <u>514,765</u>  |

Less: estimated fair values of identifiable assets acquired and liabilities assumed recognised

|   | <i>HK\$'000</i>  |
|---|------------------|
| <b>Assets</b>   |                  |
| Investment properties   | 315,465          |
| Other property, plant and equipment   | 718,272          |
| Intangible assets   | 132,008          |
| Other financial assets  | 76,662           |
| Hire purchase debtors and instalments receivable – non-current                | 3,440            |
| Non-current prepayments   | 73,771           |
| Deferred tax assets   | 57,281           |
| Inventories   | 36,443           |
| Trade debtors   | 573,168          |
| Hire purchase debtors and instalments receivable                              | 916              |
| Other debtors, deposits and prepayments                                       | 77,907           |
| Cash and cash equivalents   | 389,132          |
|   | <u>2,454,465</u> |
| <b>Liabilities</b>  |                  |
| Unsecured bank overdrafts   | 34,397           |
| Bank loans  | 114,634          |
| Finance lease liabilities   | 31,937           |
| Trade creditors   | 255,421          |
| Other creditors and accruals  | 305,389          |
| Current taxation  | 47,918           |
| Provisions  | 21,945           |
| Other current liabilities   | 7,970            |
| Bank loans – non-current  | 138,827          |
| Finance lease liabilities – non-current                                       | 126,616          |
| Employee benefits   | 217,064          |
| Deferred tax liabilities  | 95,815           |
| Provisions – non-current  | 6,418            |
| Other non-current liabilities   | 9,513            |
|   | <u>1,413,864</u> |
| <b>Total identifiable net assets acquired</b>                                 | <u>1,040,601</u> |
| <b>Less: Non-controlling interests</b>  | <u>(511,143)</u> |
| <b>Total identifiable net assets acquired after non-controlling interests</b> | <u>529,458</u>   |
| <b>Gain on a bargain purchase</b>   | <u>14,693</u>    |
| <b>Analysis of cash flows on acquisition</b>                                  |                  |
| Cash consideration  | (305,268)        |
| Cash and cash equivalents acquired  | 354,735          |
| <b>Net cash inflow</b>  | <u>49,467</u>    |

Note:

The gain on a bargain purchase arising from the acquisition represents the slight differential between the price paid and the net assets acquired because of timing and foreign exchange differences to integrate the subsidiary company into the Group's existing businesses.

## 10. 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 (2013: HK\$0.025) per ordinary share on the shares in issue amounting to a total of HK\$50,333,000 (2013: HK\$50,333,000), which will be payable on 25 September 2014 to shareholders whose names appear on the Register of Members on 22 September 2014. Dividend warrants will be sent to shareholders on 25 September 2014.

### **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 19 September 2014 to 22 September 2014, 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 18 September 2014.

### **MANAGEMENT REVIEW**

#### **Results**

In the 1st half of 2014 our company returned weak financial results, although we made significant advances in building future revenue potential by expanding our compatible business activities in a developed market. We have achieved this through increasing our stakes to 50.88% of voting rights in Zero Co., Ltd. This Japanese logistic company is ranked 1st and 2nd in market share for used and new vehicle transportation respectively. Zero Co., Ltd is listed on the 2nd section of Tokyo Stock Exchange and their annual turnover is approximately 55% of TCIL revenue. This rebalancing of our business activities to a developed market will concurrently improve our company risk profile.

Compared to the corresponding period of 2013, the half-year revenue of HK\$3.963 billion is down 16%. Profit attributable to shareholders at HK\$57.6 million is down 96%. On an operating business basis (excluding changes in Investment gain/loss and one-time items) it is HK\$151.9 million after tax and HK\$224.8 million before tax, down 66% and 57% respectively.

The EBITDA is HK\$206.2 million, and on an operating business basis it is HK\$300.4 million. However, group Net Asset Per Share at the end of June 2014 rose to HK\$5.71 from HK\$5.48 at the end of December 2013.

The directors have declared an interim dividend of HK\$0.025 per share for the first half of 2014.

#### **Thailand and China Operation**

Although sales revenue in Singapore, Taiwan and Philippine increased, they could not make up for the sharp drop in the two large market of Thailand and China which decline 63% and 43% respectively.

In Thailand, the political problems since the last quarter of 2013 has dampened consumers and business confidence, and in particular affected our consumer and capital expenditure types of business demand. The political situation has since stabilized and initial sales indication gives us confidence that the 2nd half of 2014 should be better.

In China, since the structural change of the distribution system for Motor Image China from a Distributor to Dealer status last year, sales and profit revenue declined as a consequence. We expect sales in the 2nd half to be similar to 1st half.



In the manufacturing sector, our auto parts are still in the early stages of trying to gain meaningful traction with the auto manufacturers in China. We expect to do better in the 2nd half of 2014 because of new orders from Chang An Auto Company.

### **Singapore, Taiwan and Philippines Operations**

In Singapore we expect double-digit growth in profit and revenue because of the success with our commercial vehicle in gaining market share.

Also in Taiwan and Philippines we expect to see higher profit and revenue growth.

### **Thailand, Malaysia and Indonesia CKD Operation**

After more than one year of business operation in the Complete Knocked Down (“CKD”) market, we are still in the early stages of building the sale/service network. Some time is still needed to gain understanding and make inroads in these markets in the presence of current established and entrenched market players.

### **Zero Company Ltd., Japan**

On 19th June 2014 the Company successfully acquired 50.88% of the voting rights of Zero Co., Ltd. This vehicle logistics company has annual revenue of more than US\$650 million and is ranked 1st. for used car (annual market size approximately 7 million units) with 20% market share, and 2nd for new vehicles (annual market size of approximately 5 million units) with approximately 30% market share. This company’s expertise in vehicle logistics and human resource management business can help improve cost competitiveness and quality standards in our ASEAN business operation. Their human resource management business when integrated with our ASEAN business networks can also give rise to a new scope of business for TCIL. Our next development is to expand with this subsidiary to maximize the collaborative benefits in ASEAN where we operate. Revenue and profit from Zero Co., Ltd will only be consolidated in the 2nd half of 2014.

### **Prospects**

We expect that the second half year will see satisfactory business performance, barring any unforeseen circumstances.

### **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 2014.

### **CORPORATE GOVERNANCE CODE**

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 2014, acting in compliance with the Corporate Governance Code 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.

Following the passing away of the late Mr. Masatoshi Matsuo on 19 March 2014, the nomination committee currently comprises one member only. The Board will consider the replacement to fill the vacancy of member of the nomination committee held by the late Mr. Masatoshi Matsuo as soon as practicable.

By Order of the Board

**Sng Chiew Huat**

Finance Director

Hong Kong, 29 August 2014

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

*As at the date of this announcement, the Executive Directors are Mr. Tan Eng Soon, Mr. Joseph Ong Yong Loke, Mr. Tan Kheng Leong, Mdm. Sng Chiew Huat and Mr. Glenn Tan Chun Hong. Independent Non-Executive Directors are Mr. Lee Han Yang, Mr. Tan Ngiap Joo and Mr. Ng Kim Tuck. The Honorary Life Counselor of the Company is Tan Sri Dato' Tan Kim Hor.*