



TAN CHONG MOTOR HOLDINGS BERHAD (12969-P)
(Incorporated in Malaysia)

**INTERIM REPORT FOR THE
SECOND QUARTER ENDED
30 JUNE 2017**

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TAN CHONG MOTOR HOLDINGS BERHAD
(Company No: 12969-P)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE QUARTER ENDED 30 JUNE 2017

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	(Unaudited) Current Year Corresponding Quarter 30.06.2017 RM'000	(Unaudited) Preceding Year Corresponding Quarter 30.06.2016 RM'000	(Unaudited) Current Year Corresponding To Date 30.06.2017 RM'000	(Unaudited) Preceding Year Corresponding Period 30.06.2016 RM'000
Revenue	1,196,358	1,310,940	2,192,010	2,726,723
Operating (loss)/profit	(10,949)	5,161	(33,144)	(16,049)
Interest expense	(17,414)	(18,891)	(34,075)	(37,367)
Interest income	4,220	935	7,123	3,347
Share of profit of equity-accounted investees	1,430	1,312	1,840	1,842
Loss before taxation	(22,713)	(11,483)	(58,256)	(48,227)
Tax expense	(3,284)	(3,851)	(5,201)	(5,540)
Loss for the period	(25,997)	(15,334)	(63,457)	(53,767)
Attributable to:				
Equity holders of the Company	(22,999)	(14,587)	(58,321)	(51,795)
Non-controlling interests	(2,998)	(747)	(5,136)	(1,972)
	(25,997)	(15,334)	(63,457)	(53,767)
Loss per share (sen)				
(a) Basic	(3.52)	(2.23)	(8.94)	(7.94)
(b) Fully diluted	N/A	N/A	N/A	N/A

The Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the audited financial statements for the year ended 31 December 2016.



TAN CHONG MOTOR HOLDINGS BERHAD
(Company No: 12969-P)
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 JUNE 2017**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	(Unaudited) Current Year Quarter 30.06.2017 RM'000	(Unaudited) Preceding Year Corresponding Quarter 30.06.2016 RM'000	(Unaudited) Current Year To Date 30.06.2017 RM'000	(Unaudited) Preceding Year Corresponding Period 30.06.2016 RM'000
Loss for the period	(25,997)	(15,334)	(63,457)	(53,767)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Foreign currency translation differences - foreign operations	1,474	(353)	1,523	(6,231)
Net change in fair value of cash flow hedges reclassified to profit or loss	2,697	9,669	7,875	(4,566)
Total items that are or may be reclassified subsequently to profit or loss	4,171	9,316	9,398	(10,797)
Other comprehensive income/(loss) for the period, net of tax	4,171	9,316	9,398	(10,797)
Total comprehensive loss for the period	(21,826)	(6,018)	(54,059)	(64,564)
Total comprehensive loss attributable to:				
Equity holders of the Company	(19,472)	(4,645)	(49,914)	(60,960)
Non-controlling interests	(2,354)	(1,373)	(4,145)	(3,604)
	(21,826)	(6,018)	(54,059)	(64,564)

The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2016.



TAN CHONG MOTOR HOLDINGS BERHAD
(Company No: 12969-P)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	(Unaudited) As at 30.06.2017 RM'000	(Audited) As at 31.12.2016 RM'000
ASSETS		
<u>Non-current assets</u>		
Property, plant and equipment	1,856,560	1,863,022
Investment properties	198,766	198,766
Prepaid lease payments	48,358	51,343
Equity-accounted investees	44,481	42,891
Other investments	1	1
Deferred tax assets	66,912	62,761
Hire purchase receivables	601,771	460,399
Intangible assets	14,592	14,592
Long term receivables	876	162
	<hr/> 2,832,317	<hr/> 2,693,937
<u>Current assets</u>		
Other investments	108,168	3,001
Hire purchase receivables	92,603	74,139
Receivables, deposits and prepayments	730,722	792,130
Current tax assets	38,939	36,068
Inventories	1,372,707	1,749,708
Derivative financial assets	2,913	102
Cash and cash equivalents	294,254	227,560
	<hr/> 2,640,306	<hr/> 2,882,708
TOTAL ASSETS	<hr/> 5,472,623	<hr/> 5,576,645



TAN CHONG MOTOR HOLDINGS BERHAD
(Company No: 12969-P)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017 (continued)

	(Unaudited)	(Audited)
	As at	As at
	30.06.2017	31.12.2016
	RM'000	RM'000
EQUITY AND LIABILITIES		
<u>Equity</u>		
Share capital	336,000	336,000
Reserves	2,506,079	2,562,520
Treasury shares	(25,280)	(25,278)
Total equity attributable to owners of the Company	2,816,799	2,873,242
Non-controlling interests	(13,097)	(8,952)
Total equity	2,803,702	2,864,290
<u>Non-current liabilities</u>		
Deferred tax liabilities	163,695	169,117
Borrowings	747,870	747,604
Employee benefits	69,319	58,300
	980,884	975,021
<u>Current liabilities</u>		
Payables and accruals	614,438	661,635
Borrowings	1,057,587	1,059,731
Derivative financial liabilities	100	5,164
Taxation	15,912	10,804
	1,688,037	1,737,334
Total liabilities	2,668,921	2,712,355
TOTAL EQUITY AND LIABILITIES	5,472,623	5,576,645
Net assets per share attributable to owners of the Company (RM)	4.32	4.40

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2016.



TAN CHONG MOTOR HOLDINGS BERHAD
(Company No: 12969-P)
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2017**

	-----Attributable to owners of the Company-----							Total RM'000	Non- controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Treasury shares RM'000	Translation reserve RM'000	Revaluation reserve RM'000	Hedging reserve RM'000	Capitalisation of retained earnings RM'000	Retained earnings RM'000			
At 01.01.2016	336,000	(25,274)	(10,978)	574,207	6,045	100	1,916,150	2,796,250	(1,602)	2,794,648
Other comprehensive loss for the period, net of tax	-	-	(4,599)	-	(4,566)	-	-	(9,165)	(1,632)	(10,797)
Transfer of revaluation surplus on properties	-	-	-	(3,863)	-	-	3,863	-	-	-
Loss for the period	-	-	-	-	-	-	(51,795)	(51,795)	(1,972)	(53,767)
Total comprehensive loss for the period	-	-	(4,599)	(3,863)	(4,566)	-	(47,932)	(60,960)	(3,604)	(64,564)
Purchase of treasury shares	-	(2)	-	-	-	-	-	(2)	-	(2)
Dividend - 2015 final	-	-	-	-	-	-	(19,580)	(19,580)	-	(19,580)
At 30.06.2016	336,000	(25,276)	(15,577)	570,344	1,479	100	1,848,638	2,715,708	(5,206)	2,710,502
At 01.01.2017	336,000	(25,278)	(14,851)	736,660	(5,062)	100	1,845,673	2,873,242	(8,952)	2,864,290
Other comprehensive income for the period, net of tax	-	-	532	-	7,875	-	-	8,407	991	9,398
Transfer of revaluation surplus on properties	-	-	-	(4,972)	-	-	4,972	-	-	-
Loss for the period	-	-	-	-	-	-	(58,321)	(58,321)	(5,136)	(63,457)
Total comprehensive income/(loss) for the period	-	-	532	(4,972)	7,875	-	(53,349)	(49,914)	(4,145)	(54,059)
Purchase of treasury shares	-	(2)	-	-	-	-	-	(2)	-	(2)
Dividend - 2016 final	-	-	-	-	-	-	(6,527)	(6,527)	-	(6,527)
At 30.06.2017	336,000	(25,280)	(14,319)	731,688	2,813	100	1,785,797	2,816,799	(13,097)	2,803,702

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2016.



TAN CHONG MOTOR HOLDINGS BERHAD
(Company No: 12969-P)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2017

	CUMULATIVE QUARTER	
	(Unaudited)	(Unaudited)
	For the 6 months	For the 6 months
	ended	ended
	30.06.2017	30.06.2016
	RM'000	RM'000
Cash flows from operating activities		
Loss before taxation	(58,256)	(48,227)
Adjustments for:		
Non-cash and non-operating items	109,589	108,944
Operating profit before working capital changes	51,333	60,717
Changes in working capital		
Inventories	376,957	(180,813)
Hire purchase receivables	(165,015)	(131,290)
Receivables, deposits and prepayments	82,274	50,728
Payables and accruals	(86,636)	(114,106)
Cash used in operations	258,913	(314,764)
Tax paid	(10,388)	(24,095)
Interest paid	(23,365)	(30,826)
Employee benefits paid	(391)	(339)
Net cash generated from/(used in) operating activities	224,769	(370,024)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(70,913)	(62,220)
Acquisition of prepaid lease payments	(13)	(326)
Net proceeds from liquid investments with licensed financial institutions	(105,167)	1,591
Dividend received from equity-accounted investee	250	1,925
Proceeds from disposal of property, plant and equipment	11,929	7,716
Net cash used in investing activities	(163,914)	(51,314)



TAN CHONG MOTOR HOLDINGS BERHAD
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2017 (continued)

	CUMULATIVE QUARTER	
	(Unaudited) For the 6 months ended 30.06.2017 RM'000	(Unaudited) For the 6 months ended 30.06.2016 RM'000
Cash flows from financing activities		
Dividends paid to shareholders of the Company	(6,527)	(19,580)
Purchase of own shares	(2)	(2)
Proceeds from/(repayment of) bills payable (net)	93,217	121,374
Proceeds from medium term notes, term loans, Cagamas financing and revolving credit (net)	(77,642)	335,561
Net cash from financing activities	9,046	437,353
Net increase in cash and cash equivalents	69,901	16,015
Effects of exchange rate fluctuations on cash and cash equivalents	(3,207)	(2,331)
Cash and cash equivalents at beginning of the period	227,560	165,856
Cash and cash equivalents at end of the period	294,254	179,540
Cash and cash equivalents in the statement of cash flows comprise:		
Cash and bank balances	194,793	150,782
Deposits with licensed banks	99,461	28,758
	294,254	179,540

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 31 December 2016.

A) Explanatory notes as per Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting

1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the applicable disclosure provisions of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and MFRS 134, *Interim Financial Reporting* in Malaysia. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of Tan Chong Motor Holdings Berhad (“TCMH”) and its subsidiaries, associates and joint venture (“the Group”) as at and for the year ended 31 December 2016.

2. Changes In Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2016, except the adoption of the following Malaysian Financial Reporting Standards (“MFRSs”), Amendments to MFRSs and IC Interpretations:

- Amendments to MFRS 12, *Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014 – 2016 Cycle)*
- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of the above pronouncements did not have any impact on the financial statements of the Group.

MFRSs, Amendments to MFRSs and IC Interpretations issued but not yet effective

The following MFRSs, Amendments to MFRSs have been issued but are not yet effective, and have yet to be adopted by the Group:-

Effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014 – 2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014 – 2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

Effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*

Effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

A) Explanatory notes as per Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting

2. Changes In Accounting Policies (continued)

The initial application of the abovementioned accounting standards, amendments or interpretations are not expected to have any material financial impacts to the financial statements of the Group except as mentioned below:

MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfer of Assets from Customers* and IC Interpretation 131, *Revenue – Barter Transactions Involving Advertising Services*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 15.

MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The Group is currently assessing the financial impact that may arise from the adoption of MFRS 16.

3. Audit Qualifications

There were no audit qualifications in the annual financial statements for the year ended 31 December 2016.

4. Seasonal or Cyclical Factors

During the quarter, the business of the Group had not been affected by any significant seasonal or cyclical factors, apart from the general economic environment in which it operated.

5. Unusual Items

There were no unusual items that have a material effect on the assets, liabilities, equity, net income or cash flows for the period.

6. Material Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial year.

A) Explanatory notes as per Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting

7. Debt and Equity Securities

During the quarter under review, the Company repurchased 1,000 units of its issued ordinary shares from the open market at an average price of RM1.86. Total consideration paid for the repurchase including transaction cost was RM1,905 and this was financed by internally generated fund. Cumulative total number of shares repurchased at the end of the quarter was 19,338,000. The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act 2016.

Under the Group's Asset-Backed Medium Term Notes ("MTN") Programme, the Group has redeemed RM45.70 million nominal value of MTN. The outstanding nominal value of MTN comprising Class A, Class B and Class C was RM427.60 million at the end of the financial quarter.

Under the combined aggregate nominal value of RM1.5 billion of Commercial Papers and Medium Term Notes Programmes, the outstanding nominal values of Medium Term Notes was RM750.0 million at the end of the financial quarter.

Save for the above, there were no other issuance and repayment of debt securities, share cancellation and resale of treasury shares during the period.

8. Dividend Paid

A final single tier dividend of 1 sen per share for the year ended 31 December 2016 (2015: single tier 3 sen per share) amounting to RM6.53 million (2015: RM19.58 million) was paid on 21 June 2017.

9. Segmental Reporting

For the financial period ended 30 June 2017:

	Vehicles assembly, manufacturing, distribution and after sale services		Financial services		Other operations		Total	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	30.06.2017	30.06.2016	30.06.2017	30.06.2016	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	2,153,442	2,692,521	34,275	28,752	4,293	5,450	2,192,010	2,726,723
Inter-segment revenue	190	216	2,681	1,076	40,864	41,603	43,735	42,895
Segment EBITDA*	31,306	40,174	10,262	8,295	1,530	6,789	43,098	55,258

*Segment earnings before interest, taxation, depreciation and amortisation

Reconciliation of reportable segment profit or loss:	(Unaudited)	(Unaudited)
	30.06.2017	30.06.2016
	RM'000	RM'000
Total EBITDA for reportable segments	43,098	55,258
Depreciation and amortisation	(61,827)	(65,306)
Interest expense	(34,075)	(37,367)
Interest income	7,123	3,347
Share of profit of equity-accounted investees not included in reportable segments	1,840	1,842
Unallocated corporate expenses	(14,415)	(6,001)
Consolidated loss before taxation	(58,256)	(48,227)

10. Valuation of Property, Plant and Equipment

The valuation of property, plant and equipment were brought forward without amendment from the annual financial statements for the year ended 31 December 2016.

A) Explanatory notes as per Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting

11. Valuation of Investment Properties

The valuation of investment properties were brought forward without amendment from the annual financial statements for the year ended 31 December 2016.

12. Material Subsequent Event

There has not arisen in the interval between the end of this reporting period and the date of this announcement, any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group.

13. Changes in Composition of the Group

There were no changes in the composition of the Group for the quarter under review.

14. Changes in Contingent Liabilities or Contingent Assets

There are no changes in the contingent liabilities since the end of financial period ended 30 June 2017 except as disclosed below:

As disclosed in Note B9, the Group is defending actions brought by various parties. While liability is not admitted, if defence against the actions is unsuccessful, then potential damages could amount to RM69.2 million. Our solicitors are of the opinion the defence has a reasonably good chance of succeeding.

There are no contingent assets as at 30 June 2017.

15. Commitments Outstanding Not Provided For In the Interim Financial Report

(i) Capital commitment

	30.06.2017	30.06.2016
	RM'000	RM'000
<i>Property, plant and equipment</i>		
Authorised but not contracted for	38,575	14,752
Authorised and contracted for		
In Malaysia	30,443	70,054
Outside Malaysia	7,485	1,544
TOTAL	76,503	86,350

(ii) Non-cancellable operating lease commitment

	30.06.2017	30.06.2016
	RM'000	RM'000
<i>Commitments for minimum lease payments in relation to non-cancellable operating lease are payable as follows:</i>		
Not later than 1 year	1,761	1,656
More than 1 year but not later than 5 years	7,044	6,624
More than 5 years	110,762	105,842
TOTAL	119,567	114,122

A) Explanatory notes as per Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting

16. Significant Related Party Transactions

- (a) Significant transactions with Warisan TC Holdings Berhad (WTCH), APM Automotive Holdings Berhad (APM) and Tan Chong International Limited (TCIL) Groups, companies in which a Director of the Company, namely Dato' Tan Heng Chew, is deemed to have substantial financial interests, are as follows:

	Individual Quarter		Cumulative Quarter	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
With WTCH Group				
Sales	8,059	17,497	15,352	28,928
Provision of hire purchase	-	5,380	-	10,178
With APM Group				
Purchases	20,623	24,842	39,968	52,226
With TCIL Group				
Contract assembly fee receivable	4,469	17,786	12,230	25,168

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

- (b) Significant transactions with Nissan Motor Co. Limited Group, Japan, a substantial shareholder of the Company, are as follows:

	Individual Quarter		Cumulative Quarter	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Purchases	226,468	543,611	464,344	1,135,617

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

- (c) Significant transactions with Auto Dunia Sdn. Bhd., a company connected to a Director of the Company, namely Dato' Tan Heng Chew by virtue of Section 197 of the Companies Act, 2016, are as follows:

	Individual Quarter		Cumulative Quarter	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Purchases	120,188	150,079	269,126	435,083

These transactions have been entered into in the normal course of business and have been established under negotiated terms.

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

1. Analysis Of Performance Of All Operating Segments

The Group's top-line revenue decreased by 19.6% with loss before taxation (LBT) of RM58.3 million for the first half of 2017 (-20.8% YoY) due to softer demand for new vehicles.

a) Vehicles Assembly, Manufacturing, Distribution & After Sales Service (automotive)

The automotive division recorded lower revenue of RM2,153.4 million (-20.0% YoY) with segment EBITDA of RM31.3 million (-22.0% YoY). The lower revenue and EBITDA was due to weak consumer demand.

b) Financial Services (hire purchase and insurance)

The financial services division recorded higher revenue of RM34.3 million (+19.2% YoY) and EBITDA of RM10.3 million (+23.7% YoY). The increase was due to higher hire purchase loans disbursed compared to the previous year same quarter.

c) Other Operations (investments and properties)

Revenue from other operations was lower at RM4.3 million compared to RM5.5 million in the previous year and EBITDA was at RM1.5 million compared to RM6.8 million in the previous year. The lower EBITDA was due to the net foreign exchange loss arising from financing overseas entities denominated in foreign currencies.

2. Comparison With Preceding Quarter's Results

Quarter on quarter (QoQ): Revenue increased by 20.2% (from RM1.00 billion to RM1.20 billion). Comparing to previous quarter, the LBT has been narrowed to RM22.7 million with net loss of RM23.0 million. EBITDA recorded at RM27.0 million (+68.8% QoQ).

a) Vehicles Assembly, Manufacturing, Distribution & After Sales Service (automotive)

For the quarter under review, automotive division recorded RM1,176.9 million in revenue (+20.5% QoQ) and RM20.7 million in segment EBITDA (+94.4% QoQ). Q2 2017 recorded a favourable revenue and EBITDA due to improved sales model mix and festivities-driven sales campaigns.

b) Financial Services (hire purchase and insurance)

The financial services division recorded its revenue at RM17.5 million for Q2 2017 (+3.9% QoQ). EBITDA for Q2 2017 was RM3.8 million (-41.9% QoQ). The lower EBITDA was due to lower margin from revenue contributed by insurance business compared to previous quarter.

c) Other Operations (investments and properties)

Revenue from other operations for Q2 2017 was recorded at RM2.0 million (-9.6% QoQ). EBITDA for Q2 2017 was RM2.6 million compared to preceding quarter LBITDA of RM1.1 million. This was due to lower net foreign exchange loss in Q2 2017 arising from financing overseas entities denominated in foreign currencies.

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

3. Current Year Prospects

The market environment remains challenging due to weak consumer sentiment towards purchasing of big-ticket items such as motor vehicles. The unfavourable exchange rates and intense competition in the domestic market continue to be challenging factors faced by the Group.

The Group will continue to innovate sales and marketing strategies to sustain sales momentum and focus on efficiency and operating cash generative businesses to ensure sustainable financial position. The Group's regional expansion programme remains on course as we continue to strengthen our presence in Vietnam and other Indo-China countries by expanding our sales network and maximising our existing plant utilisation. All these measures will strengthen the Group's operational performance moving forward.

4. Comparison With Profit Forecast

This is not applicable to the Group.

5. Taxation

	Individual Quarter		Cumulative Quarter	
	30.06.2017 RM'000	30.06.2016 RM'000	30.06.2017 RM'000	30.06.2016 RM'000
Current year	10,675	10,506	19,724	22,191
Prior year	(7,143)	695	(7,099)	695
Deferred tax	(248)	(7,350)	(7,424)	(17,346)
	<u>3,284</u>	<u>3,851</u>	<u>5,201</u>	<u>5,540</u>

The tax charge occurred despite the loss situation of the Group for the financial year-to-date due to certain expenses disallowed for tax purposes and the absence of full Group relief.

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

6. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at reporting date.

7. Group Borrowings

Group borrowings as at the end of the reporting period are as follows:

	30.06.2017
	RM'000
Unsecured :	
- Bills payable	117,608
- Revolving credit	896,389
- Short term loan	43,590
- Medium term notes	747,870
Total borrowings	<u>1,805,457</u>
Comprising :	
Amount repayable within one year	1,057,587
Amount repayable after one year	<u>747,870</u>
	<u>1,805,457</u>

Group borrowings breakdown by currencies:

		30.06.2017
		RM'000
Functional currency	Denominated in	
RM	RM	1,415,478
RM	USD	259,361
VND	VND	79,123
VND	USD	51,495
		<u>1,805,457</u>

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

8. Financial Instruments and Realised And Unrealised Profits

a) Derivatives

As at 30 June 2017, the notional amount, fair value and maturity period of the forward foreign exchange contracts are as follows:

Type of Derivatives	Notional Amount RM'000	Net Fair Value Assets/(Liabilities) RM'000	Maturity
Forward foreign exchange contracts	155,310	2,813	Less than 1 year

Forward foreign exchange contracts are entered into with locally incorporated licensed banks to hedge certain portion of the Group's purchases from exchange rate movements and repayments from overseas subsidiaries. As the exchange rates are predetermined under such contracts, in the event of exchange rate movement, exposure to opportunity gain/(loss) is expected. Given that the contracts are entered into with locally incorporated licensed banks, we are of the view that credit risk and the counterparty risk are minimal. Apart from a small fee payable to the banks there are no cash requirements for the forward contracts.

It is the Group policy not to enter into hedging contracts, which in the aggregate relate to volumes that exceed its expected commercial requirements for imports.

b) Realised and Unrealised Profits

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:

	(Unaudited) 30.06.2017 RM'000	(Audited) 31.12.2016 RM'000
Total retained profits of Tan Chong Motor Holdings Berhad and its subsidiaries:		
- Realised profit	1,836,523	1,893,976
- Unrealised profit	30,578	39,576
	<u>1,867,101</u>	<u>1,933,552</u>
Total share of retained profits from equity-accounted investees:		
- Realised profit	21,188	19,451
- Unrealised loss	(755)	(609)
	<u>20,433</u>	<u>18,842</u>
Total Group retained profits before consolidation adjustments	1,887,534	1,952,394
Less: Consolidation adjustments	(101,737)	(106,721)
	<u>1,785,797</u>	<u>1,845,673</u>

The determination of realised and unrealised profits is based on the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure pursuant to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), issued by Malaysian Institute of Accountants on 20 December 2010.

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

9. Changes In Material Litigation

(a) Motion to Correct Counter Claim from Narita Motorcare (Cambodia) Co. Ltd and Others

ETCM (C) Pty. Ltd. (“ETCM (C)”), a wholly-owned subsidiary of the Company, was appointed by Nissan Motor Co., Ltd. (“Nissan”) as the sole and exclusive distributor for Nissan completely built up vehicles in Cambodia (“Nissan Distributorship”) on 11 March 2010. ETCM (C) took over the Nissan Distributorship from the then distributor, Kjaer Group who had appointed Narita Motorcare (Cambodia) Co., Ltd. (“Narita”) as its non-exclusive dealer for Nissan vehicles in Cambodia.

Following this, ETCM (C) appointed its wholly owned subsidiary, Tan Chong Motor (Cambodia) Pty. Ltd. (“TCMC”) to undertake the distribution of the Nissan vehicles in Cambodia including the right to appoint dealers to sell the Nissan vehicles. TCMC then went into negotiation with Narita with a view to appoint Narita as a non-exclusive dealer in Phnom Penh, Cambodia.

Narita however contended that in practice, they have always been allowed by Kjaer Group to play the role of sole distributor of Nissan vehicles in the whole of Cambodia with a right to import Nissan vehicles into Cambodia.

Arising from this, in July 2015, Narita filed a motion for a Preservative Relief Order for the protection of its purported sole distributorship status (“2015 Preservative Relief Order”). On 12 September 2016, the Court of Appeal on an Appeal Motion by ETCM (C) and TCMC, made the ruling in the favour of ETCM (C) and TCMC. The Ministry of Commerce of Cambodia had also, via its letter dated 23 December 2015, recognised the exclusive rights of TCMC to distribute Nissan vehicles in Cambodia.

On 26 April 2017, Narita, Mr Long Narith and Mrs Pich Sokhom, the representatives of Narita, filed a Motion to Add and Correct Complaint and a counter complaint to, amongst others, order ETCM (C) and TCMC to pay damages and compensation of USD6,550,000 to Narita, USD200,000 each to Mr Long Narith and Mrs Pich Sokhom (“Motion to Add and Correct Complaint”).

On 9 May 2017, ETCM (C) and TCMC jointly filed its defence to the Motion to Add and Correct Complaint requesting to, amongst others:

1. Dismiss all claims of Narita, Mr Long Narith and Mrs Pich Sokhom;
2. Confirm the non-existence of the agreement between Narita and ETCM (C) and TCMC;
3. Order Narita, Mr Long Narith and Mrs Pich Sokhom to pay ETCM (C) and TCMC damages totalling approximately USD33,000,000 for actual losses and emotional damages which have been caused by the rulings arising from the 2015 Preservative Relief Order.

The Court has fixed oral argument for ETCM (C) and TCMC on 29 August 2017.

(b) Defence and Counter Claim served on TCM Stamping Products Sdn Bhd

On 18 August 2016, TCM Stamping Products Sdn Bhd (“TCMSP”), a wholly-owned subsidiary of the Company, filed a claim against Meka Automotive Industries Sdn Bhd (“MEKA”) for the sum of RM319,829 in respect of the supply of automotive accessories (“TCMSP’s Claim”) with the Kuala Lumpur Sessions Court (“Sessions Court”). Subsequently, MEKA filed a counterclaim in the sum of RM16,500,000 against TCMSP inter alia, for alleged loss of business (“MEKA’s Counterclaim”) with the Sessions Court and made an application to the Kuala Lumpur High Court (“High Court”) to transfer the legal proceedings from the Sessions Court to the High Court (“Application to Transfer”).

On 4 November 2016, TCMSP filed a striking out application against MEKA’s Counterclaim of RM16,500,000 in the Sessions Court and an Affidavit in Reply to oppose MEKA’s Application to Transfer on grounds, inter alia, that the MEKA’s Counterclaim is out of the jurisdiction of the Sessions Court, which has jurisdictional limit up to RM1,000,000 only. On 5 December 2016, TCMSP’s solicitors attended the case management before the Sessions Court and the High Court.

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

9. Changes In Material Litigation (continued)

(b) Defence and Counter Claim served on TCM Stamping Products Sdn Bhd (continued)

On 12 July 2017, High Court decided to allow MEKA's Application to Transfer from Sessions Court to High Court. On 14 July 2017, TCMSP's solicitor had informed the Sessions Court of the aforesaid decision.

TCMSP has instructed its solicitors to file for application for summary judgment against MEKA and TCMSP's application for striking out MEKA's defence and Counterclaim in the High Court.

TCMSP's solicitors are of the view that TCMSP has a reasonably good chance of succeeding in recovering the MEKA Outstanding Amount with costs as it is a plain and straightforward case of goods sold and delivered case. MEKA's Counterclaim is totally unsubstantiated and therefore, highly unsustainable.

(c) Writ of Summons and Statement of Claim served on Tan Chong Industrial Equipment Sdn Bhd ("TCIE")

On 15 August 2017, TCIE, a wholly-owned subsidiary of the Company, received a sealed Writ of Summons dated 12 August 2017 and Statement of Claim dated 11 August 2017, a sealed copy of a Notice of Application for Injunction dated 12 August 2017 and supporting Affidavit dated 11 August 2017 ("the action") from the solicitors acting for Transnasional Express Sdn. Bhd. ("Transnasional"), Plusliner Sdn. Bhd. ("Plusliner"), Syarikat Kenderaan Melayu Kelantan Berhad ("SKMK"), Syarikat Rembau Tampin Sdn. Bhd. ("SRT"), Kenderaan Langkasuka Sdn. Bhd. ("Langkasuka"), Konsortium Transnasional Berhad ("KTB") and MHSB Properties Sdn Bhd ("MHSB") (collectively known as "Plaintiffs").

TCIE had entered into a series of lease agreements with Transnasional, Plusliner and SKMK and a series of service maintenance agreements with Transnasional, Plusliner, SKMK, SRT and Langkasuka (collectively known as "Debtors") for the lease and service maintenance of the vehicles. The Debtors were owing to TCIE outstanding rentals and service bills amounting to RM32,920,575 ("Debt").

TCIE had negotiated with the Debtors on the settlement of the Debt on many occasions and after lengthy negotiations, the Debtors and KTB had mutually agreed to enter into a Settlement Agreement with TCIE on 4 July 2016 to settle the same by way of (i) repayment of the amount of RM16,920,575 in cash in several instalments; and (ii) transfer of a piece of land held under H.S.(D) 87546, PT No. 7929, Bandar Ampang, Daerah Ulu Langat, Negeri Selangor ("Land") owned by MHSB to TCIE for the settlement of the balance Debt of RM16,000,000 ("Balance Debt") ("Settlement Agreement").

Simultaneously with the Settlement Agreement and as settlement of the Balance Debt, TCIE entered into a Sale and Purchase Agreement with MHSB and Nadicorp Holdings Sdn Bhd for the acquisition of the Land at a mutually agreed consideration of RM16,000,000.

However, the Debtors had failed to make timely repayments of the Debt in accordance with the Settlement Agreement hence, TCIE had exercised its contractual rights to repossess the vehicles leased to the Debtors.

Pursuant to the action, the Plaintiffs are claiming, amongst others, the following:-

- (a) an injunction to restrain TCIE from repossessing and disposing the vehicles the subject of a Settlement Agreement between the Plaintiffs and TCIE until disposal of the action;
- (b) an injunction to restrain TCIE from entering into any dealing in relation to the Land and a declaration pertaining to the value of the Land of MHSB is RM55,600,000;
- (c) an injunction to restrain TCIE from taking any enforcement action under the Settlement Agreement between the Plaintiffs and TCIE until disposal of the action;
- (d) Repayment of compensation from the acquisition of part of the Land; and
- (e) Repayment of the sum of RM22,679,425.

TCIE has filed an appearance to the action on 22 August 2017 and also an Affidavit to oppose the Plaintiffs' injunction together with an application to strike out the Plaintiffs' action.

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

9. Changes In Material Litigation (continued)

(c) Writ of Summons and Statement of Claim served on Tan Chong Industrial Equipment Sdn Bhd (“TCIE”) (continued)

The High Court of Malaya at Kuala Lumpur has postponed the injunction application hearing on 23 August 2017 to a later date to be fixed.

The Plaintiffs' injunction application and TCIE's striking out application are now fixed for case management before the High Court of Malaya at Kuala Lumpur on 27 September 2017 for parties to file their Affidavits and submissions.

On 27 September 2017, the High Court of Malaya at Kuala Lumpur will fix a joint hearing date for both the Plaintiffs' injunction and TCIE's striking out application.

TCIE's solicitors are of the opinion that the action is without any legal basis.

Save for the above, there were no other pending material litigations against the Group as at the date of this report.

10. Dividend

Based on the results of the current quarter, the Board has declared an interim single tier dividend of 1 sen per share for the year ending 31 December 2017 to be paid on 29 September 2017 to shareholders whose names appear in the Register of Members on 13 September 2017.

A depositor shall qualify for entitlement to the dividend only in respect of:

- a. shares transferred into the depositor's securities account before 4.00 p.m. on 13 September 2017 in respect of transfer;
- b. shares deposited into the depositor's securities account before 12.30 p.m. on 11 September 2017 in respect of shares exempted from mandatory deposit; and
- c. shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis in accordance with the rules of Bursa Malaysia Securities Berhad.

11. Earnings Per Share

The calculation of basic earnings per share for the periods is based on the net loss attributable to ordinary shareholders of the periods and the weighted average numbers of ordinary shares outstanding during the periods as follows:

Weighted average number of ordinary shares	Individual Quarter		Cumulative Quarter	
	2017	2016	2017	2016
	('000)	('000)	('000)	('000)
Issued ordinary shares at beginning of the period	652,663	652,665	652,663	652,665
Effect of shares buyback during the period	(1)	(1)	(1)	(1)
Weighted average number of ordinary shares	<u>652,662</u>	<u>652,664</u>	<u>652,662</u>	<u>652,664</u>

B) Explanatory Notes pursuant to Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

12. Total comprehensive (loss)/income

Total comprehensive (loss)/income is arrived at after crediting/(charging):

	(Unaudited) Current Year Quarter 30.06.2017 RM'000	(Unaudited) Preceding Year Corresponding Quarter 30.06.2016 RM'000	(Unaudited) Current Year To Date 30.06.2017 RM'000	(Unaudited) Preceding Year Corresponding Period 30.06.2016 RM'000
Depreciation and amortisation	(30,280)	(33,264)	(61,827)	(65,306)
(Provision for)/reversal and (write off) of receivables	(3,838)	(3,055)	(7,424)	(8,330)
(Provision for)/reversal and (write off) of inventories	(39)	1,256	(44)	1,503
Gain on disposal of properties, plant and equipment	2,267	246	2,986	1,098
Property, plant and equipment written off	(197)	(121)	(271)	(126)
Foreign exchange gain/(loss)	(1,856)	9,368	(8,026)	1,088
Gain/(Loss) on derivatives	2,697	9,669	7,875	(4,566)

BY ORDER OF THE BOARD

HO WAI MING
 CHANG PIE HOON
 Company Secretaries
 Kuala Lumpur
 25 August 2017