



Tan Chong International Limited
Interim Report **2011**

Stock Code: 693





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Management Review

RESULTS

The first half of 2011 was a challenging period, marked by the earthquake and tsunami in Japan which affected the supply of products to our region of operation. A rapidly appreciating Yen also affected our cost, and together with the limited supply of Certificate of Entitlement in Singapore coupled with higher bid prices made our business more difficult.

Compared to the same period last year, revenue increased from HK\$3,042 million to HK\$3,296 million but group profit decreased from HK\$160 million to HK\$110 million. Although revenue in Singapore dropped almost 19% it was more than compensated by increase overseas of more than 20% particularly in China, Taiwan and Philippines. Of the total revenue, Singapore contribution dropped to 26% whilst overseas portion rose to 74% of the group total revenue.

The profit drop was due to our equity securities making no contribution when compared to the corresponding period of 2010. In addition, vehicles supply was disrupted due to earthquake & the tsunami in Japan. Further, the exchange rate of our vehicle import cost in Japanese yen rose faster than the Chinese Renminbi aggravating the difficulties.

Net Cash, Cash & Cash Equivalent (net of bank overdraft) improved by \$35 million and \$257 million respectively. These improvements were due to profit contribution and decrease in net working capital.

Group NTA per share at the end of June 2011 rose to \$3.96 from \$3.83. We propose an interim dividend of \$0.015 per share for the first half of 2011.

FUSO TRUCKS BUSINESS IN THAILAND

In the 1st half of 2011 Fuso trucks business sold 412 units. Unfortunately the earthquake and tsunami in Japan had resulted in supply disruption of Complete Knock Down parts for 3 months. In July 2011 the factory temporary ceased operation due to a shortage of components parts. The management utilized this downtime to carry out repairs and maintenance of the whole assembly plant. We expect supply to normalize by November 2011.

NANJING PROJECT IN CHINA

Our Nanjing Tan Chong Automotive Co., Ltd (NJTC) specializes in providing professional design solution for the interior of vehicles and the design and manufacturing of automotive seats. The first phase of manufacturing program will start production in September 2011 with an annual production capacity of 2 million units of passenger- car seats. As an ongoing second phase, the Company will strengthen development of interior design solution for automobile. The main customers of NJTC are China domestic car and bus manufacturers. The factory has a production area of 33,000 square meters, and is the largest facility of its kind in Nanjing which is important centre for several major car and bus manufacturers in China.

PROSPECTS

Barring unforeseen circumstances, the group expects better revenue growth in the second half as supply of many of the group products from Japan should normalize by the last quarter of 2011.

Consolidated Income Statement

- unaudited

	Note	Six months ended 30 June	
		2011 HK\$'000	2010 HK\$'000 (Restated)
Revenue	2	3,295,508	3,041,749
Cost of sales		(2,806,718)	(2,580,300)
Gross profit		488,790	461,449
Other operating income		34,277	95,751
Distribution costs		(173,116)	(172,762)
Administrative expenses		(204,577)	(204,570)
Other operating expenses		(6,551)	(6,597)
Profit from operations		138,823	173,271
Financing costs		(21,951)	(13,371)
Share of profits less losses of associates		33,351	31,873
Profit before taxation	3	150,223	191,773
Income tax expense	4	(40,252)	(31,308)
Profit for the period		109,971	160,465
Attributable to:			
Equity shareholders of the Company		99,901	152,471
Non-controlling interests		10,070	7,994
Profit for the period		109,971	160,465
Earnings per share (cents)	6		
Basic and diluted		5.0	7.6

The notes on pages 10 to 15 form part of these financial statements.

Consolidated Statement of Comprehensive Income

- unaudited

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Profit for the period	109,971	160,465
Other comprehensive income for the period		
Exchange differences on translation of financial statements of:		
- overseas subsidiaries	247,695	47,139
- overseas associates	21,149	11,118
	268,844	58,257
Available-for-sale securities:		
- Changes in fair value recognised during the period	3,048	4,390
	271,892	62,647
Total comprehensive income for the period	381,863	223,112
Attributable to:		
Equity shareholders of the company	374,858	213,980
Non-controlling interests	7,005	9,132
Total comprehensive income for the period	381,863	223,112

The notes on pages 10 to 15 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	Translation reserve	Contributed surplus	Fair value reserve	Retained profits	Total	Non-controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2011	1,006,655	550,547	9,549	1,122,900	377,690	8,298	4,565,119	7,640,758	61,881	7,702,639
Changes in equity for 2011:										
Profit for the period	-	-	-	-	-	-	99,901	99,901	10,070	109,971
Other comprehensive income	-	-	-	271,909	-	3,048	-	274,957	(3,065)	271,892
Total comprehensive income for the period	-	-	-	271,909	-	3,048	99,901	374,858	7,005	381,863
Dividends declared and approved during the period	-	-	-	-	-	-	(100,665)	(100,665)	-	(100,665)
Dividends paid by non-wholly owned subsidiaries to non-controlling interests	-	-	-	-	-	-	-	-	(4,771)	(4,771)
Balance at 30 June 2011	1,006,655	550,547	9,549	1,394,809	377,690	11,346	4,564,355	7,914,951	64,115	7,979,066

The notes on pages 10 to 15 form part of these financial statements.

Consolidated Balance Sheet

- unaudited

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Non-current assets		
Investment properties	2,266,341	2,161,173
Other property, plant and equipment	1,869,646	1,689,066
Interest in leasehold land	222,039	215,538
Interest in associates	802,859	767,922
Other financial assets	170,198	159,454
Hire purchase debtors and instalments receivable	185,094	130,334
Non-current prepayments	51,349	32,041
Deferred tax assets	17,267	17,906
	<u>5,584,793</u>	<u>5,173,434</u>
Current assets		
Held-to-maturity debt securities	28,864	34,966
Investments designated at fair value through profit or loss	716,568	713,645
Inventories	1,175,109	1,464,069
Properties held for sale	219,684	248,977
Trade debtors	7 470,033	409,764
Hire purchase debtors and instalments receivable	83,243	73,998
Other debtors, deposits and prepayments	219,266	165,758
Amount due from related companies	13,275	12,832
Cash and cash equivalents	8 <u>2,197,263</u>	<u>1,926,827</u>
	<u>5,123,305</u>	<u>5,050,836</u>
Current liabilities		
Bank overdrafts (unsecured)	8 25,718	12,052
Bank loans	1,838,574	1,616,696
Trade creditors	9 241,942	402,995
Other creditors and accruals	480,469	350,607
Amounts due to related companies	4,364	3,494
Current taxation	51,327	53,702
Provisions	19,976	18,287
	<u>2,662,370</u>	<u>2,457,833</u>
Net current assets	<u>2,460,935</u>	<u>2,593,003</u>
Total assets less current liabilities	<u>8,045,728</u>	<u>7,766,437</u>

The notes on pages 10 to 15 form part of these financial statements.

Consolidated Balance Sheet (continued)

- unaudited

	Note	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Non-current liabilities			
Deferred tax liabilities		26,110	25,226
Bank loans		25,310	25,876
Provisions		15,242	12,696
		<u>66,662</u>	<u>63,798</u>
NET ASSETS		<u>7,979,066</u>	<u>7,702,639</u>
Capital and reserves			
Share capital	10	1,006,655	1,006,655
Reserves		<u>6,908,296</u>	<u>6,634,103</u>
Total equity attributable to equity shareholders of the Company		7,914,951	7,640,758
Non-controlling interests		<u>64,115</u>	<u>61,881</u>
TOTAL EQUITY		<u>7,979,066</u>	<u>7,702,639</u>

The notes on pages 10 to 15 form part of these financial statements.

Condensed Consolidated Cash Flow Statement

- unaudited

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	333,279	(131,302)
Net cash used in investing activities	(158,305)	(71,993)
Net cash generated from financing activities	69,467	254,048
Net increase in cash and cash equivalents	244,441	50,753
Cash and cash equivalents at 1 January	1,914,775	1,759,318
Effect of exchange differences	12,329	11,467
Cash and cash equivalents at 30 June	2,171,545	1,821,538

The notes on pages 10 to 15 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 ("IAS") 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 2010 annual financial statements.

2 Segment Reporting

(a) Segment results

	Group Revenue		EBITDA	
	Six months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business lines				
Motor vehicle distribution	2,509,033	2,430,980	50,296	57,464
Heavy commercial vehicle and industrial equipment distribution	395,790	349,211	53,238	62,388
Property rentals and development	90,838	42,888	44,491	9,272
Other operations	299,847	218,670	51,149	90,684
	<u>3,295,508</u>	<u>3,041,749</u>	<u>199,174</u>	<u>219,808</u>

	Group Revenue	
	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Geographical areas		
Singapore	857,537	1,053,124
Hong Kong	36,682	38,561
PRC	1,676,121	1,353,788
Others	725,168	596,276
	<u>3,295,508</u>	<u>3,041,749</u>

Notes to the Unaudited Financial Statements

2 Segment Reporting (continued)

(b) Reconciliation of reportable segment profit or loss	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Total segment EBITDA	199,174	219,808
Depreciation and amortisation	(71,348)	(59,239)
Interest income	10,997	12,702
Finance costs	(21,951)	(13,371)
Share of profits less losses of associates	33,351	31,873
Consolidated profit before taxation	150,223	191,773

3 Profit before taxation

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Interest expense	21,951	13,371
Amortisation of interest in leasehold land	3,830	3,262
Depreciation of property, plant and equipment	67,518	55,977
Gain on disposal of property, plant and equipment	(5,511)	(6,001)
Decrease/(increase) in fair value of listed investments	685	(50,153)

Notes to the Unaudited Financial Statements

4 Taxation

The analysis of income tax expense is as follows:

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Hong Kong	-	-
Singapore	16,427	8,368
Elsewhere	23,825	22,940
	<u>40,252</u>	<u>31,308</u>

The Group's applicable tax rate represents the weighted average of the statutory corporate income tax rates, which mainly range between 16.5% (2010: 16.5%) and 30% (2010: 30%), in the tax jurisdictions in which the Group operates.

5 Dividends

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
(i) Dividends attributable to the period		
Interim dividend declared of HK\$0.015 (2010: HK\$0.015) per ordinary share	<u>30,200</u>	<u>30,200</u>
The interim dividend has not been recognized as a liability at balance sheet date.		
(ii) Dividends paid during the period		
Final dividend approved in respect of prior year of HK\$0.05 (2010: HK\$0.04) per ordinary share	<u>100,665</u>	<u>80,532</u>

Notes to the Unaudited Financial Statements

6 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2011 is based on net profit attributable to equity shareholders of the Company of HK\$99,901,000 (2010: HK\$152,471,000) and the weighted average number of shares of 2,013,309,000 (2010: 2,013,309,000) in issue during the period.

Diluted earnings per share for the periods ended 30 June 2011 and 2010 is the same as the basic earnings per share as there were no dilutive securities outstanding during the periods presented.

7 Trade debtors

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

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
0-30 days	439,479	368,505
31 - 90 days	14,057	20,958
Over 90 days	16,497	20,301
	<u>470,033</u>	<u>409,764</u>

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

Notes to the Unaudited Financial Statements

8 Cash and cash equivalents

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Bank deposits	515,184	711,451
Cash at bank	1,680,521	1,214,514
Cash in hand	1,558	862
	<hr/>	<hr/>
Cash and cash equivalents (exclude bank overdrafts)	2,197,263	1,926,827
Bank overdrafts (unsecured)	(25,718)	(12,052)
	<hr/>	<hr/>
Cash and cash equivalents	<u>2,171,545</u>	<u>1,914,775</u>

9 Trade creditors

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

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
0-30 days	83,819	315,098
31-90 days	118,283	76,450
91-180 days	31,318	2,404
Over 180 days	8,522	9,043
	<hr/>	<hr/>
	<u>241,942</u>	<u>402,995</u>

Notes to the Unaudited Financial Statements

10 Share capital

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
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

11 Capital commitments

Capital commitments outstanding at 30 June 2011 not provided for in the financial statements were as follows:

	At 30 June 2011 HK\$'000	At 31 December 2010 HK\$'000
Authorised and contracted for:		
- Construction of properties	68,805	156,307

12 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 2011 HK\$'000	2010 HK\$'000
Sale of goods and services to related companies	5,819	2,674
Purchase of stocks from related companies	881	5

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

13 Comparative figures

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

Other Information

Interim dividend

The Board is pleased to declare an interim dividend of HK\$0.015 (2010: HK\$0.015) per ordinary share on the shares in issue amounting to a total of HK\$30,200,000 (2010: HK\$30,200,000), which will be payable on 6 September 2011 to shareholders whose names appear on the Register of Members on 31 August 2011. Dividend warrants will be sent to shareholders on 6 September 2011.

Closure of Register of Members

The Register of Members will be closed from 29 August 2011 to 31 August 2011, 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 26 August 2011.

Directors' interests in shares

The directors who held office at 30 June 2011 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"):

Long positions	Ordinary shares of HK\$0.50 each					Percentage
	Personal interests	Family interests (Note 1)	Corporate interests (Note 2)	Other interests	Total	of total issued shares
Executive Directors:						
Tan Eng Soon	111,999,972	-	125,163,000	929,343,147 (Note 3)	1,166,506,119	57.93%
Joseph Ong Yong Loke	684,000	795,000	940,536	-	2,419,536	0.12%
Tan Kheng Leong	2,205,000	210,000	-	1,164,091,119 (Note 4)	1,166,506,119	57.93%
Sng Chiew Huat	849,000	-	-	-	849,000	0.04%
Glenn Tan Chun Hong	99,000	-	-	-	99,000	0.0049%

Directors' interests in shares (continued)

- Note 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.
- Note 2: These shares are beneficially owned by corporations controlled by Tan Eng Soon and Joseph Ong Yong Loke, respectively.
- Note 3: In addition to Tan Eng Soon's personal and corporate interests of 111,999,972 Shares and 125,163,000 Shares respectively, he is deemed to be interested in 929,343,147 Shares pursuant to sections 317 and 318 of the SFO, making a total of interests in respect of 1,166,506,119 Shares.
- Note 4: In addition to Tan Kheng Leong's personal and family interests of 2,205,000 Shares and 210,000 Shares respectively, he is deemed to be interested in 1,164,091,119 Shares pursuant to sections 317 and 318 of the SFO, making a total of interests in respect of 1,166,506,119 Shares.

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 2011, 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, or any of its subsidiaries or any of its fellow subsidiaries a party to any arrangement to enable the directors of the Company 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.

Other Information

Substantial interests in the share capital of the Company

The Company has been notified of the following interests (other than a director of the Company) in the Company's issued shares at 30 June 2011 amounting to 5% or more of the ordinary shares in issue:

<i>Name</i>	<i>Long/short Positions</i>	<i>Note</i>	<i>Ordinary shares held</i>	<i>Percentage of total issued shares</i>
Tan Chong Consolidated Sdn. Bhd	Long	(1)	1,164,091,119	57.81%
Guoco Group Limited	Long	(2)	400,308,068	19.88%

Note 1 : The share capital of Tan Chong Consolidated Sdn. Bhd. is held by Tan Eng Soon as to approximately 22.85% and by Tan Kheng Leong as to approximately 15.38%. The remaining shareholding is held by certain members of the Tan family who are not directors of the Company. The 1,164,091,119 Shares referred to above include 665,562,720 Shares beneficially held by Tan Chong Consolidated Sdn. Bhd. and 498,528,399 Shares in which Tan Chong Consolidated Sdn. Bhd. is interested pursuant to sections 317 and 318 of the SFO.

Note 2 : Based on the disclosure of interests filed, certain corporations/individuals namely Quek Leng Chan, HL Holdings Sdn Bhd, Kwek Leng Kee, Davos Investment Holdings Private Limited, Hong Leong Investment Holdings Pte Ltd and Hong Leong Company (Malaysia) Berhad, Guoline Capital Assets Limited and Guoline Overseas Limited, are deemed to be interested in all the shares in which Guoco Group Limited has an interest because of their direct/indirect interest in the entire/partial share capital of Guoco Group Limited. Guoco Group Limited is deemed to be interested in the 400,308,068 Shares through its controlled corporations pursuant to the SFO, including Guocoequity Assets Limited and Capital Intelligence Limited in respect of 398,997,068 Shares. Such 398,997,068 Shares were held by Capital Intelligence Limited which was 100% controlled by Guocoequity Assets Limited.

Save as disclosed above, no person, other than a director of the Company whose interests are set out above, had registered an 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 2011.

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

Code on Corporate Governance Practices

No director of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, at any time during the six months ended 30 June 2011, acting in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange. The independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Bye-Laws. The Chairman had been instrumental in listing the Group. He has in-depth professional knowledge of, and extensive experience in the automobile industry and full cognizance of the workings of the business operations of the Group. In view of this, the Board would like him to continue with some executive functions. The balance of power and authority is ensured by the participation and input of the other Board members who are highly qualified and experienced professionals. The roles of the respective executive directors and senior management who are in charge of different disciplinary functions complement the role of the Chairman and Chief Executive Officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to make and implement decisions promptly and efficiently.

By Order of the Board
Sng Chiew Huat
Finance Director
Hong Kong, 28 July 2011

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

As at the date of this interim report, the executive directors are Mr. Tan Eng Soon, Mr. Joseph Ong Yong Loke, Mr. Tan Kheng Leong, Mdm. Sng Chiew Huat and Mr. Glenn Tan Chun Hong. Non-Executive Director is Mr. Ng Kim Tuck and Independent non-executive directors are Mr. Lee Han Yang, Mr. Masatoshi Matsuo and Mr. Tan Ngiap Joo. The Honorary Life Counsellor of the Company is Dato' Tan Kim Hor.