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## **TAN CHONG INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 693)

### **CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the Prospectus and annual reports for the financial years ended 31 December 1998 to 31 December 2004. The Group has been entering into the Transactions with both the Ultima Group and the TCMH Group (including the APM Group) in its ordinary and usual course of business.

As the Ultima Group is controlled by members of the Tan Family and the TCMH Group and the APM Group are indirectly owned as to approximately 45% and 43% respectively by the Tan Family through TCC, the Ultima Group, the TCMH Group and the APM Group are therefore connected persons of the Company. Hence, the Transactions constitute continuing connected transactions for the Company. The Company has obtained the Waiver in 1998. Details of the Transactions for the financial years ended 31 December 1998 to 31 December 2004 have also been reviewed by the Company's independent non-executive directors and auditors and have been disclosed in the respective annual reports.

According to the Waiver, an annual cap in terms of a percentage of the Company's turnover has been previously set with the Ultima Group and the TCMH Group (including the APM Group). However, under the Revised Listing Rules, the annual cap is required to be in monetary terms instead of a percentage.

Following the implementation of the Revised Listing Rules, the Company has been taking appropriate steps to ensure full compliance as soon as practicable. Despite the transitional period provided for under the Revised Listing Rules and the Transactions had been reviewed by the Company's independent non-executive directors and auditors on an annual basis, the Company acknowledges that because of the tedious process of sorting out and negotiating with the various connected persons, it has taken a period longer than normally expected to arrive at the proposed monetary annual caps with the various connected persons as required under the Revised Listing Rules. Due to the length of time taken for the Company to comply with the Revised Listing Rules, the Stock Exchange may consider that there is a possible non-compliance of the Revised Listing Rules and might reserve right to take appropriate action as it deems necessary.

The Company now proposes to set an annual cap for the Transactions for the three financial years ending 31 December 2007. As the relevant percentage ratios represented by the Transactions on an annual basis are more than 0.1% but less than 2.5%, the Transactions are pursuant to Rule 14A.34 of the Revised Listing Rules only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 and the annual review requirements set out in Rules 14A.37 to 14A.41 of the Revised Listing Rules.

## **BACKGROUND**

Reference is made to the Prospectus and annual reports for the financial years ended 31 December 1998 to 31 December 2004. The Group has been entering into the Transactions with both the Ultima Group and the TCMH Group (including the APM Group) in its ordinary and usual course of business.

The Company has obtained the Waiver in 1998. Details of the Transactions for the financial years ended 31 December 1998 to 31 December 2004 have also been reviewed by the Company's independent non-executive directors and auditors and have been disclosed in the respective annual reports.

According to the Waiver, an annual cap in terms of a percentage of the Company's turnover has been previously set with the Ultima Group and the TCMH Group (including the APM Group). However, under the Revised Listing Rules, the annual cap is required to be in monetary terms instead of a percentage.

Following the implementation of the Revised Listing Rules, the Company has been taking appropriate steps to ensure full compliance as soon as practicable. Due to the fact that the volume of business cannot be rationally anticipated and to avoid over-stocking and cost overrun, it has taken considerable amount of time for the Group to compromise monetary annual caps with the various connected persons as required under the Revised Listing Rules. Despite the transitional period provided for under the Revised Listing Rules and the Transactions have been reviewed by the Company's independent non-executive directors and auditors on an annual basis, the Company acknowledges that because of the tedious process of sorting out and negotiating with the various connected persons, it has taken a period longer than normally expected to arrive at the proposed monetary annual caps. The Company now proposes to set an annual cap for the Transactions for the three financial years ending 31 December 2007.

## CONTINUING CONNECTED TRANSACTIONS

### 1. Transactions between the Group and the Ultima Group

The Group has been conducting the following continuing connected transactions with the Ultima Group in its ordinary and usual course of business:-

- Sale, purchase and hire purchase financing of motor vehicles
- Provision of workshop services
- Sale and purchase of spare parts and accessories
- Sale of motor oil, second hand cars and waste management products
- Sale of air tickets and provision of travel related services
- Car rental services

#### *Pricing Basis*

As disclosed in the Company's annual reports, the annual amounts of the transactions between the Group and the Ultima Group for the three financial years ended 31 December 2004 were HK\$24,231,000, HK\$19,213,000 and HK\$12,153,000 respectively, all of which were within the cap amount under the waiver granted by the Stock Exchange on 7 August 1998 and represented more than 0.1% but less than 2.5% of the relevant percentage ratios under Rule 14A.34 of the Revised Listing Rules. Details of the transactions between the Group and the Ultima Group have been reviewed by the independent non-executive directors and auditors of the Company, and have been disclosed in the Company's annual report in accordance with the waiver granted.

These transactions have been entered into in the ordinary and usual course of business of the Group and either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from (as appropriate) independent third parties.

The prices and terms of these transactions were or will be agreed between the Group and the Ultima Group on an order-by-order basis and at arm's length negotiations between them, taking into account the value and volume of the orders, the type and design of the products and any other specific requirements. The transactions have been and will be in the form of agreements, purchase orders and/or email confirmations between the Group and the Ultima Group from time to time.

Basing on (i) the amount of the transactions in the previous years; (ii) the amount of the transactions in the first six months of year 2005; and (iii) the downsizing of car rental business starting from year 2004, the Company estimated that the maximum amount of transactions between the Group and the Ultima Group to be annually capped at HK\$10,000,000 for each of the three financial years ending 31 December 2007.

As the applicable percentage ratios on an annual basis represent more than 0.1% but less than 2.5% for the Group, these transactions are subject to annual review, reporting and announcement requirements under Chapter 14A of the Revised Listing Rules.

Breakdowns of the historical amounts and the proposed caps of the transactions between the Group and the Ultima Group are depicted as follows:

<b>Year</b> <i>Historical</i> <i>amounts</i>	<b>Ultima Group</b>  <i>HK\$</i>	<b>Year</b> <i>Proposed</i> <i>annual caps</i>	<b>Ultima Group</b>  <i>HK\$</i>
2002	24,231,000	2005	10,000,000
2003	19,213,000	2006	10,000,000
2004	12,153,000	2007	10,000,000
2005*	4,519,000		

\* for the first six months ended 30 June 2005

## 2. Transactions between the Group and the TCMH Group (including the APM Group)

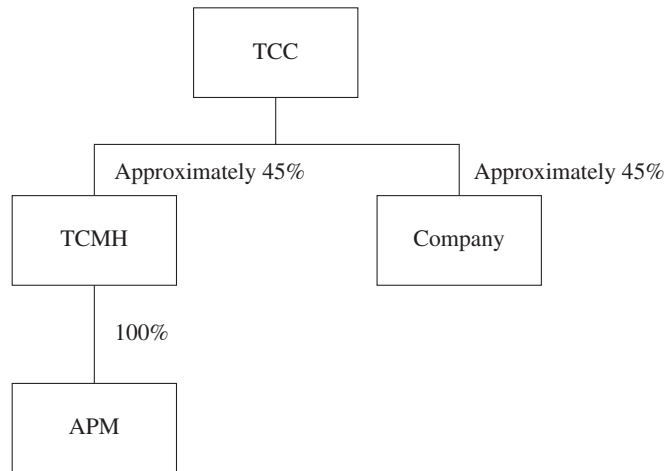
The Group has been conducting the following continuing connected transactions with the TCMH Group (including the APM Group) in its ordinary and usual course of business:-

- Sale and purchase of forklifts, trucks, spare and maintenance parts and accessories
- Sale of air tickets and provision of travel related services
- Purchase of components, machines and other fixed assets

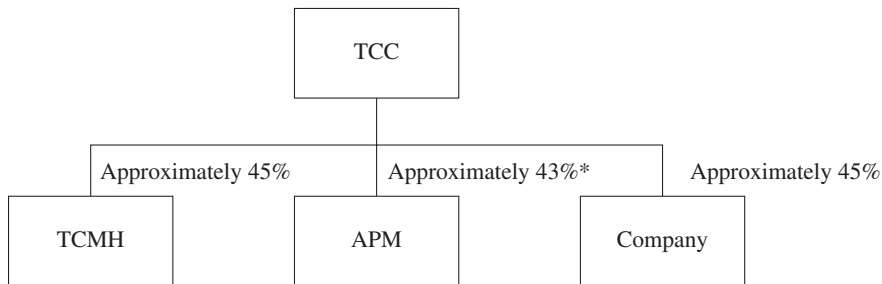
### *Demerger of APM Group from the TCMH Group*

In the Prospectus, the APM Group was a subsidiary group of the TCMH Group. However, on 15 December 1999, the APM Group was demerged from the TCMH Group and all the businesses involving the manufacture and sale of motor vehicle component parts, spare parts and accessories that were formerly conducted under the TCMH Group were grouped under the APM Group.

### Before Demerger



### After Demerger



\* The % shareholding in APM after demerger is reduced from 45% to 43% to comply with the laws in Malaysia, its country of incorporation.

#### Pricing Basis

As disclosed in the Company's annual reports, the annual amounts of the transactions between the Group and the TCMH Group (including the APM Group) for the three financial years ended 31 December 2004 were HK\$9,525,000, HK\$11,369,000 and HK\$15,327,000 respectively, all of which were within the cap amount under the waiver granted by the Stock Exchange on 7 August 1998 and represented more than 0.1% but less than 2.5% of the relevant percentage ratios under Rule 14A.34 of the Revised Listing Rules. Details of the transactions between the Group and the TCMH Group (including the APM Group) have been reviewed by the independent non-executive directors and the auditors of the Company, and have been disclosed in the Company's annual report in accordance with the waiver granted.

These transactions have been entered into in the ordinary and usual course of business of the Group and either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from (as appropriate) independent third parties.

The prices and terms of these transactions were or will be agreed between the Group and the TCMH Group (including the APM Group) on an order-by-order basis and at arm's length negotiations between them, taking into account the value and volume of the orders, the type and design of the products and any other specific requirements. The transactions have been and will be in the form of purchase orders and/or email confirmations between the Group and the TCMH Group (including the APM Group) from time to time.

Basing on (i) the amount of the transactions in the previous years; (ii) the amount of the transactions in the first six months of year 2005; and (iii) expected increase in orders and growth in market demand for motor vehicles and equipments due to continuing economic growth in most of Asia and a trend of increase in vehicle quota in the markets particularly Singapore, the Company estimated that the maximum amount of transactions between the Group and the TCMH Group to be annually capped at HK\$12,000,000, HK\$13,500,000 and HK\$17,000,000, and between the Group and the APM Group to be annually capped at HK\$8,000,000, HK\$9,500,000 and HK\$11,000,000 for each of the three financial years ending 31 December 2007 respectively.

As the applicable percentage ratios on an annual basis represent more than 0.1% but less than 2.5% for the Group, these transactions are subject to annual review, reporting and announcement requirements under Chapter 14A of the Revised Listing Rules.

Breakdowns of the historical amounts and the proposed caps of the transactions between the Group and the TCMH Group (including the APM Group) are depicted as follows:

<b>Year</b>	<b>TCMH Group (including the APM Group) HK\$</b>	<b>TCMH Group (excluding the APM Group) HK\$</b>	<b>APM Group HK\$</b>	<b>Total HK\$</b>
<i>Historical amounts</i>				
2002	9,525,000	6,861,000	2,664,000	9,525,000
2003	11,369,000	5,981,000	5,388,000	11,369,000
2004	15,327,000	9,236,000	6,091,000	15,327,000
2005*	8,816,000	5,156,000	3,660,000	8,816,000
<i>Proposed annual caps</i>				
2005	20,000,000	12,000,000	8,000,000	20,000,000
2006	23,000,000	13,500,000	9,500,000	23,000,000
2007	28,000,000	17,000,000	11,000,000	28,000,000

\* for the first six months ended 30 June 2005

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS**

The Transactions provide the Group with reliable and competitive suppliers and purchasers (as the case may be) for its goods and services. The price and terms of the Transactions have been and will be agreed on an order-by-order basis and at arm's length negotiations with the relevant connected persons taking into account the value and volume of the orders, the type and design of the products and any other specific requirements. Given the Group's long established and stable business relationship with the Ultima Group, and the TCMH Group (including the APM Group), the Board considers that the continuation of the Transactions is beneficial to the business of the Group.

The directors of the Company (including the independent non-executive directors) consider that the Transactions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms after arm's length negotiations, and are fair and reasonable and in the best interests of the Group and the shareholders of the Company as a whole.

## **LISTING RULES IMPLICATIONS**

As the Ultima Group is controlled by members of the Tan Family and the TCMH Group and the APM Group are indirectly owned as to approximately 45% and 43% respectively by the Tan Family through TCC, the Ultima Group, the TCMH Group and the APM Group are therefore connected persons of the Company. Hence, the Transactions constitute continuing connected transactions for the Company.

The Company has obtained the Waiver from the Stock Exchange in 1998. Details of the Transactions for the financial years ended 31 December 1998 to 31 December 2004 have also been reviewed by the Company's independent non-executive directors and auditors and have been disclosed in the respective annual reports.

According to the Waiver, an annual cap in terms of a percentage of the Company's turnover has been previously set with the Ultima Group and the TCMH Group (including the APM Group). However, under the Revised Listing Rules, the annual cap is required to be in monetary terms instead of a percentage.

Following the implementation of the Revised Listing Rules, the Company has been taking appropriate steps to ensure full compliance as soon as practicable. Despite the transitional period provided for under the Revised Listing Rules and the Transactions had been reviewed by the Company's independent non-executive directors and auditors on an annual basis, the Company acknowledges that because of the tedious process of sorting out and negotiating with the various connected persons, it has taken a period longer than normally expected to arrive at the proposed monetary annual caps with the various connected persons as required under the Revised Listing Rules. Due to the length of time taken for the Company to comply with the Revised Listing Rules, the Stock Exchange may consider that there is a possible non-compliance of the Revised Listing Rules and might reserve right to take appropriate action as it deems necessary.

The Company now proposes to set an annual cap for the Transactions for the three financial years ending 31 December 2007. As the relevant percentage ratios represented by the Transactions on an annual basis are more than 0.1% but less than 2.5%, the Transactions are pursuant to Rule 14A.34 of the Revised Listing Rules only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 and the annual review requirements set out in Rules 14A.37 to 14A.41 of the Revised Listing Rules.

## **GENERAL**

The principal activity of the Company is investment holding. The businesses of its principal subsidiaries consist of distribution of motor vehicles in Singapore, Hong Kong, China and Thailand, industrial equipment distribution in Singapore, China, Vietnam and Thailand, property development and rental in Singapore and Hong Kong and parts manufacturing in China.

The principal business of the Ultima Group is the leasing and hiring of motor vehicles and the purchase and sale of automotive spare parts.

The principal business of the TCMH Group is the assembly and sale of motor vehicles, distribution of equipment for material handling, agriculture and construction purposes, hire purchase financing, insurance agency and property development and investment.

The principal business of the APM Group is the manufacture and sale of motor vehicle component parts, spare parts and accessories.

As at the date of this announcement, the Board comprises of:

*Executive directors*

Mr. Tan Eng Soon  
Mr. Joseph Ong Yong Loke  
Mr. Tan Kheng Leong  
Mr. Neo Ah Chap  
Mdm. Sng Chiew Huat

*Independent non-executive directors*

Mr. Lee Han Yang  
Mdm. Jeny Lau  
Mr. Masatoshi Matsuo

*Honorary life counsellor*

Dato' Tan Kim Hor



## DEFINITIONS

“APM”	APM Automotive Holdings Berhad, a company incorporated in Malaysia with limited liability in 1997, the shares of which are listed on the Kuala Lumpur Stock Exchange
“APM Group”	APM and its subsidiaries, a former subsidiary group of TCMH Group
“Company”	Tan Chong International Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange
“connected persons”	having the same meaning ascribed in the Listing Rules
“continuing connected transactions”	continuing connected transactions as defined under Chapter 14A of the Revised Listing Rules
“Group”	Tan Chong International Limited and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Prospectus”	Company’s prospectus dated 22 June 1998
“Revised Listing Rules”	the updated Listing Rules with effect from 31 March 2004
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tan Family”	the ex-chairman and current honorary life counsellor of the Company, Dato’ Tan Kim Hor and his family, together with the family of Dato’ Tan Kim Hor’s late brother, Tan Sri Dato’ Tan Yuet Foh, who are together interested in the entire issued share capital of TCC
“TCC”	Tan Chong Consolidated Sdn. Bhd., a company incorporated in Malaysia with limited liability in 7 June 1973 and wholly-owned by the Tan Family. It is interested in approximately 45% and 43% in TCMH and APM respectively and is the controlling shareholder (as defined in the Listing Rules) of the Company
“TCMH”	Tan Chong Motor Holdings Berhad, a company incorporated in Malaysia with limited liability in 1972, the shares of which are listed on the Kuala Lumpur Stock Exchange

“TCMH Group”	TCMH and its subsidiaries
“Transactions”	collectively, the transactions between the Group and the Ultima Group and the transactions between the Group and the TCMH Group (including the APM Group) as described in details under the heading of “Continuing Connected Transactions”
“Ultima”	Motor Ultima Pte Ltd, a company incorporated in Singapore with limited liability in 1991 and its subsidiaries
“Ultima Group”	Ultima and its associates
“Waiver”	a conditional waiver granted on 7 August 1998 by the Stock Exchange to the Company from strict compliance with the disclosure requirements in respect of the Transactions
“%”	Per cent

By Order of the Board  
**Teo Siok Ghee**  
*Company Secretary*

Hong Kong, 9 December 2005

*Note: The above new company logo has been adopted effective from 21 November 2005. The existing logo will still be in use till 31 March 2006.*

Please also refer to the published version of this announcement in The Standard.