

INTERIM REPORT 2018

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

The first six months of 2018 was challenging. During the period, revenue and vehicle sale units declined by 3% and 10% respectively. Although the Group's transportation logistics operations by ZERO CO. LTD in Japan ("Zero") registered revenue increase, there was a profit decrease in its operations.

The Group has been and is working towards a leaner, more agile and competitive organization. It conducts continuous review across all areas that have both material long and short-term values to the Group. The Group is committed to reduce cost while improving productivity at all levels of the organization with the view to continually eliminate Non Value Added Activities. These actions have discerning improvements to the company's financial positions in the current period, as they did in the past, thus ensuring our long-term competitiveness and sustainability.

Construction of the Group's Subaru production plant located in Thailand is progressing satisfactorily. When completed, it will strategically cater to the growing Asean CKD markets. This positions the Group for positive and competitive growth in the long term.

The Group's revenue in the first 6 months of 2018 was HK\$7.78 billion; a 3% decrease as compared to HK\$8.03 billion for the first half of 2017. Despite the revenue drop, EBITDA and Profit registered satisfactory levels of HK\$699 million and HK\$399 million respectively, due largely to improvement in operating profit margin of 7.2% when compared to 6.9% achieved in the first half of 2017. These positive results are attributable to the reduction in distribution costs and other operating expenses.

Revenue and vehicle/industrial machinery sales for the period reached HK\$7.78 billion and 14,860 units respectively as compared to HK\$8.03 billion and 16,435 units for the corresponding period of 2017.

EBITDA of HK\$699 million registered an increase of 3%, whilst Profit for the period of HK\$399 million registered a decrease of 3% when compared to the first half of 2017.

The Group's net gearing ratio, computed by dividing the net debt with the total equity was 1.4% as compared to 4.5% for the period ending 31st December 2017.

ROCE, computed by dividing earnings before interest and taxes (EBIT) with total equity plus non-current liabilities, reduced to 4.0% for the period ending June 2018 as compared to 4.3% at the end of the first six months of 2017.

Net Asset Per Share at 30 June 2018 was HK\$6.33, an increase from the HK\$6.32 as recorded at the end of December 2017. The directors have declared an interim dividend of HK\$0.025 per share for the half year of 2018.

SIGNIFICANT INVESTMENTS

As at 30 June 2018, the Group had investments designated as at fair value through other comprehensive income of HK\$2.65 billion. The investments consist of both listed and unlisted equity securities. The vast majority of these investments are equity securities listed on the Tokyo Stock Exchange that were accumulated over the years as strategic long-term investments. The Group recorded an unrealized loss on its investments designated as at fair value through other comprehensive income of HK\$227 million as compared to the unrealized loss of HK\$567 million for the corresponding period in 2017. The loss is due to share prices decline of its listed investments, which are marked to market, and is reported in other comprehensive income statement for the period. It is not expected that such unrealized fair value loss on its investments will be reclassified to the Group's consolidated statement of profit or loss.

SINGAPORE AND CHINA

In Singapore, the new Vehicle Emission Scheme (VES) introduced at the beginning of 2018 had disrupted the passenger vehicle market. Furthermore, the tighter controls on vehicle population and shifting COE cycles that put pressure on COE availability have had affected sales volume for both our passenger and commercial vehicle segments. Together, they have impacted revenue and profits negatively as compared to the first half of 2017. With the phased implementation of the VES in the second half of 2018, the Group expects continued uncertainty this year.

Against the backdrop of changing global macroeconomic policies, the China domestic car market continues to be shaped by tightening automotive emission standards and new energy vehicle policies. With the industry shifting towards the SUV segment, we target to refocus our sales and marketing efforts on our core product line-up to compete more effectively against other automotive brands. The Group's seat manufacturing operations in Nanjing continues to be challenged by a slowdown in sales orders. It has since taken steps to build up and enlarge its customer base and adapt to the evolving China automotive supply chain industry.

TAIWAN AND PHILIPPINES

Taiwan recorded another strong performance in the first half of 2018, growing sales volume and market share, while benefitting from the positive effects of their enhanced dealer network management. In August 2018, the Group conducted the Asia launch of the latest Subaru Forester in Taiwan. The new Subaru Forester is one of the leading models in the Subaru vehicle line-up. Philippines refocused their model line-up positioning and achieved modest sales growth in the first half of 2018. However, the profitability there was affected by new government tax reforms that resulted in a challenging automotive environment.

CKD MARKETS

Our operations in the CKD markets of Thailand and Malaysia have started to gain a foothold with better demands for our products and services. However, sales volume has been negatively impacted by supply chain constraints and government policy changes. Operation streamlining and cost reduction initiatives in these countries have begun to show positive improvement in profit margins. In addition, our progressive investment in the sales and dealer network infrastructure promises continued growth in these countries in a sustainable manner.

With the targeted 2019 start of Subaru vehicle production in Thailand, the Group expects to incur additional start-up cost as we transition and ramp up production in Thailand. We continue to invest in a measured and considered manner towards the long-term goal of building a meaningful market share in Asia for the Subaru brand.

JAPAN

The Group's transportation logistics operations represented by Zero in Japan achieved single digit growth in revenue, despite the weakness in the domestic automobile new vehicle market in the first half of 2018. Zero's profitability, however, declined. The challenging business environment was further worsened by vehicle inspection issues, compliance cost for traffic/road laws, increased fuel cost, increased labour and work related over-time that is compounded by on-going work style reforms in Japan. Zero is responding to these challenges with initiatives to reorganize the business organization, reduce operating cost while taking strong initiatives to strengthen the national logistics network.

PROSPECTS

With increased risk enveloping the geopolitical and global trade environment, coupled with vehicle inspection issues within the automotive industry, the Group will focus on developing a culture of resilience and cost competitiveness. This continuous effort is the backbone of our operations, and central to the management of our retail/distribution and logistics network, and investment philosophy. We are optimistic that this will ensure a sustainable long-term growth of our businesses in the Asian markets.

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2018 (Unaudited)

	Note	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	7,779,025	8,026,437
Cost of sales		<u>(6,159,111)</u>	<u>(6,435,566)</u>
Gross profit		1,619,914	1,590,871
Other net income		113,144	151,643
Distribution costs		(614,646)	(632,744)
Administrative expenses		(544,526)	(523,277)
Other operating expenses		<u>(17,351)</u>	<u>(33,421)</u>
Profit from operations		556,535	553,072
Finance costs		(46,652)	(40,431)
Share of profits less losses of associates		<u>36,339</u>	<u>37,172</u>
Profit before taxation	4	546,222	549,813
Income tax expense	5	<u>(147,100)</u>	<u>(139,018)</u>
Profit for the period		<u>399,122</u>	<u>410,795</u>
Attributable to:			
Equity shareholders of the Company		346,976	330,275
Non-controlling interests		<u>52,146</u>	<u>80,520</u>
Profit for the period		<u>399,122</u>	<u>410,795</u>
Earnings per share	7		
Basic and diluted		<u>HK\$0.17</u>	<u>HK\$0.16</u>

The notes on pages 11 to 22 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 2018 (Unaudited)

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period	399,122	410,795
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	(3,021)	6,881
Investments designated as at fair value through other comprehensive income:		
- changes in fair value recognised during the period	(226,840)	(566,931)
	(229,861)	(560,050)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of:		
- subsidiaries outside Hong Kong	(94,370)	373,424
- associates outside Hong Kong	(9,722)	44,510
	(104,092)	417,934
Other comprehensive income for the period	(333,953)	(142,116)
Total comprehensive income for the period	65,169	268,679
Attributable to:		
Equity shareholders of the Company	(1,138)	151,805
Non-controlling interests	66,307	116,874
Total comprehensive income for the period	65,169	268,679

The notes on pages 11 to 22 form part of these financial statements.

Consolidated Statement of Financial Position

at 30 June 2018 (Unaudited)

	Note	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Non-current assets			
Investment properties		3,266,055	3,387,150
Other property, plant and equipment		4,218,949	4,078,353
Interest in leasehold land		66,707	73,005
Intangible assets		105,688	102,805
Goodwill		58,678	58,043
Interest in associates		883,909	856,331
Other financial assets		83,061	134,507
Hire purchase debtors and instalments receivable		261,546	288,661
Non-current prepayments		148,177	161,231
Deferred tax assets		55,614	44,378
		<u>9,148,384</u>	<u>9,184,464</u>
Current assets			
Investments designated as at fair value through other comprehensive income	8	2,576,265	2,800,128
Inventories		2,339,975	2,523,345
Properties held for sale		16,684	24,568
Trade debtors	9	1,187,395	1,085,648
Hire purchase debtors and instalments receivable		133,843	143,293
Other debtors, deposits and prepayments		592,431	483,098
Amount due from related companies		148	155
Cash and bank balances	10	3,599,046	3,436,956
		<u>10,445,787</u>	<u>10,497,191</u>
Current liabilities			
Unsecured bank overdrafts	10	35,818	88,807
Bank loans		2,604,356	3,045,316
Trade creditors	11	1,026,325	936,895
Other creditors and accruals		1,357,318	1,318,453
Amounts due to related companies		14,843	7,291
Obligations under finance leases		51,291	40,100
Current taxation		187,224	172,599
Provisions		70,457	72,905
		<u>5,347,632</u>	<u>5,682,366</u>
Net current assets		<u>5,098,155</u>	<u>4,814,825</u>
Total assets less current liabilities		<u>14,246,539</u>	<u>13,999,289</u>

The notes on pages 11 to 22 form part of these financial statements.

Consolidated Statement of Financial Position (continued)

at 30 June 2018 (Unaudited)

	Note	At 30 June 2018 HK\$'000 <i>(Unaudited)</i>	At 31 December 2017 HK\$'000 <i>(Audited)</i>
Non-current liabilities			
Bank loans		1,141,453	876,254
Obligations under finance leases		125,736	155,546
Net defined benefit retirement obligations		131,769	131,308
Deferred tax liabilities		82,072	80,707
Provisions		28,652	31,946
		1,509,682	1,275,761
NET ASSETS		12,736,857	12,723,528
Capital and reserves			
Share capital	12	1,006,655	1,006,655
Reserves		10,502,444	10,674,527
Total equity attributable to equity shareholders of the Company		11,509,099	11,681,182
Non-controlling interests		1,227,758	1,042,346
TOTAL EQUITY		12,736,857	12,723,528

The notes on pages 11 to 22 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018 (Unaudited)

	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
Balance at 1 January 2017 (Audited)	1,006,655	550,547	9,549	3,510	134,054	377,690
Changes in equity for the six months ended 30 June 2017						
Profit for the period	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	392,523	-
Total comprehensive income for the period	-	-	-	-	392,523	-
Transactions with non-controlling interests in respect of stock compensation program	-	-	-	-	-	-
Equity settled share based transactions	-	-	-	630	-	-
Contribution from a non-controlling shareholder	-	-	-	-	-	-
Dividends declared and approved during the period	-	-	-	-	-	-
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	-	-	-	-	-	-
Balance at 30 June 2017 (Unaudited)	1,006,655	550,547	9,549	4,140	526,577	377,690
Balance at 1 January 2018 (Audited)	1,006,655	550,547	9,549	5,220	718,261	377,690
Changes in equity for the six months ended 30 June 2018						
Profit for the period	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(121,283)	-
Total comprehensive income for the period	-	-	-	-	(121,283)	-
Equity settled share based transactions	-	-	-	186	-	-
Contribution from a non-controlling shareholder	-	-	-	-	-	-
Dividends declared and approved during the period	-	-	-	-	-	-
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	-	-	-	-	-	-
Balance at 30 June 2018 (Unaudited)	1,006,655	550,547	9,549	5,406	596,978	377,690

The notes on pages 11 to 22 form part of these financial statements.

Attributable to equity shareholders of the Company

Fair value reserve HK\$'000	Property revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
3,120,599	331,167	5,993,924	11,527,695	761,005	12,288,700
–	–	330,275	330,275	80,520	410,795
(574,654)	–	3,661	(178,470)	36,354	(142,116)
(574,654)	–	333,936	151,805	116,874	268,679
–	–	–	–	(9,924)	(9,924)
–	–	–	630	555	1,185
–	–	–	–	151,237	151,237
–	–	(140,932)	(140,932)	–	(140,932)
–	–	–	–	(10,825)	(10,825)
2,545,945	331,167	6,186,928	11,539,198	1,008,922	12,548,120
2,372,003	331,167	6,310,090	11,681,182	1,042,346	12,723,528
–	–	346,976	346,976	52,146	399,122
(225,224)	–	(1,607)	(348,114)	14,161	(333,953)
(225,224)	–	345,369	(1,138)	66,307	65,169
–	–	–	186	163	349
–	–	–	–	127,329	127,329
–	–	(171,131)	(171,131)	–	(171,131)
–	–	–	–	(8,387)	(8,387)
2,146,779	331,167	6,484,328	11,509,099	1,227,758	12,736,857

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2018 (Unaudited)

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	706,893	358,509
Net cash used in investing activities	(127,479)	(443,053)
Net cash used in financing activities	<u>(299,423)</u>	<u>(216,364)</u>
Net increase/(decrease) in cash and cash equivalents	279,991	(300,908)
Cash and cash equivalents at 1 January	3,339,881	2,806,120
Effect of exchange differences	<u>(65,701)</u>	<u>86,972</u>
Cash and cash equivalents at 30 June	<u>3,554,171</u>	<u>2,592,184</u>

The notes on pages 11 to 22 form part of these financial statements.

1 Basis of preparation

The unaudited interim financial statements have been prepared in accordance with the requirements of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board.

The unaudited interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements.

2 Changes in accounting policies

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9 (2014), Financial instruments
- IFRS 15, Revenue from contracts with customers

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

The Group has early adopted IFRS 9 (2009) in relation to classification of financial assets. The Group has been impacted by IFRS 9 (2014) in relation to measurement of credit losses, and impacted by IFRS 15 in relation to timing of revenue recognition. Details of the changes in accounting policies are discussed in note 2(b) for IFRS 9 (2014) and note 2(c) for IFRS 15.

(b) IFRS 9 (2014), Financial instruments

IFRS 9 (2014) introduces new requirements for calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 (2014) incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

The new impairment model in IFRS 9 (2014) replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model ("ECLs"). Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets.

Notes to the Unaudited Financial Statements (continued)

2 Changes in accounting policies (continued)

(b) IFRS 9 (2014), Financial instruments (continued)

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions. The Group has concluded that the impact of expected credit losses on financial assets is insignificant as at 1 January 2018.

(c) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services.

As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from the provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- (i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (ii) When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- (iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

In accordance with the transition provisions in IFRS 15, the Group has adopted the modified retrospective approach. The Group has assessed that the new revenue standard does not have significant impact on the timing of revenue recognition.

Notes to the Unaudited Financial Statements (continued)

3 Segment Reporting

(a) Segment results

	Revenue		EBITDA	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Business lines				
Motor vehicle distribution and dealership business	4,259,600	4,636,755	406,945	335,335
Heavy commercial vehicle, industrial equipment distribution and dealership business	131,089	141,941	(28,809)	(12,667)
Property rentals and development	71,324	81,693	92,357	76,828
Transportation	3,103,962	2,830,846	215,640	238,143
Other operations	213,050	335,202	13,323	41,802
	<u>7,779,025</u>	<u>8,026,437</u>	<u>699,456</u>	<u>679,441</u>

Revenue	
Six months ended 30 June	
2018	2017
HK\$'000	HK\$'000
<i>(Unaudited)</i>	<i>(Unaudited)</i>

Geographical areas

Singapore	1,715,262	2,178,215
PRC	421,652	657,882
Thailand	365,615	268,321
Japan	3,103,962	2,830,846
Taiwan	1,157,170	1,114,082
Others	1,015,364	977,091
	<u>7,779,025</u>	<u>8,026,437</u>

Notes to the Unaudited Financial Statements (continued)

3 Segment Reporting (continued)

(b) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Total segment EBITDA	699,456	679,441
Depreciation and amortisation	(162,554)	(140,945)
Interest income	19,633	14,576
Finance costs	(46,652)	(40,431)
Share of profits less losses of associates	36,339	37,172
Consolidated profit before taxation	546,222	549,813

4 Profit before taxation

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

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Finance costs	46,652	40,431
Amortisation of interest in leasehold land	3,908	3,676
Depreciation of property, plant and equipment	158,646	137,269
Dividend income	(52,612)	(93,107)
Loss/(Gain) on disposal of property, plant and equipment	667	(6,077)

5 Income tax expense

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Hong Kong	1,996	548
Singapore	16,741	25,585
Others	128,363	112,885
	147,100	139,018

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2017: 16.5%) and 30.86% (2017: 30.86%), in the tax jurisdictions in which the Group operates.

Notes to the Unaudited Financial Statements (continued)

6 Dividends

		Six months ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
(i)	Dividends attributable to the period: Interim dividend declared of HK\$0.025 (2017: HK\$0.025) per ordinary share	<u>50,333</u>	<u>50,333</u>
<p>The interim dividend has not been recognised as a liability as of the end of the reporting period.</p>			
(ii)	Dividends paid during the period: Final dividend approved in respect of prior year of HK\$0.085 (2017: HK\$0.07) per ordinary share	<u>171,131</u>	<u>140,932</u>

7 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2018 is based on net profit attributable to equity shareholders of the Company of HK\$346,976,000 (2017: HK\$330,275,000) and the weighted average number of shares of 2,013,309,000 (2017: 2,013,309,000) in issue during the period.

Diluted earnings per share for the periods ended 30 June 2018 and 2017 is the same as the basic earnings per share as there were no dilutive securities outstanding during the periods presented.

Notes to the Unaudited Financial Statements (continued)

8 Investments designated as at fair value through other comprehensive income

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
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Equity securities

Listed outside Hong Kong, designated as at fair value through other comprehensive income

2,576,265	2,800,128
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Financial assets at fair value through other comprehensive income

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

	Fair value		Dividend income recognised	
	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)	Six months ended 30 June 2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Investments in Subaru Corporation	2,572,576	2,795,378	51,691	50,314
Investments in SM Development Pte. Ltd.	10,674	10,845	404	36,391
Others	70,293	74,738	517	6,402
	<u>2,653,543</u>	<u>2,880,961</u>	<u>52,612</u>	<u>93,107</u>

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

Fair value loss for the six months ended 30 June 2018 is mainly contributed by the HK\$222,803,000 decrease in fair value of the Group's equity investment in Subaru. There was no significant addition nor disposal for this equity security during the period ended 30 June 2018.

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

Reclassifications

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

Notes to the Unaudited 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 allowance for doubtful debts, is as follows:

	At 30 June 2018 HK\$'000 <i>(Unaudited)</i>	At 31 December 2017 HK\$'000 <i>(Audited)</i>
0 - 30 days	839,189	814,766
31 - 60 days	170,935	139,808
61 - 90 days	91,149	55,222
Over 90 days	86,122	75,852
	1,187,395	1,085,648

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

10 Cash and bank balances

	At 30 June 2018 HK\$'000 <i>(Unaudited)</i>	At 31 December 2017 HK\$'000 <i>(Audited)</i>
Bank deposits	1,728,965	1,592,792
Cash at bank	1,867,307	1,841,785
Cash in hand	2,774	2,379
Cash and bank balances in the consolidated statement of financial position	3,599,046	3,436,956
Less: Bank deposits with more than three months to maturity when placed	(9,057)	(8,268)
Unsecured bank overdrafts	(35,818)	(88,807)
Cash and cash equivalents in the condensed consolidated cash flow statement	3,554,171	3,339,881

Notes to the Unaudited Financial Statements (continued)

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 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
0 - 30 days	736,671	540,170
31 - 90 days	186,895	296,742
91 - 180 days	28,727	28,851
Over 180 days	74,032	71,132
	<u>1,026,325</u>	<u>936,895</u>

12 Share capital

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 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.

Notes to the Unaudited Financial Statements (continued)

13 Equity settled share based transactions (continued)

The maximum number of points which may be awarded to selected participants under the Program shall not exceed 500,000. The trust fund shall not have a definite expiration date and continue as long as the Program exist. Maximum amount of money to be contributed by the subsidiary is JPY500,000,000 (equivalent to HK\$36,138,000) 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 2018, a total of 188,920 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	<u>57,500</u>

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

	2018 Number of points	2017 Number of points
Outstanding at the beginning of the period	123,500	85,000
Exercised during the period	-	-
Forfeited during the period	(26,500)	(19,000)
Granted during the period	-	57,500
Outstanding at the end of the period	<u>97,000</u>	<u>123,500</u>
Exercisable at the end of the period	<u>97,000</u>	<u>123,500</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.

Notes to the Unaudited Financial Statements (continued)

13 Equity settled share based transactions (continued)

(c) Fair value of points and assumptions (continued)

	26 November 2015	1 July 2016	1 July 2017
Fair value of points and assumptions			
Fair value at measurement date	JPY1,111	JPY991	JPY1,160
Share price	JPY1,405	JPY1,312	JPY1,587
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	41.3%	41.3%	39.3%
Expected option life (expressed as weighted average life used in the modelling under Black-Scholes model)	6.3 years	7.2 years	8.2 years
Expected dividends	3.7%	3.9%	3.8%
Risk-free interest rate (based on the yield of Japanese government bonds)	0.1%	0.3%	0.0%

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 2016 and 1 July 2017 were JPY1,312 (equivalent to HK\$99) and JPY1,587 (equivalent to HK\$110) per share respectively.

During the period ended 30 June 2018, the Group recognised a net expense of HK\$356,000 (2017: HK\$1,185,000) as equity settled share based payments in relation to the Program.

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:

Notes to the Unaudited Financial Statements (continued)

14 Fair value measurement of financial instruments (continued)

(i) Financial instruments carried at fair value (continued)

Fair value hierarchy (continued)

- 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 2018 categorised into				Fair value measurement as at 31 December 2017 categorised into			
	Fair value at 30 June 2018 <i>(Unaudited)</i>	Level 1	Level 2	Level 3	Fair value at 31 December 2017 <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	2,635,898	2,635,898	-	-	2,863,234	2,863,234	-	-
- Unlisted	17,645	-	-	17,645	17,727	-	-	17,727
Debt securities at fair value through profit or loss, listed outside Hong Kong	5,783	5,783	-	-	53,674	53,674	-	-
	<u>2,659,326</u>	<u>2,641,681</u>	<u>-</u>	<u>17,645</u>	<u>2,934,635</u>	<u>2,916,908</u>	<u>-</u>	<u>17,727</u>

During the six months ended 30 June 2018, 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 2018 and 31 December 2017.

(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.

Notes to the Unaudited Financial Statements (continued)

14 Fair value measurement of financial instruments (continued)

(iii) Information about Level 3 fair value measurements (continued)

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 2017 (audited)	27,281
Net unrealised losses recognised in other comprehensive income during the year	(11,361)
Exchange adjustments	1,807
At 31 December 2017 and 1 January 2018 (audited)	<u>17,727</u>
Exchange adjustments	(82)
At 30 June 2018 (unaudited)	<u><u>17,645</u></u>

15 Capital commitments

Capital commitments outstanding at 30 June 2018 not provided for in the financial statements were as follows:

	At 30 June 2018 HK\$'000 (Unaudited)	At 31 December 2017 HK\$'000 (Audited)
Authorised and contracted for:		
- Construction of properties	<u>87,713</u>	<u>160,591</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 2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Sale of goods and services to related companies	-	50
Purchase of goods and services from related companies	<u>26,231</u>	<u>32,845</u>

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

17 Comparative figures

The group has initially applied IFRS 15 and IFRS 9 (2014) at 1 January 2018. Under the transition methods chosen, comparative information is not restated.

Interim Dividend

The Board is pleased to declare an interim dividend of HK\$0.025 (2017: HK\$0.025) per ordinary share on the shares in issue amounting to a total of HK\$50,333,000 (2017: HK\$50,333,000), which will be payable on 28 September 2018 to shareholders of the Company whose names appear on the Register of Members on 17 September 2018. Dividend warrants will be sent to shareholders on 28 September 2018.

Closure of Register of Members

The Register of Members will be closed from 14 September 2018 to 17 September 2018, 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 13 September 2018.

Directors' Interests and Short Positions in Shares

The directors of the Company ("Directors") who held office as at 30 June 2018 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	100,460,000	–	400,544,700	54,489,972	555,494,672	27.59%
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, 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 2018, 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 2018 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)	264,067,000	13.12%
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%

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.

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 results of the Group for the period ended 30 June 2018.

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 2018, acting in compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules of the Stock Exchange. The non-executive Director and independent non-executive Directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Bye-Laws. The Chairman had been instrumental in listing the Group. He has in-depth professional knowledge of, and extensive experience in the automobile industry and full cognizance of the workings of the business operations of the Group. In view of this, the Board would like him to continue with some executive functions. The balance of power and authority is ensured by the participation and input of the other Board members who are highly qualified and experienced professionals. The roles of the respective executive Directors and senior management who are in charge of different disciplinary functions complement the role of the Chairman and Chief Executive Officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to make and implement decisions promptly and efficiently.

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

By Order of the Board

Sng Chiew Huat

Finance Director

Hong Kong, 28 August 2018

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.

