INTERIM REPORT 2019

TAN CHONG INTERNATIONAL LIMITED

陳唱國際有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 693

Contents

Management Review

RESULTS

The first six months of 2019 saw geopolitical factors playing out to their extremity, resulting in a very challenging environment for businesses with a regional footprint. Confidence of businesses and consumers alike had toned down substantially. The result is a decrease in sales volume in the Group's key markets of Singapore, Malaysia, Taiwan and Philippines. Although the Group's transportation logistics operations by ZERO CO. LTD in Japan ("Zero") registered revenue increase, the Group's revenue and vehicle sale units for the period declined by 11% and 24% respectively.

The high initial start-up costs coupled with teething logistical and production problems associated with the start of production on 26th February 2019 at the Group's car plant in Thailand also impacted the results.

The Group continues to work 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 progressively eliminate Non-Value-Added Activities. In reducing wastages, this action and other programs will result in gradual and marked operational improvements, thus ensuring our long-term competitiveness and sustainability despite all the uncertainties of current and future business climates.

The Group's revenue in the first 6 months of 2019 was HK$6.911 billion; a 11% decrease as compared to HK$7.779 billion for the first half of 2018. EBITDA and profit declined to HK$511.3 million and HK$143.2 million respectively, due largely to the reduction in revenue and compressed operating margin of 3.3% when compared to 7.2% achieved in the first half of 2018. Lower gross profit, together with higher distribution / administrative expenses attributed to these results.

Revenue and vehicle/industrial machinery sales for the period reached HK$6.911 billion and 11,299 units respectively as compared to HK$7.779 billion and 14,860 units for the corresponding period of 2018.

EBITDA of HK$511.3 million registered a decrease of 26.9%, whilst profit for the period of HK$143.2 million registered a decrease of 64% when compared to the first half of 2018.

The Group's net gearing ratio computed by dividing the net debt with the total equity was 6.5% as compared to 1.4% for the period ending 31st December 2018.

ROCE, computed by dividing earnings before interest and taxes (EBIT) with total equity plus non-current liabilities, was reduced to 1.7% for the period ending June 2019 as compared to 4.0% at the end of the first six months of 2018.

Net Asset Per Share at 30 June 2019 was HK$6.14, an increase from the HK$6.03 as recorded at the end of December 2018. The directors have declared an interim dividend of HK$0.02 per share for the half year of 2019.

SIGNIFICANT INVESTMENTS

As at 30 June 2019, the Group had investments designated as at fair value through other comprehensive income of HK$2.21 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 gain on its investments designated as at fair value through other comprehensive income of HK$255 million as compared to the unrealized loss of HK$227 million for the corresponding period in 2018. The gain is due to share prices changes of its listed investments, which are marked to market and is reported in other comprehensive income statement for the period. It is not expected that such unrealized fair value gain on its investments will be reclassified to the Group's consolidated statement of profit or loss.

SINGAPORE AND CHINA

In Singapore, the automotive industry was affected by both a decreased in the COE quota and a softer GDP growth, particularly in the retail sectors. The Group recorded a double-digit decline in sales volume and revenue. The Group expects the 2nd half to be equally challenging.

The Hong Kong business recorded strong sales volume in the 1st half. However, the 2nd half of the year looks challenging because of a very uncertain business climate arising from very complex domestic issues with which the Hong Kong people and its government will have to grapple and overcome.

China automotive markets continue to experience negative growth in the 1st half of the year. Our automotive manufacturing operations in Nanjing and Xiamen are showing progress in its sales recovery as a result of our continuing effort to broaden our customer base and upgrading of our products line-up.

Against the backdrop of a fast-changing global macroeconomic climate, China is likely to continue as a relatively fast growing and large economy with a bright future. The Group believes that it is unwise not to be engaged in this large and prospective automotive market. Thus, we will continue to persevere for the long-term benefits that this market of great potential may offer.

TAIWAN AND PHILIPPINES

Taiwan new vehicle market experienced negative growth in the 1st half of 2019. The Group registered a double-digit sales decline. The 2nd half of the year looks more promising.

Similarly, Philippines also recorded sales decline. Notwithstanding, sales in the 2nd half has been stabilizing.

CKD MARKETS OF MALAYSIA, THAILAND AND VIETNAM

The Group's joint venture plant started production of Subaru cars in February 2019. These vehicles are sold through our Group's networks and dealers in Malaysia and Thailand. Shipments to Vietnam will commence only in the 2nd half of 2019. As the above Asean countries adopt vehicle taxation methodologies based on CKD regimes, businesses in these countries are feasible and competitive only if production are in local CKD production format.

In Malaysia, the Group recorded a decline in revenue compared to previous year whereas the start of production at the joint venture plant had contributed to a significant increase in sales of the new Forester in Thailand.

In Vietnam, the sale of Thailand produced cars will start in the 2nd half of this year. We expect good sales volume based on initial sales responses. The Group will, in the coming months, progressively develop and add sales, service and parts networks in this country to support the growing sales.

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

JAPAN

The Group's transportation logistics operations represented by Zero in Japan achieved an increase in revenue, despite the softness in the domestic automobile new vehicle market in the first half of 2019. Zero's profitability was satisfactory.

Zero continues to expand its core customer base in both its logistic and human resource businesses, despite many challenges of driver shortages, government labour reform policies and higher compliance costs associated with vehicle restriction laws.

PROSPECTS

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

Focusing on developing a culture of resilience and cost competitiveness continuously is not only the backbone of our operations but central to the management of our retail / distribution and logistics networks. It is also our overall investment philosophy. We are optimistic that this will ensure a sustainable long-term growth of our businesses in the Asian markets, an area that holds vast opportunities and a region that offers great promise.

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2019 (Unaudited)

	Note	Six months ended 30 June 2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*
Revenue	3	6,911,487	7,779,025
Cost of sales		(5,543,194)	(6,159,111)
Gross profit		1,368,293	1,619,914
Other net income		84,154	113,144
Distribution costs		(640,432)	(614,646)
Administrative expenses		(568,870)	(544,526)
Other operating expenses		(15,361)	(17,351)
Profit from operations		227,784	556,535
Finance costs		(51,205)	(46,652)
Share of profits less losses of associates		36,100	36,339
Profit before taxation	4	212,679	546,222
Income tax expense	5	(69,499)	(147,100)
Profit for the period		143,180	399,122
Attributable to:			
Equity shareholders of the Company		97,137	346,976
Non-controlling interests		46,043	52,146
Profit for the period		143,180	399,122
Earnings per share	7		
Basic and diluted		HK$0.05	HK$0.17

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 2019 (Unaudited)

	Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
	(Unaudited)	*(Unaudited)*
Profit for the period	143,180	399,122
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	(9,767)	(3,021)
Investments designated as at fair value through other comprehensive income:		
- changes in fair value recognised during the period	255,023	(226,840)
	245,256	(229,861)
Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of:		
- subsidiaries outside Hong Kong	21,961	(94,370)
- associates outside Hong Kong	2,263	(9,722)
	24,224	(104,092)
Other comprehensive income for the period	269,480	(333,953)
Total comprehensive income for the period	412,660	65,169
Attributable to:		
Equity shareholders of the Company	317,818	(1,138)
Non-controlling interests	94,842	66,307
Total comprehensive income for the period	412,660	65,169

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

Consolidated Statement of Financial Position

at 30 June 2019 (Unaudited)

	Note	At 30 June 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
Non-current assets			
Investment properties		3,464,423	3,443,029
Other property, plant and equipment		4,424,304	4,325,588
Interest in leasehold land		61,017	61,554
Right-of-use assets		960,622	–
Intangible assets		99,298	110,633
Goodwill		58,349	43,486
Interest in associates		876,158	862,729
Other financial assets		60,181	57,179
Hire purchase debtors and instalments receivable		236,796	246,190
Non-current prepayments		144,387	134,832
Deferred tax assets		34,213	61,606
		10,419,748	9,346,826
Current assets			
Investments designated as at fair value through other comprehensive income	8	2,150,437	1,896,746
Inventories and other contract costs		2,365,937	2,166,126
Properties held for sale		16,741	16,644
Trade debtors	9	1,208,255	1,096,292
Hire purchase debtors and instalments receivable		111,903	116,497
Other debtors, deposits and prepayments		651,486	507,666
Amounts due from related companies		219	150
Cash and bank balances	10	2,245,228	3,090,532
		8,750,206	8,890,653
Current liabilities			
Unsecured bank overdrafts	10	87,118	97,600
Bank loans		1,768,176	2,010,779
Trade creditors	11	861,278	844,576
Other creditors and accruals		1,307,456	1,319,188
Amounts due to related companies		17,285	32,292
Lease liabilities		176,570	48,281
Current taxation		121,937	160,100
Provisions		62,072	79,896
		4,401,892	4,592,712
Net current assets		4,348,314	4,297,941
Total assets less current liabilities		14,768,062	13,644,767

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

	Note	At 30 June 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
Non-current liabilities			
Bank loans		1,197,036	1,152,102
Lease liabilities		943,979	110,190
Net defined benefit retirement obligations		126,670	123,324
Deferred tax liabilities		88,395	75,303
Provisions		42,440	35,413
		2,398,520	1,496,332
NET ASSETS		12,369,542	12,148,435
Capital and reserves			
Share capital	12	1,006,655	1,006,655
Reserves		10,126,663	9,999,086
Total equity attributable to equity shareholders of the Company		11,133,318	11,005,741
Non-controlling interests		1,236,224	1,142,694
TOTAL EQUITY		12,369,542	12,148,435

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 2019 (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 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
Balance at 1 January 2019 *(Audited)*	1,006,655	550,547	9,549	6,532	580,578	377,690
Changes in equity for the six months ended 30 June 2019						
Profit for the period	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	(28,520)	–
Total comprehensive income for the period	–	–	–	–	(28,520)	–
Equity settled share based transactions	–	–	–	1,023	–	–
Dividends declared and approved during the period	–	–	–	–	–	–
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	–	–	–	–	–	–
Balance at 30 June 2019 *(Unaudited)*	1,006,655	550,547	9,549	7,555	552,058	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 (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
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
1,448,689	331,167	6,694,334	11,005,741	1,142,694	12,148,435
–	–	97,137	97,137	46,043	143,180
254,397	–	(5,196)	220,681	48,799	269,480
254,397	–	91,941	317,818	94,842	412,660
–	–	–	1,023	900	1,923
–	–	(191,264)	(191,264)	–	(191,264)
–	–	–	–	(2,212)	(2,212)
1,703,086	331,167	6,595,011	11,133,318	1,236,224	12,369,542

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2019 (Unaudited)

	Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
	(Unaudited)	*(Unaudited)*
Net cash (used in)/generated from operating activities	(157,254)	706,893
Net cash used in investing activities	(109,353)	(127,479)
Net cash used in financing activities	(609,054)	(299,423)
Net (decrease)/increase in cash and cash equivalents	(875,661)	279,991
Cash and cash equivalents at 1 January	2,992,070	3,339,881
Effect of exchange differences	40,836	(65,701)
Cash and cash equivalents at 30 June	2,157,245	3,554,171

The notes on pages 11 to 22 form part of these 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 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements.

2 Changes in accounting policies

(a) Overview

The International Accounting Standards Board ("IASB") has issued a number of new International Financial Reporting Standards ("IFRSs") and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, IFRS 16, *Leases* is relevant to the Group's financial statements.

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

The Group has been impacted by IFRS 16 in relation to accounting for leases. The Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The group has initially applied IFRS 16 as from 1 January 2019. The group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

The details of the changes in accounting policies are disclosed below.

(b) IFRS 16, Leases

As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for more leases – i.e. these leases are on-balance sheet. The change in the definition of a lease mainly related to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all the economic benefits from that use.

2 Changes in accounting policies (continued)

(b) IFRS 16, Leases (continued)

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets or short-term assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

(i) Significant accounting policies

The Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lease that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

(ii) Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rates as at 1 January 2019.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

3 Revenue

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

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2019	**2018**
	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	3,211,910	4,266,058
- Rendering of services	3,584,607	3,352,467
- Gross proceeds from properties sold	–	18,825
- Agency commission and handling fees	37,429	54,747
- Warranty income	4,331	7,791
Revenue from other sources		
- Gross rentals from investment properties	50,823	54,510
- Hire purchase financing income	22,387	24,627
	6,911,487	7,779,025

	Revenue	
	Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
	(Unaudited)	*(Unaudited)*
Disaggregated by geographical location of customers		
- Singapore	1,101,488	1,715,262
- PRC	395,999	421,652
- Thailand	428,124	365,615
- Japan	3,340,224	3,103,962
- Taiwan	830,158	1,157,170
- Others	815,494	1,015,364
	6,911,487	7,779,025

3 Revenue (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 2019 and 2018 is set out below.

	Motor vehicle distribution and dealership business		Heavy commercial vehicle, industrial equipment distribution and dealership business		Property rentals and development	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*	2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*	2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*
Disaggregated by timing of revenue recognition						
Point in time	2,993,309	4,035,572	69,466	83,914	–	18,825
Over time	204,035	224,028	38,691	47,175	48,956	52,499
Revenue from external customers	3,197,344	4,259,600	108,157	131,089	48,956	71,324
EBITDA	71,943	406,945	16,427	(28,809)	72,325	92,357

(c) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*
Total segment EBITDA	511,301	699,456
Depreciation and amortisation	(298,185)	(162,554)
Interest income	14,668	19,633
Finance costs	(51,205)	(46,652)
Share of profits less losses of associates	36,100	36,339
Consolidated profit before taxation	212,679	546,222

Transportation Six months ended 30 June		Other operations Six months ended 30 June		Consolidated Six months ended 30 June	
2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*	2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*	2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*
–	–	149,134	146,572	3,211,909	4,284,883
3,340,224	3,103,962	67,672	66,478	3,699,578	3,494,142
3,340,224	3,103,962	216,806	213,050	6,911,487	7,779,025
333,286	215,640	17,320	13,323	511,301	699,456

4 Profit before taxation

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

	Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
	(Unaudited)	*(Unaudited)*
Finance costs	51,205	46,652
Amortisation of interest in leasehold land	4,446	3,908
Depreciation of property, plant and equipment	167,897	158,646
Depreciation of right-of-use assets	125,842	–
Dividend income	(54,032)	(52,612)
(Gain)/loss on disposal of property, plant and equipment	(2,597)	667

5 Income tax expense

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
	(Unaudited)	*(Unaudited)*
Hong Kong	325	1,996
Singapore	14,844	16,741
Others	54,330	128,363
	69,499	147,100

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2018: 16.5%) and 30.62% (2018: 30.86%), in the tax jurisdictions in which the Group operates.

6 Dividends

	Six months ended 30 June	
	2019	**2018**
	HK$'000	**HK$'000**
	(Unaudited)	*(Unaudited)*
(i) Dividends attributable to the period:		
Interim dividend declared of HK$0.02 (2018: HK$0.025) per ordinary share	40,266	50,333

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$0.095 (2018: HK$0.085) per ordinary share	191,264	171,131

7 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on net profit attributable to equity shareholders of the Company of HK$97,137,000 (2018: HK$346,976,000) and the weighted average number of shares of 2,013,309,000 (2018: 2,013,309,000) in issue during the period.

Diluted earnings per share for the periods ended 30 June 2019 and 2018 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 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
Equity securities		
Listed outside Hong Kong, designated as at fair value through other comprehensive income	2,150,437	1,896,746

Financial assets at fair value through other comprehensive income

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

	Fair value		Dividend income recognised	
	At 30 June 2019	At 31 December 2018	Six months ended 30 June 2019	Six months ended 30 June 2018
	HK$'000	HK$'000	HK$'000	HK$'000
	(Unaudited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*
Investments in Subaru Corporation	2,147,483	1,893,786	53,134	51,691
Others	63,135	60,139	898	921
	2,210,618	1,953,925	54,032	52,612

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.

Fair value gain for the six months ended 30 June 2019 is mainly contributed by the HK$253,697,000 increase 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 2019.

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

9 Trade debtors

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

	At 30 June 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
0 - 30 days	828,839	771,678
31 - 90 days	265,685	277,336
Over 90 days	113,731	47,278
	1,208,255	1,096,292

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

10 Cash and bank balances

	At 30 June 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
Bank deposits	826,552	1,646,410
Cash at bank	1,412,795	1,440,716
Cash in hand	5,881	3,406
Cash and bank balances in the consolidated statement of financial position	2,245,228	3,090,532
Less: Bank deposits with more than three months to maturity when placed	(865)	(862)
Unsecured bank overdrafts	(87,118)	(97,600)
Cash and cash equivalents in the condensed consolidated cash flow statement	2,157,245	2,992,070

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 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
0 - 30 days	589,174	573,306
31 - 90 days	165,767	172,729
91 - 180 days	60,283	65,270
Over 180 days	46,054	33,271
	861,278	844,576

12 Share capital

	At 30 June 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
Authorised:		
3,000,000,000 ordinary shares of HK$0.50 each	1,500,000	1,500,000
Issued and fully paid:		
2,013,309,000 ordinary shares of HK$0.50 each	1,006,655	1,006,655

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 exist. Maximum amount of money to be contributed by the subsidiary is JPY500,000,000 (equivalent to HK$35,732,000) 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 2019, a total of 251,920 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	57,500
On 1 July 2018	63,000

13 Equity settled share based transactions (continued)

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

	2019 Number of points	2018 Number of points
Outstanding at the beginning of the period	160,000	123,500
Forfeited during the period	(4,000)	(26,500)
Granted during the period	–	63,000
Outstanding at the end of the period	156,000	160,000
Exercisable at the end of the period	156,000	160,000

(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 2018	1 July 2017
Fair value of points and assumptions		
Fair value at measurement date	JPY954	JPY1,160
Share price	JPY1,201	JPY1,587
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	33.9%	39.3%
Expected option life (expressed as weighted average life used in the modelling under Black-Scholes model)	6.8 years	8.2 years
Expected dividends	3.4%	3.8%
Risk-free interest rate (based on the yield of Japanese government bonds)	0.1%	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 2017 and 1 July 2018 were JPY1,587 (equivalent to HK$110) and JPY1,201 (equivalent to HK$85) per share respectively.

During the period ended 30 June 2019, the Group recognised a net expense of HK$1,895,000 (2018: HK$356,000) 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:

- 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 2019 categorised into				Fair value measurement as at 31 December 2018 categorised into		
	Fair value at 30 June 2019 *(Unaudited)*	**Level 1**	**Level 2**	**Level 3**	**Fair value at 31 December 2018** *(Audited)*	**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	2,195,034	2,195,034	–	–	1,936,301	1,936,301	–	–
- Unlisted	15,584	–	–	15,584	17,624	–	–	17,624
	2,210,618	2,195,034	–	15,584	1,953,925	1,936,301	–	17,624

During the six months ended 30 June 2019, 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 2019 and 31 December 2018.

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 2018 (audited)	17,727
Exchange adjustments	(103)
At 31 December 2018 and 1 January 2019 (audited)	17,624
Net unrealised losses recognised in other comprehensive income during the period	(2,182)
Exchange adjustments	142
At 30 June 2019 (unaudited)	15,584

15 Capital commitments

Capital commitments outstanding at 30 June 2019 not provided for in the financial statements were as follows:

	At 30 June 2019 HK$'000 *(Unaudited)*	At 31 December 2018 HK$'000 *(Audited)*
Authorised and contracted for:		
- Construction of properties	48,042	87,148

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	
	2019 HK$'000 *(Unaudited)*	2018 HK$'000 *(Unaudited)*
Sale of goods and services to related companies	4	–
Purchase of goods and services from related companies	31,467	26,231

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

17 Comparative figures

The Group has initially applied IFRS 16 at 1 January 2019. Under the transition methods chosen, comparative information is not restated.

Interim Dividend

The Board is pleased to declare an interim dividend of HK$0.02 (2018: HK$0.025) per ordinary share on the shares in issue amounting to a total of HK$40,266,000 (2018: HK$50,333,000), which will be payable on 25 September 2019 to shareholders of the Company whose names appear on the Register of Members on 16 September 2019. Dividend warrants will be sent to shareholders on 25 September 2019.

Closure of Register of Members

The Register of Members will be closed from 13 September 2019 to 16 September 2019, 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 12 September 2019.

Directors' Interests and Short Positions in Shares

The directors of the Company ("Directors") who held office as at 30 June 2019 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					
	Personal interests	Family interests (Note 1)	Corporate interests (Note 2)	Joint interests (Note 3)	Total number of shares held	Percentage of total issued shares
Executive Directors:						
Tan Eng Soon	100,460,000	–	400,544,700	75,360,972	576,365,672	28.63%
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%

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 2019, 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 2019 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%
Deceased 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 unaudited consolidated interim financial statements of the Group for the period ended 30 June 2019.

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.

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 2019, 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, 27 August 2019

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 and Mr. Teo Ek Kee.