



INTERIM REPORT 2022

TAN CHONG INTERNATIONAL LIMITED

陳唱國際有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 693

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Management Review

RESULTS

Despite unprecedented challenges brought about by the COVID-19 pandemic, the Group achieved a 5% increase in revenue and 120% increase in after tax profit in the first half of 2022.

Even as business activities continued to be weighed down by widespread disruptions and operational challenges, the Group remained resilient and agile in the face of uncertainty across the Asia Pacific region.

Government and travel restrictions continued to limit economic growth across the 10 countries within the Asia Pacific region in which the Group operates.

In China, strict lockdowns over extended periods in some cities caused abrupt standstills in certain factories and down-stream supporting industries. Restrictions on air travel and stringent quarantine requirements in Hong Kong also took a considerable toll on consumer confidence and spending habits.

On the global front, the Ukraine war brought about staggering fuel and food prices, triggering inflation across the world. Geopolitical uncertainties further impacted consumer activities, while businesses adopted a more cautious outlook in the face of fluctuating demand and unpredictable trends.

The Group's revenue in the first half of 2022 was HK\$6.480 billion, a 5% increase compared to HK\$6.156 billion in the first half of 2021. The Group's after-tax profit in the first half of 2022 was HK\$172.9 million, as compared to HK\$78.6 million in the corresponding period in 2021. The disposal of one of the Group's properties in Singapore contributed significantly to this improvement in profit.

EBITDA increased 14% to HK\$558 million from HK\$489 million. Profit from operations was HK\$271.2 million, with an operating profit margin of 4.2% as compared to the 2.9% registered in the corresponding period in 2021.

The Group's net gearing ratio, which is computed by dividing the net debt with the total equity, is not applicable as of 30 June 2022 because the Group was in a net cash position at that date. The net cash recorded was HK\$376.2 million, as compared to HK\$265.7 million as of 31 December 2021. Net cash is comprised of cash and bank balances of HK\$2,773.7 million, less borrowings of HK\$2,202.7 million and unsecured overdrafts of HK\$194.8 million.

ROCE (Return on capital employed), which is computed by dividing earnings before interest and taxes (EBIT) with total equity plus non-current liabilities, was increased to 2.3% as compared to 1.5% for the first half of 2021.

Net Asset Per Share as of 30 June 2022 was HK\$5.79, a decrease from the HK\$6.00 recorded at the end of December 2021.

The directors have declared an interim dividend of HK2.5 cents per share for the first half of 2022.

SIGNIFICANT INVESTMENTS

As of 30 June 2022, the Group had investments designated at fair value through other comprehensive income of HK\$1.627 billion. The investments consist of both listed and unlisted equity securities. Most 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\$7.8 million, as compared to the unrealized loss of HK\$1.4 million for the corresponding period in 2021. The loss is 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. Such unrealized fair value loss on its investments was not reclassified to the Group's consolidated statement of profit or loss.

SINGAPORE AND CHINA

In Singapore, total industry volume ("TIV") in the first half of 2022 saw a sharp 39% contraction year-on-year due to an 8-year record low supply of Certificate of Entitlements ("COE"). TIV for passenger cars contracted by 36% year-on-year, while that for light commercial vehicles contracted even more by 56%. The severe contraction in COE supply also led to a drastic increase in COE premiums across the board, hitting multi-year record highs.

Mass-market brands like Nissan were most affected by the increase in COE premiums. Nissan sales saw a 59% contraction in the first half of 2022, as compared to the corresponding period in 2021. Despite these challenges, Nissan managed to secure its position as one of the top 10 best-selling passenger car brands in Singapore. In addition, it was also named the second best-selling light commercial vehicle brand in Singapore.

The outlook for Nissan sales remains challenging for the second half of the year. TIV is expected to contract further by 12% compared to the first half of the year, as COE supply continues to shrink.

The Group's Subaru business in Singapore continues to be impacted by stringent vehicle emission surcharges, as well as a reduced COE quota. The Group recorded a double-digit decline in sales volume as compared to the corresponding period last year. However, Singapore operations are expected to improve with the introduction of the New Forester E-Boxer model in the second half of 2022, as the new model will mitigate the current vehicle emission surcharges.

In Hong Kong, Subaru was able to maintain its sales momentum despite stringent COVID-19 control measures and global microchip shortages resulting in a shortfall of inventory. It posted a modest 2% decline in sales volume, with a healthy level of back orders to be fulfilled once the supply of inventory recovers in the second half of 2022.

In China, the Group's car business reaped the rewards from its diversification of dealership businesses at the end of 2021, which expanded to include Haval and Ora Electric vehicles. As a result, the Group posted a 44% growth in volume in its China market over the corresponding period last year. Barring any further COVID-19 outbreaks and microchip shortages, the Group has a positive outlook for its automotive dealership business in China.

Management Review (continued)

TAIWAN AND PHILIPPINES

Despite microchip shortages which delayed delivery lead time for its popular New Forester, the Group's vehicle sales in Taiwan experienced marginal growth in the first half of 2022.

The New Forester, which is a level 2 autonomous vehicle equipped with Eyesight 4.0, has been extremely well received. With improvements in inventory supply, the Group is optimistic about its Taiwan performance for the second half of 2022.

In Philippines, the Group posted a 38% growth in sales volume against the corresponding period in 2021. In addition to strong sales momentum for the New Forester and XV models, the All New WRX and WRX Wagon were well-received by the local market. The Group expects strong year-on-year growth from its Philippines operations, especially with the easing of restrictions in the country.

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

The Group's joint venture plant in Thailand is into its fourth 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, with Sales Tax Exemption extended till 30 June 2022 coupled with promising economic recovery post COVID-19, the Group posted a 196% growth in sales volume against the corresponding period in 2021.

In Thailand, the Group posted a 18% growth in sales volume against the corresponding period in 2021. Despite rising global oil prices and general economic uncertainties in the country, the Group believes that the recovery of Thailand's tourism industry and other economic activities will bring about better prospects for the second half of 2022.

In Vietnam, the Group posted a 97% increase in sales volume compared to the corresponding period in 2021. As the Thailand-produced Forester remains a top choice for Vietnamese customers due to its good quality, the Group is optimistic about year-on-year growth for its operations in Vietnam.

In Cambodia, the sale of Thailand-produced cars only started in 2020. The Group achieved a 633% increase over its small volume sales from the previous year. This was due to consistent marketing efforts, which greatly improved Subaru's brand and product awareness in the local market.

JAPAN

ZERO, the Group's vehicle transportation and logistics division recorded a 10% increase in revenue to HK\$3.8 billion for first half of 2022. The revenue increase is partly due to the consolidation of the financial results of Zero SCM Logistics (Beijing) Co., Ltd. ("Zero SCM"), as well as the steady growth in ZERO's used car export business. ZERO increased its stake in Zero SCM from 25% to 65% in July 2021.

JAPAN (continued)

ZERO's net profit for the first half of 2022 decreased by 23% from the corresponding period last year. This was due to a slump in automobile distribution in Japan, which resulted in a decline in the number of units ferried under ZERO's transportation contracts. Other contributing factors include soaring fuel costs and the depreciation of Japanese yen against the Group's reporting currency in HK\$.

ZERO expects to mitigate the fluctuation of fuel costs with the implementation of a fuel surcharge system for its vehicle transportation business. Although recovery from the impact of COVID-19 remains uncertain, ZERO is nevertheless optimistic that sales revenue will gradually improve in its next financial year. Furthermore, automobile production in Japan is expected to improve marginally once semiconductor shortages and supply of automobile parts from factories in Southeast Asia have stabilized in the region.

PROSPECTS

As the world recovers from the COVID-19 pandemic and grapples with geopolitical instability, the Group foresees rising challenges to global trade activities. Rapidly changing automotive industry safety standards, evolving vehicle emissions policies and a swift progression towards greener vehicles pose significant challenges to the Group's main vehicle businesses. In addition, the global trend of ride hailing services has changed consumer mindsets about owning their own vehicles.

While the Group remains resilient and agile in the face of these challenges, the fluidity of the COVID-19 situation prevents the Group from making meaningful predictions and assessing the full financial impact of its overall performance for 2022.

Looking forward, the Group expects a brighter outlook for the second half of the year due to increased demand triggered by shortages of vehicle supplies. As vehicle deliveries begin to stabilize and demand remains robust, the Group expects a stronger performance for the second half of the year.

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2022 (Unaudited)

	Note	Six months ended 30 June	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	3	6,480,489	6,155,538
Cost of sales		<u>(5,451,443)</u>	<u>(5,127,803)</u>
Gross profit		1,029,046	1,027,735
Other net income		224,389	169,362
Distribution costs		(528,692)	(514,470)
Administrative expenses		(446,285)	(493,762)
Other operating expenses		<u>(7,287)</u>	<u>(9,104)</u>
Profit from operations		271,171	179,761
Finance costs		(28,574)	(31,205)
Share of profits less losses of associates		<u>34,105</u>	<u>35,519</u>
Profit before taxation	4	276,702	184,075
Income tax expense	5	<u>(103,838)</u>	<u>(105,493)</u>
Profit for the period		<u>172,864</u>	<u>78,582</u>
Attributable to:			
Equity shareholders of the Company		130,560	27,094
Non-controlling interests		<u>42,304</u>	<u>51,488</u>
Profit for the period		<u>172,864</u>	<u>78,582</u>
Earnings per share	7		
Basic and diluted (cents)		<u>6.48</u>	<u>1.35</u>

The notes on pages 13 to 24 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 6.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2022 (Unaudited)

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period	172,864	78,582
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	(3,103)	(1,938)
Investments designated as at fair value through other comprehensive income:		
- changes in fair value recognised during the period	(7,769)	(1,362)
	<u>(10,872)</u>	<u>(3,300)</u>
Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of:		
- subsidiaries outside Hong Kong	(455,726)	(221,336)
- associates outside Hong Kong	(31,508)	5,534
	<u>(487,234)</u>	<u>(215,802)</u>
Other comprehensive income for the period	<u>(498,106)</u>	<u>(219,102)</u>
Total comprehensive income for the period	<u>(325,242)</u>	<u>(140,520)</u>
Attributable to:		
Equity shareholders of the Company	(206,105)	(112,733)
Non-controlling interests	(119,137)	(27,787)
Total comprehensive income for the period	<u>(325,242)</u>	<u>(140,520)</u>

The notes on pages 13 to 24 form part of these financial statements.

Consolidated Statement of Financial Position

at 30 June 2022 (Unaudited)

	Note	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Non-current assets			
Investment properties		3,406,940	4,065,018
Property, plant and equipment		4,409,873	4,811,672
Intangible assets		40,224	53,469
Goodwill		67,927	31,769
Interest in associates		876,665	896,967
Investments designated as at fair value through other comprehensive income	8	1,627,053	1,642,997
Hire purchase debtors and instalments receivable		87,353	102,569
Receivables, deposits and prepayments		202,251	179,325
Deferred tax assets		51,911	56,721
		10,770,197	11,840,507
Current assets			
Inventories		1,344,582	1,450,435
Trade debtors	9	1,011,097	981,578
Hire purchase debtors and instalments receivable		59,030	78,897
Other debtors, deposits and prepayments		827,919	509,819
Amounts due from related companies		146	251
Cash and bank balances	10	2,773,685	2,475,773
		6,016,459	5,496,753
Current liabilities			
Unsecured bank overdrafts	10	194,830	144,950
Bank loans		1,707,191	996,151
Trade creditors	11	801,615	889,175
Other creditors and accruals		971,796	1,040,588
Amounts due to related companies		21,372	11,088
Lease liabilities		210,778	244,258
Current taxation		117,579	109,654
Provisions		22,428	24,547
		4,047,589	3,460,411
Net current assets		1,968,870	2,036,342
Total assets less current liabilities		12,739,067	13,876,849

The notes on pages 13 to 24 form part of these financial statements.

Consolidated Statement of Financial Position (continued)

at 30 June 2022 (Unaudited)

	Note	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Non-current liabilities			
Bank loans		495,470	1,068,985
Lease liabilities		396,240	503,776
Net defined benefit retirement obligations		51,778	63,513
Deferred tax liabilities		90,013	107,178
Provisions		54,430	49,551
		<u>1,087,931</u>	<u>1,793,003</u>
NET ASSETS		<u>11,651,136</u>	<u>12,083,846</u>
Capital and reserves			
Share capital	12	1,006,655	1,006,655
Reserves		9,494,097	9,800,580
Total equity attributable to equity shareholders of the Company		<u>10,500,752</u>	<u>10,807,235</u>
Non-controlling interests		<u>1,150,384</u>	<u>1,276,611</u>
TOTAL EQUITY		<u>11,651,136</u>	<u>12,083,846</u>

The notes on pages 13 to 24 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2022 (Unaudited)

	Attributable to equity shareholders of the Company						Attributable to equity shareholders of the Company					
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Stock compensation reserve HK\$'000	Translation reserve HK\$'000	Contributed surplus HK\$'000	Fair value reserve (non-recycling) HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 January 2021 (Audited)	1,006,655	550,547	9,549	10,082	777,601	377,690	1,301,497	332,988	6,488,916	10,855,525	1,325,600	12,181,125
Changes in equity for the six months ended 30 June 2021												
Profit for the period	-	-	-	-	-	-	-	-	27,094	27,094	51,488	78,582
Other comprehensive income	-	-	-	-	(132,392)	-	(6,404)	-	(1,031)	(139,827)	(79,275)	(219,102)
Total comprehensive income for the period	-	-	-	-	(132,392)	-	(6,404)	-	26,063	(112,733)	(27,787)	(140,520)
Equity settled share based transactions	-	-	-	536	-	-	-	-	-	536	471	1,007
Dividends declared and approved during the period	-	-	-	-	-	-	-	-	(60,399)	(60,399)	-	(60,399)
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(8,318)	(8,318)
Balance at 30 June 2021 (Unaudited)	1,006,655	550,547	9,549	10,618	645,209	377,690	1,295,093	332,988	6,454,580	10,682,929	1,289,966	11,972,895
Balance at 1 January 2022 (Audited)	1,006,655	550,547	9,549	11,624	613,763	377,690	1,127,509	332,988	6,776,910	10,807,235	1,276,611	12,083,846
Changes in equity for the six months ended 30 June 2022												
Profit for the period	-	-	-	-	-	-	-	-	130,560	130,560	42,304	172,864
Other comprehensive income	-	-	-	-	(328,481)	-	(6,533)	-	(1,651)	(336,665)	(161,441)	(498,106)
Total comprehensive income for the period	-	-	-	-	(328,481)	-	(6,533)	-	128,909	(206,105)	(119,137)	(325,242)
Equity settled share based transactions	-	-	-	287	-	-	-	-	-	287	253	540
Dividends declared and approved during the period	-	-	-	-	-	-	-	-	(100,665)	(100,665)	-	(100,665)
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(7,343)	(7,343)
Balance at 30 June 2022 (Unaudited)	1,006,655	550,547	9,549	11,911	285,282	377,690	1,120,976	332,988	6,805,154	10,500,752	1,150,384	11,651,136

The notes on pages 13 to 24 form part of these financial statements.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2022 (Unaudited)

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	116,388	263,602
Net cash generated from investing activities	243,398	23,016
Net cash used in financing activities	<u>(26,929)</u>	<u>(346,298)</u>
Net increase / (decrease) in cash and cash equivalents	332,857	(59,680)
Cash and cash equivalents at 1 January	2,316,136	2,460,547
Effect of exchange differences	<u>(97,137)</u>	<u>(68,213)</u>
Cash and cash equivalents at 30 June	<u>2,551,856</u>	<u>2,332,654</u>

The notes on pages 13 to 24 form part of these financial statements.

Notes to the Unaudited Consolidated Financial Statements

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 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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:

- Amendments to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in these financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Unaudited Consolidated Financial Statements (continued)

3 Revenue and Segment Reporting

Revenue represents the sales value of goods sold, services provided to customers, hire purchase financing income, rental income, 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	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or services lines		
- Sale of goods	2,377,863	2,394,349
- Rendering of services	4,018,890	3,669,850
- Agency commission and handling fees	19,061	24,000
- Warranty income	266	1,503
Revenue from other sources		
- Gross rentals from investment properties	52,021	49,906
- Hire purchase financing income	12,388	15,930
	<u>6,480,489</u>	<u>6,155,538</u>

Notes to the Unaudited Consolidated Financial Statements (continued)

3 Revenue and Segment Reporting (continued)

(a) Disaggregation of revenue (continued)

	Revenue	
	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Disaggregated by geographical location of customers		
- Singapore	522,977	845,753
- PRC	272,204	255,254
- Thailand	364,560	403,952
- Japan	3,809,112	3,453,156
- Taiwan	661,852	667,052
- Others	849,784	530,371
	<u>6,480,489</u>	<u>6,155,538</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 2022 and 2021 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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	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	2,240,709	2,170,872	45,754	120,309	–	–	–	–	110,461	103,168	2,396,924	2,394,349
Over time	138,987	170,813	37,471	37,795	48,002	46,112	3,809,112	3,453,156	49,993	53,313	4,083,565	3,761,189
Revenue from external customers	<u>2,379,696</u>	<u>2,341,685</u>	<u>83,225</u>	<u>158,104</u>	<u>48,002</u>	<u>46,112</u>	<u>3,809,112</u>	<u>3,453,156</u>	<u>160,454</u>	<u>156,481</u>	<u>6,480,489</u>	<u>6,155,538</u>
EBITDA	<u>67,320</u>	<u>120,118</u>	<u>5,184</u>	<u>(42,990)</u>	<u>189,515</u>	<u>27,646</u>	<u>309,953</u>	<u>370,830</u>	<u>(14,270)</u>	<u>13,412</u>	<u>557,702</u>	<u>489,016</u>

(c) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total segment EBITDA	557,702	489,016
Depreciation and amortisation	(296,064)	(316,306)
Interest income	9,533	7,051
Finance costs	(28,574)	(31,205)
Share of profits less losses of associates	34,105	35,519
Consolidated profit before taxation	<u>276,702</u>	<u>184,075</u>

Notes to the Unaudited Consolidated Financial Statements (continued)

4 Profit before taxation

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Finance costs	28,574	31,205
Depreciation		
- owned property, plant and equipment	155,112	154,042
- right-of-use assets	130,890	149,540
Amortisation of intangible assets	10,062	12,724
Dividend income	(20,932)	(20,692)
Gain on disposal of investment property	(171,178)	-
Gain on disposal of property, plant and equipment	<u>(4,815)</u>	<u>(112,597)</u>

5 Income tax expense

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	396	432
Singapore	10,622	11,845
Others	92,820	93,216
	<u>103,838</u>	<u>105,493</u>

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2021: 16.5%) and 30.62% (2021: 30.62%), in the tax jurisdictions in which the Group operates.

6 Dividends

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(i) Dividends attributable to the period:		
Interim dividend declared of HK\$0.025 (2021: HK\$0.015) per ordinary share	<u>50,333</u>	<u>30,200</u>

The interim dividend has not been recognised as a liability as of the end of the reporting period.

(ii) Dividends paid during the period:		
Final dividend approved in respect of prior year of HK\$0.05 (2021: HK\$0.03) per ordinary share	<u>100,665</u>	<u>60,399</u>

Notes to the Unaudited Consolidated Financial Statements (continued)

7 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2022 is based on the profit attributable to equity shareholders of the Company of HK\$130,560,000 (2021: HK\$27,094,000) and the weighted average number of shares of 2,013,309,000 (2021: 2,013,309,000) in issue during the period.

Diluted earnings per share for the periods ended 30 June 2022 and 2021 is the same as the basic 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 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Listed outside Hong Kong	1,624,117	1,639,819
Unlisted equity securities	2,936	3,178
	1,627,053	1,642,997

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 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)	Six months ended 30 June 2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Investments in Subaru Corporation (Note)	1,584,351	1,589,463	16,556	20,192
Others	42,702	53,534	4,376	500
	1,627,053	1,642,997	20,932	20,692

Note:

Fair value loss of HK\$5,112,000 (2021: loss of HK\$12,541,000) was recognised in other comprehensive income for the six months ended 30 June 2022. There was no significant addition nor disposal for this equity security during the period ended 30 June 2022.

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 9.4% of the Groups' total assets.

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

Notes to the Unaudited Consolidated Financial Statements (continued)

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 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
0 - 30 days	742,748	719,702
31 - 90 days	246,293	231,772
Over 90 days	22,056	30,104
	<u>1,011,097</u>	<u>981,578</u>

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

10 Cash and bank balances

	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Bank deposits	1,203,841	510,184
Cash at bank	1,567,884	1,965,035
Cash in hand	1,960	554
Cash and bank balances in the consolidated statement of financial position	<u>2,773,685</u>	<u>2,475,773</u>
Less: Bank deposits with more than three months to maturity when placed	(26,999)	(14,687)
Unsecured bank overdrafts	<u>(194,830)</u>	<u>(144,950)</u>
Cash and cash equivalents in the condensed consolidated cash flow statement	<u>2,551,856</u>	<u>2,316,136</u>

11 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 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
0 - 30 days	534,418	563,933
31 - 90 days	146,107	113,943
91 - 180 days	25,897	32,364
Over 180 days	95,193	178,935
	<u>801,615</u>	<u>889,175</u>

Notes to the Unaudited Consolidated Financial Statements (continued)

12 Share capital

	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Authorised:		
3,000,000,000 ordinary shares of HK\$0.50 each	<u>1,500,000</u>	<u>1,500,000</u>
Issued and fully paid:		
2,013,309,000 ordinary shares of HK\$0.50 each	<u>1,006,655</u>	<u>1,006,655</u>

13 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\$ 31,575,000) and further contribution to the trust fund is subject to approval by the board of the subsidiary.

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

Up to 30 June 2022, a total of 463,520 points were granted to selected participants.

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

Points granted to employees:	Number of points
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
On 1 July 2021	<u>49,200</u>

Notes to the Unaudited Consolidated Financial Statements (continued)

13 Equity settled share based transactions (continued)

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

	2022 Number of points	2021 Number of points
Outstanding at the beginning of the period	289,200	284,700
Forfeited during the period	(16,700)	(21,200)
Exercised during the period	(500)	(23,500)
Granted during the period	–	49,200
Outstanding at the end of the period	<u>272,000</u>	<u>289,200</u>
Exercisable at the end of the period	<u>272,000</u>	<u>289,200</u>

(c) *Fair value of points and assumptions*

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

	1 July 2021	1 July 2020
Fair value of points and assumptions		
Fair value at measurement date	JPY1,088	JPY726
Share price	JPY1,273	JPY868
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	32.7%	32.0%
Expected option life (expressed as weighted average life used in the modelling under Black-Scholes model)	4.6 years	5.5 years
Expected dividends	3.4%	3.3%
Risk-free interest rate (based on the yield of Japanese government bonds)	-0.1%	-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 2020 and 1 July 2021 were JPY868 (equivalent to HK\$65) and JPY1,273 (equivalent to HK\$86) per share respectively.

During the period ended 30 June 2022, the Group recognised a net expense of HK\$540,000 (2021: HK\$1,007,000) as equity settled share based payments in relation to the Program.

Notes to the Unaudited Consolidated Financial Statements (continued)

14 Fair value measurement of financial instruments

(i) Financial instruments carried at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value measurement as at 30 June 2022 categorised into				Fair value measurement as at 31 December 2021 categorised into			
	Fair value at 30 June 2022 <i>(Unaudited)</i>	Level 1	Level 2	Level 3	Fair value at 31 December 2021 <i>(Audited)</i>	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group								
Recurring fair value measurements								
Assets								
Equity securities designated as at fair value through other comprehensive income								
- Listed outside Hong Kong	1,624,117	1,624,117	–	–	1,639,819	1,639,819	–	–
- Unlisted	2,936	–	–	2,936	3,178	–	–	3,178
	<u>1,627,053</u>	<u>1,624,117</u>	<u>–</u>	<u>2,936</u>	<u>1,642,997</u>	<u>1,639,819</u>	<u>–</u>	<u>3,178</u>

During the six months ended 30 June 2022, there was no transfer among Level 1, Level 2 and Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2022 and 31 December 2021.

Notes to the Unaudited Consolidated Financial Statements (continued)

14 Fair value measurement of financial instruments (continued)

(iii) Information about Level 3 fair value measurements

Cost is used as an approximation of fair value for equity instruments that do not have a quoted market price in an active market.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	HK\$'000
Unlisted equity securities:	
At 1 January 2021 (audited)	3,613
Net unrealised losses recognised in other comprehensive income during the year	(295)
Exchange adjustments	(140)
At 31 December 2021 and 1 January 2022 (audited)	<u>3,178</u>
Exchange adjustments	(242)
At 30 June 2022 (unaudited)	<u><u>2,936</u></u>

15 Capital commitments

Capital commitments outstanding at 30 June 2022 not provided for in the financial statements were as follows:

	At 30 June 2022 HK\$'000 (Unaudited)	At 31 December 2021 HK\$'000 (Audited)
Authorised and contracted for	<u>26,928</u>	<u>71,482</u>

16 Connected transactions

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

	Six months ended 30 June 2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Sale of goods and services to related companies	321	363
Purchase of goods and services from related companies	<u>30,920</u>	<u>9,698</u>

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

Interim Dividend

The Board is pleased to declare an interim dividend of HK\$0.025 (2021: HK\$0.015) per ordinary share on the shares in issue amounting to a total of HK\$50,333,000 (2021: HK\$30,200,000), which will be payable on 21 September 2022 to shareholders of the Company whose names appear on the register of members of the Company on 9 September 2022. Dividend warrants will be sent to shareholders of the Company on 21 September 2022.

Closure of Register of Members

The register of members of the Company will be closed from 8 September 2022 to 9 September 2022, 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 7 September 2022.

Directors' Interests and Short Positions in Shares

The directors of the Company ("Directors") who held office as at 30 June 2022 had the following interests in the issued share capital of the Company at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the Securities and Futures Ordinance ("SFO"):

	Ordinary shares of HK\$0.50 each				Total number of shares held	Percentage of total issued shares
	Personal interests	Family interests (Note 1)	Corporate interests (Note 2)	Joint interests (Note 3)		
Executive Directors:						
Tan Eng Soon	152,460,000	–	348,544,700	85,932,972	586,937,672	29.15%
Tan Kheng Leong	2,205,000	210,000	–	–	2,415,000	0.12%
Sng Chiew Huat	900,000	–	–	–	900,000	0.04%
Glenn Tan Chun Hong	99,000	–	–	–	99,000	0.0049%
Non-executive Director:						
Joseph Ong Yong Loke	684,000	795,000	940,536	–	2,419,536	0.12%
Independent Non-executive Director:						
Teo Ek Kee	–	300,000	–	–	300,000	0.01%

Other Information (continued)

Directors' Interests and Short Positions in Shares (continued)

Notes:

- (1) These shares are beneficially owned by the spouses of Tan Kheng Leong, Joseph Ong Yong Loke and Teo Ek Kee, respectively, and hence they are deemed to be interested in these shares respectively.
- (2) These shares are beneficially owned by corporations controlled by Tan Eng Soon and Joseph Ong Yong Loke, respectively.
- (3) These shares are owned by Tan Eng Soon jointly with another persons.

Save as disclosed above, none of the Directors or chief executives of the Company, or any of their spouses or children under eighteen years of age, had any beneficial or non-beneficial interests or short positions in shares of the Company or any of its subsidiaries or associates (within the meaning of the SFO) as at 30 June 2022, and there was no right granted to or exercised by any Directors or chief executives of the Company, or any of their spouses or children under eighteen years of age, during the period to subscribe for shares, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules of the Stock Exchange.

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

Substantial Interests in the Share Capital of the Company

The Company has been notified of the following interests (other than a Director) in the Company's issued shares as at 30 June 2022 amounting to 5% or more of the ordinary shares in issue:

Name	Long/short positions	Note	Ordinary shares held	Percentage of total issued shares
Tan Chong Consolidated Sdn. Bhd.	Long	(1)	705,819,720	35.05%
Promenade Group Limited	Long	(2)	212,067,000	10.53%
Tan Kim Hor	Long	(3)	144,801,495	7.19%
Pang Siew Ha	Long		134,821,032	6.69%
Time Strategy Group Limited	Long	(4)	104,497,700	5.19%
Lee Lang	Long		103,930,622	5.16%
Tan Heng Chew	Long	(5)	100,692,856	5.00%
Khor Swee Wah	Long	(5)	100,692,856	5.00%
Wang Shu Erh	Long	(5)	100,692,856	5.00%

Substantial Interests in the Share Capital of the Company (continued)

Notes:

- (1) The share capital of Tan Chong Consolidated Sdn. Bhd. is held by Tan Eng Soon as to approximately 22.85% and Tan Kheng Leong as to approximately 15.38%. The remaining shareholding is held by certain members of the Tan family who are not Directors.
- (2) Tan Eng Soon is the controlling shareholder of Promenade Group Limited.
- (3) Tan Kim Hor passed away on 21 March 2016. His interest includes his spouses' interests.
- (4) Tan Eng Soon is the controlling shareholder of Time Strategy Group Limited.
- (5) Based on the disclosure of interests filed, Tan Heng Chew has personal, corporate and family interests of 50,981,686 shares, 37,848,000 and 11,863,170 shares respectively, making a total interests of 100,692,856 shares. Khor Swee Wah and Wang Shu Erh, being spouses of Tan Heng Chew, are deemed to be interested in all the shares held by Tan Heng Chew.

Save as disclosed above, no persons, other than a Director whose interests are set out above, had registered interests in the share capital of the Company that was required to be recorded in the register under section 336 of the SFO.

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 2022.

Directors' Securities Transactions

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

Other Information (continued)

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 2022, 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.

By Order of the Board

Sng Chiew Huat

Finance Director

Hong Kong, 22 August 2022

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

As at the date of this report, 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, Mr. Teo Ek Kee and Mr. Charles Tseng Chia Chun.