



**Interim
Report
2016**

Tan Chong International Limited

陳唱國際有限公司

Stock Code: 693

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Management Review

RESULTS

The first six months in 2016 proved to be challenging, with the Group affected by automotive industry headwinds in Asia, and the appreciation of the Japanese Yen impacting our vehicle cost of sales. The Group saw a 24% year-on-year increase in revenue driven by vehicle unit growth in both our passenger and commercial vehicle retail and distribution operations. Both Nissan and Subaru brands experienced a double digit increase in sales volume. The Group recorded an increase in total gross profit, but a decrease in gross profit margin largely due to the 13% average Japanese Yen appreciation against the operating currencies of our vehicle retail and distribution business. Our group profitability was also negatively impacted by the increase in distribution cost, notably from the increased sales in our complete built-up (“CBU”) markets, and the incremental cost incurred in scaling up our complete knock-down (“CKD”) operations to gain market presence and traction in the CKD markets. The Group’s transportation logistics business, primarily represented by Zero Co., Ltd (“Zero”) in Japan, continued its strong performance, comprising 31% of consolidated revenue.

Revenue and vehicle sales reached HK\$8.86 billion and 20,038 units respectively for the first half of 2016, compared to HK\$7.15 billion and 14,725 units for the corresponding period of 2015.

EBITDA decreased 12% to HK\$450 million from HK\$512 million and the Group achieved HK\$184 million profit for the period, a 27% decrease over the first half of 2015.

Net Asset Per Share at the end of June 2016 was recorded at HK\$6.03 from HK\$6.17 at the end of December 2015. The directors have declared an interim dividend of HK\$0.02 per share for the first half of 2016.

The Group recorded a gearing ratio, computed by dividing total borrowings by total Equity, of 0.36 as compared to 0.31 as of 31 December 2015.

ROCE, computed by dividing earnings before interest and taxes (EBIT) by total equity plus non-current liabilities, was 2.7% for the first six months of 2016, lower than 2.9% in the first six months of 2015 due to the lower EBIT achieved this year.

SIGNIFICANT INVESTMENTS

As at 30 June 2016, the Group had investments designated as at fair value through other comprehensive income of HK\$2.96 billion which represented listed and unlisted equity securities. The vast majority of these investments are equity securities listed on the Tokyo Stock Exchange, and have been 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\$677 million as compared to the unrealized gain of HK\$79 million for the corresponding period in 2015. The loss is due to share price decline of its listed investments which are marked to market and is reported in other comprehensive income statement for the period. Such unrealized fair value loss on its investments is not expected to be reclassified to the Group’s consolidated statement of profit or loss.

SINGAPORE AND CHINA BUSINESS

In Singapore, buoyed by the expanded new vehicle registrations as compared to the same period in the previous year, both our passenger and commercial vehicle operations experienced a notable increase in revenue and profit. Both Nissan and Subaru brands recorded significant sales volume growth. China vehicle sales continue to be weak. Our Nanjing seat manufacturing division has recovered from the impact of the flooding in 2015 and has exceeded the previous year’s sales and production volume.

TAIWAN AND PHILIPPINES OPERATIONS

Both the Philippines and Taiwan experienced double digit growth in sales units and revenue. However, profits and profit margins of both countries were negatively impacted by the rising cost of vehicles imported from Japan from the strengthened Japanese Yen.

CKD MARKETS

The Motor Image division launched the CKD Subaru Forester in Thailand in March 2016. This has driven a step up in sales in the Malaysia and Thailand CKD markets, despite a decline in the respective countries passenger car markets in the first half of 2016. Management has continued to focus on building an enhanced dealer and retail network, investing in operational scale and efficiencies, and upgrading its sales infrastructure. Consequently, the Group has incurred increased distribution expense and higher infrastructure cost. There have been no material changes on the operations in Indonesia since the information disclosed in the last annual report. We are focusing on continuing to build the Subaru brand so as to achieve greater sales momentum and market share penetration in the CKD territories in the future. The commercial vehicle distribution business in Thailand recorded a decline in sales and weak first half 2016 performance. In May 2016, the Group announced arbitration proceedings with Mitsubishi Fuso Truck and Bus Corporation, which are ongoing. The Group has taken and continues to take proactive steps to restructure and resize the truck business in Thailand. As a result, we have streamlined the operations, reduced sales and marketing overheads and reallocated resources to improve overall profitability in our commercial vehicle business. Total headcount in our Thailand truck operations has reduced 15% since 31 December 2015 and is expected to decline by a further 10% or more in the second half of the year. With a positive long-term view of the business prospects within the CKD markets, the Group recognizes that it has a relatively short period of market presence as compared to established industry players. As such, we look towards further investment and reallocation of existing resources to drive long-term growth for the future.

JAPAN

The Japanese automobile market continued to be weak in the first six months of 2016, compounded by investigations into issues related to emissions and fuel economy testing in Japan. Zero maintained its consistent performance in the first half of 2016, with strong growth in profit margins and year-on-year profitability.

PROSPECTS

Bearing in mind the prevailing uncertainties particularly in the automotive markets in Asia, the Group will continue to focus on increasing cost efficiencies in the second half of 2016 while pursuing with the development of necessary infrastructure network to strengthen further the Group's foundation for the future.

Consolidated Statement of Profit or Loss

- unaudited

	Note	Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Revenue	2	8,856,624	7,151,072
Cost of sales		(7,368,226)	(5,821,392)
Gross profit		1,488,398	1,329,680
Other net income		127,510	93,759
Distribution costs		(728,065)	(523,854)
Administrative expenses		(525,337)	(480,629)
Other operating expenses		(18,216)	(11,865)
Profit from operations		344,290	407,091
Finance costs		(60,085)	(49,675)
Share of profits less losses of associates		38,583	34,384
Profit before taxation	3	322,788	391,800
Income tax	4	(138,767)	(140,934)
Profit for the period		184,021	250,866
Attributable to:			
Equity shareholders of the Company		118,999	172,308
Non-controlling interests		65,022	78,558
Profit for the period		184,021	250,866
Earnings per share (cents)	6		
Basic and diluted		5.9	8.6

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 5.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

- unaudited

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Profit for the period	184,021	250,866
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	(19,319)	3,563
Investments designated as at fair value through other comprehensive income:		
- changes in fair value recognised during the period	(676,923)	78,791
	(696,242)	82,354
Items that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of:		
- overseas subsidiaries	395,381	(113,448)
- overseas associates	9,138	(26,823)
	404,519	(140,271)
Other comprehensive income for the period	(291,723)	(57,917)
Total comprehensive income for the period	(107,702)	192,949
Attributable to:		
Equity shareholders of the Company	(176,308)	120,318
Non-controlling interests	68,606	72,631
Total comprehensive income for the period	(107,702)	192,949

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

Consolidated Statement of Financial Position

- unaudited

	Note	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Non-current assets			
Investment properties		3,324,076	3,150,381
Other property, plant and equipment		3,581,723	3,393,880
Interest in leasehold land		84,464	85,128
Intangible assets		114,803	100,093
Goodwill		23,093	5,498
Interest in associates		753,092	728,678
Other financial assets		120,477	109,224
Hire purchase debtors and instalments receivable		296,876	258,992
Non-current prepayments		168,609	157,370
Deferred tax assets		52,531	39,920
		8,519,744	8,029,164
Current assets			
Investments designated as at fair value through other comprehensive income	7	2,959,867	3,637,821
Inventories		3,034,774	2,180,032
Properties held for sale		57,478	54,760
Trade debtors	8	1,448,152	1,311,272
Hire purchase debtors and instalments receivable		145,367	122,172
Other debtors, deposits and prepayments		663,356	464,802
Amount due from related companies		962	1,465
Cash and cash equivalents	9	3,174,982	3,166,150
		11,484,938	10,938,474
Current liabilities			
Unsecured bank overdrafts	9	82,568	60,545
Bank loans		2,979,658	2,157,495
Unsecured medium term note		678,551	-
Trade creditors	10	1,337,135	1,043,459
Other creditors and accruals		1,253,228	980,241
Amounts due to related companies		88,582	8,068
Obligations under finance leases		37,395	29,240
Current taxation		202,173	174,397
Provisions		72,327	55,264
		6,731,617	4,508,709
Net current assets		4,753,321	6,429,765
Total assets less current liabilities		13,273,065	14,458,929

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

Consolidated Statement of Financial Position (continued)

- unaudited

	At 30 June 2016	At 31 December 2015
Note	HK\$'000	HK\$'000
Non-current liabilities		
Bank loans	702,059	1,047,609
Unsecured medium term note	–	646,935
Obligations under finance leases	140,608	112,262
Net defined benefit retirement obligations	186,522	136,804
Deferred tax liabilities	59,754	62,879
Provisions	33,907	30,448
	1,122,850	2,036,937
NET ASSETS	12,150,215	12,421,992
Capital and reserves		
Share capital	11 1,006,655	1,006,655
Reserves	10,395,910	10,731,010
Total equity attributable to equity shareholders of the Company	11,402,565	11,737,665
Non-controlling interests	747,650	684,327
TOTAL EQUITY	12,150,215	12,421,992

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

Consolidated Statement of Changes in Equity

- unaudited

	Attributable to equity shareholders of the Company					
	Share capital	Share premium	Capital reserve	Stock compensation reserve	Translation reserve	Contributed surplus
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2015	1,006,655	550,547	9,549	–	740,974	377,690
Effect on adoption of IFRS 9 (2009)	–	–	–	–	–	–
Balance at 1 January 2015 (restated)	1,006,655	550,547	9,549	–	740,974	377,690
Changes in equity for the six months ended 30 June 2015						
Profit for the period	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	(132,594)	–
Total comprehensive income for the period	–	–	–	–	(132,594)	–
Dividends declared and approved during the period	–	–	–	–	–	–
Balance at 30 June 2015	1,006,655	550,547	9,549	–	608,380	377,690
Balance at 1 January 2016	1,006,655	550,547	9,549	550	249,516	377,690
Changes in equity for the six months ended 30 June 2016						
Profit for the period	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	391,741	–
Total comprehensive income for the period	–	–	–	–	391,741	–
Equity settled share based transactions	–	–	–	2,273	–	–
Dividends declared and approved during the period	–	–	–	–	–	–
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	–	–	–	–	–	–
Balance at 30 June 2016	1,006,655	550,547	9,549	2,823	641,257	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
6,846	331,167	8,607,910	11,631,338	630,575	12,261,913
2,695,662	–	(2,695,662)	–	–	–
2,702,508	331,167	5,912,248	11,631,338	630,575	12,261,913
–	–	172,308	172,308	78,558	250,866
78,791	–	1,813	(51,990)	(5,927)	(57,917)
78,791	–	174,121	120,318	72,631	192,949
–	–	(161,065)	(161,065)	–	(161,065)
2,781,299	331,167	5,925,304	11,590,591	703,206	12,293,797
3,200,429	331,167	6,011,562	11,737,665	684,327	12,421,992
–	–	118,999	118,999	65,022	184,021
(676,923)	–	(10,125)	(295,307)	3,584	(291,723)
(676,923)	–	108,874	(176,308)	68,606	(107,702)
–	–	–	2,273	2,063	4,336
–	–	(161,065)	(161,065)	–	(161,065)
–	–	–	–	(7,346)	(7,346)
2,523,506	331,167	5,959,371	11,402,565	747,650	12,150,215

Condensed Consolidated Cash Flow Statement

- unaudited

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Net cash generated from operating activities	185,883	196,106
Net cash used in investing activities	(98,728)	(42,312)
Net cash used in financing activities	(155,525)	(139,898)
Net (decrease)/increase in cash and cash equivalents	(68,370)	13,896
Cash and cash equivalents at 1 January	3,103,973	2,839,330
Effect of exchange differences	56,811	(11,197)
Cash and cash equivalents at 30 June	3,092,414	2,842,029

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

Notes to the Unaudited 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 2015 annual financial statements.

2 Segment Reporting

(a) Segment results

	Revenue		EBITDA	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business lines				
Motor vehicle distribution and dealership business	5,348,395	3,882,317	209,958	245,118
Heavy commercial vehicle, industrial equipment distribution and dealership business	318,160	361,805	(34,711)	12,783
Property rentals and development	47,008	47,081	(20,437)	12,776
Transportation	2,738,297	2,552,540	225,402	181,208
Other operations	404,764	307,329	69,366	59,663
	<u>8,856,624</u>	<u>7,151,072</u>	<u>449,578</u>	<u>511,548</u>

Notes to the Unaudited Financial Statements (continued)

2 Segment Reporting (continued)

(a) Segment results (continued)

	Revenue	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Geographical areas		
Singapore	2,575,589	1,443,018
Hong Kong	95,963	80,931
PRC	776,994	826,941
Thailand	633,759	615,830
Japan	2,738,297	2,552,541
Others	2,036,022	1,631,811
	<u>8,856,624</u>	<u>7,151,072</u>

(b) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Total segment EBITDA	449,578	511,548
Depreciation and amortisation	(134,840)	(125,832)
Interest income	29,552	21,375
Finance costs	(60,085)	(49,675)
Share of profits less losses of associates	38,583	34,384
Consolidated profit before taxation	<u>322,788</u>	<u>391,800</u>

3 Profit before taxation

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Finance costs	60,085	49,675
Amortisation of interest in leasehold land	3,838	3,854
Depreciation of property, plant and equipment	131,002	121,978
Dividend income	(52,754)	(22,980)
Gain on disposal of property, plant and equipment	(2,575)	(7,985)

Notes to the Unaudited Financial Statements (continued)

4 Income tax

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Hong Kong	564	129
Singapore	30,786	21,678
Others	107,417	119,127
	<u>138,767</u>	<u>140,934</u>

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2015: 16.5%) and 32.3% (2015: 33.1%), in the tax jurisdictions in which the Group operates.

5 Dividends

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
(i) Dividends attributable to the period: Interim dividend declared of HK\$0.02 (2015: HK\$0.025) per ordinary share	<u>40,266</u>	<u>50,333</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\$0.08 (2015: HK\$0.08) per ordinary share	<u>161,065</u>	<u>161,065</u>
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6 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2016 is based on net profit attributable to equity shareholders of the Company of HK\$118,999,000 (2015: HK\$172,308,000) and the weighted average number of shares of 2,013,309,000 (2015: 2,013,309,000) in issue during the period.

Diluted earnings per share for the periods ended 30 June 2016 and 2015 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)

7 Investments designated as at fair value through other comprehensive income

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Equity securities		
Listed outside Hong Kong, designated as at fair value through other comprehensive income	2,959,867	3,637,821

Financial assets at fair value through other comprehensive income

At 1 January 2015, 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. These investments were classified as available-for-sale or designated as at fair value through profit or loss in the prior year's financial statements of the Group under IAS 39.

	Fair value		Dividend income recognised	
	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000	Six months ended 30 June 2016 HK\$'000	2015 HK\$'000
Investment in Fuji Heavy Industries Ltd.	2,928,876	3,607,390	51,707	22,147
Investment in SMRT Corporation Ltd	19,040	18,152	–	–
Investment in SM Development Pte. Ltd.	20,702	19,737	387	290
Others	45,620	38,553	660	543
	<u>3,014,238</u>	<u>3,683,832</u>	<u>52,754</u>	<u>22,980</u>

Notes to the Unaudited Financial Statements (continued)

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

Fuji Heavy Industries Ltd. ("FHI"), listed on the Tokyo Stock Exchange, manufactures passenger cars, buses, motor vehicle parts and industrial machinery and the Company also produces aircraft parts. FHI sells its passenger cars under the Subaru brand name. SMRT Corporation Ltd ("SMRT"), listed on the Singapore Stock Exchange, is an investment holding company which provides multi-modal public transport services in Singapore and internationally. It operates through Rail Operations, Bus Operations, Taxi Operations, Rental, Advertising, Engineering Services and Other Services segments. In July 2016, a major shareholder of SMRT, Temasek Holdings (Private) Limited, has announced of its offer to buy out SMRT. 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 2016 is mainly contributed by the HK\$678,514,000 decrease in fair value of the Group's equity investment in FHI. There was no significant addition nor disposal for this equity security during the year ended 30 June 2016.

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.

8 Trade debtors

As of the end of the reporting period, the ageing analysis of trade debtors (net of impairment losses), is as follows:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
0 - 30 days	1,053,226	983,218
31 - 60 days	169,937	156,516
61 - 90 days	107,800	66,894
Over 90 days	117,189	104,644
	<u>1,448,152</u>	<u>1,311,272</u>

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

Notes to the Unaudited Financial Statements (continued)

9 Cash and cash equivalents

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Bank deposits	791,139	1,259,274
Cash at bank	2,381,151	1,905,232
Cash in hand	2,692	1,644
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Cash and cash equivalents in the statement of financial position	3,174,982	3,166,150
Unsecured bank overdrafts	(82,568)	(60,545)
Less: pledged bank deposits	-	(1,632)
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Cash and cash equivalents in the consolidated cash flow statement	3,092,414	3,103,973
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10 Trade creditors

Ageing analysis of trade creditors, based on the invoice date, is as follows:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
0 - 30 days	1,002,530	732,319
31 - 90 days	231,944	186,102
91 - 180 days	14,389	49,226
Over 180 days	88,272	75,812
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	1,337,135	1,043,459
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11 Share capital

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.50 each	1,500,000	1,500,000
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Issued and fully paid:		
2,013,309,000 ordinary shares of HK\$0.50 each	1,006,655	1,006,655
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Notes to the Unaudited Financial Statements (continued)

12 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\$35,028,000) 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 year, the point will be granted on the date of retirement in proportion.

Up to 30 June 2016, a total of 71,420 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	<u>71,420</u>

Notes to the Unaudited Financial Statements (continued)

12 Equity settled share based transactions (continued)

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

	2016 Number of points	2015 Number of points
Outstanding at the beginning of the year	71,420	-
Granted during the period	-	71,420
Forfeited during the period	(16,920)	-
Outstanding at the end of the period	54,500	71,420
Exercisable at the end of the period	54,500	71,420

(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.

**26 November
2015**

Fair value of points and assumptions

Fair value at measurement date	JPY1,111
Share price	JPY1,405
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	41.3%
Expected option life (expressed as weighted average life used in the modelling under Black-Scholes model)	6.3 years
Expected dividends	3.7%
Risk-free interest rate (based on the yield of Japanese government bonds)	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.

Notes to the Unaudited Financial Statements (continued)

12 Equity settled share based transactions (continued)

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

The closing price of the subsidiary's shares immediately before the grant of the points on 26 November 2015 was JPY1,405 (equivalent to HK\$98) per share.

During the year ended 30 June 2016, the Group recognised a net expense of HK\$4,336,000 as equity settled share based payments in relation to the Program.

13 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

Notes to the Unaudited Financial Statements (continued)

13 Fair value measurement of financial instruments (continued)

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

Fair value hierarchy (continued)

	Fair value measurement as at 30 June 2016 categorised into				Fair value measurement as at 31 December 2015 categorised into			
	Fair value at 30 June 2016	Level 1	Level 2	Level 3	Fair value at 31 December 2015	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	2,984,601	2,984,601	-	-	3,649,778	3,649,778	-	-
- Unlisted	29,636	-	-	29,636	34,054	-	-	34,054
Debt securities at fair value through profit or loss, listed outside Hong Kong	66,107	66,107	-	-	63,213	63,213	-	-
	<u>3,080,344</u>	<u>3,050,708</u>	<u>-</u>	<u>29,636</u>	<u>3,747,045</u>	<u>3,712,991</u>	<u>-</u>	<u>34,054</u>

During the six months ended 30 June 2016, 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 2016 and 31 December 2015.

Notes to the Unaudited Financial Statements (continued)

13 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 2015 (audited)	35,461
Exchange adjustments	<u>(1,407)</u>
At 31 December 2015 and 1 January 2016 (audited)	34,054
Exchange adjustments	<u>(4,418)</u>
At 30 June 2016 (unaudited)	<u><u>29,636</u></u>

14 Capital commitments

Capital commitments outstanding at 30 June 2016 not provided for in the financial statements were as follows:

	At 30 June 2016 HK\$'000	At 31 December 2015 HK\$'000
Authorised and contracted for:		
- Construction of properties	<u>36,699</u>	<u>51,422</u>

Notes to the Unaudited Financial Statements (continued)

15 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	
	2016 HK\$'000	2015 HK\$'000
Sale of goods and services to related companies	492	419
Purchase of goods and services from related companies	119,146	51,566

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

16 Comparative figures

Certain comparative figures have been reclassified to conform with current period's presentation.

Interim Dividend

The Board is pleased to declare an interim dividend of HK\$0.02 (2015: HK\$0.025) per ordinary share on the shares in issue amounting to a total of HK\$40,266,000 (2015: HK\$50,333,000), which will be payable on 26 September 2016 to shareholders of the Company whose names appear on the Register of Members on 14 September 2016. Dividend warrants will be sent to shareholders on 26 September 2016.

Closure of Register of Members

The Register of Members will be closed from 13 September 2016 to 14 September 2016, 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 2016.

Directors' Interests and Short Positions in Shares

The directors of the Company ("Directors") who held office as at 30 June 2016 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	–	433,078,700	11,999,972	545,538,672	27.10%
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%

Other Information (continued)

Directors' Interests and Short Positions in Shares (continued)

Notes:

- (1) These shares are beneficially owned by the spouses of Joseph Ong Yong Loke and Tan Kheng Leong, 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 2016, 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 2016 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)	302,067,000	15.00%
Tan Kim Hor	Long	(3)	144,801,495	7.19%
Pang Siew Ha	Long		134,821,032	6.69%
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.

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 2016.

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 2016, 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 nomination committee of the Company currently comprises one member only. The Board is currently carrying out the responsibilities of the nomination committee until it appoints additional suitable member to this committee.

By Order of the Board

Sng Chiew Huat

Finance Director

Hong Kong, 26 August 2016

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

As at the date of this announcement, the Executive Directors are Mr. Tan Eng Soon, Mr. Tan Kheng Leong, Mdm. Sng Chiew Huat and Mr. Glenn Tan Chun Hong. Non-executive Director is Mr. Joseph Ong Yong Loke. Independent Non-executive Directors are Mr. Lee Han Yang, Mr. Ng Kim Tuck, Mr. Azman Bin Badrillah, Mr. Prechaya Ebrahim and Mr. Teo Ek Kee.