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**TAN CHONG INTERNATIONAL LIMITED**

陳唱國際有限公司

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 693)**

**CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement of the Company dated 30 December 2016 in relation to the Existing Assembly Agreement and Existing Parts Purchase Agreements.

As the Existing Assembly Agreement will expire on 31 December 2017 and TC Subaru will continue to appoint TCMA as its assembler to assemble vehicles, the Assembly Agreement was entered into between TC Subaru and TCMA on 30 November 2017 in relation to the appointment of TCMA as TC Subaru's assembler to assemble vehicles during the one year period from 1 January 2018 to 31 December 2018.

The Technical Assistance Agreement was entered into between TCSAT and TCMA on 30 November 2017 in relation to provision of the Technical Assistance Services by TCMA to TCSAT during the one year period from 1 January 2018 to 31 December 2018.

As the Existing Parts Purchase Agreements will expire on 31 December 2017 and the Group will continue to purchase the Parts from the APM Subsidiaries, the Parts Purchase Agreements were entered into between TC Subaru and each of the APM Subsidiaries respectively on 30 November 2017, pursuant to which the APM Subsidiaries agreed to sell to TC Subaru the Parts from time to time during the one year period from 1 January 2018 to 31 December 2018.

TCMA is a subsidiary of TCMH, and TCC is interested in more than 30% of the equity interests in TCMH. As TCC is a controlling shareholder (as defined in the Listing Rules) of the Company, TCMA is a connected person of the Company and the transactions contemplated under the Assembly Agreement and Technical Assistance Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Each of the APM Subsidiaries is a subsidiary of APM, and TCC is interested in more than 30% of the equity interests in APM. As TCC is a controlling shareholder (as defined in the Listing Rules) of the Company, each of the APM Subsidiaries is a connected person of the Company and the transactions contemplated under the Parts Purchase Agreements constitute continuing connected transactions of the Company under the Listing Rules.

Given that the Transactions were entered into by the Group with parties connected or otherwise associated with one another, the Transactions were aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest percentage ratios defined under Rule 14.07 of the Listing Rules in relation to the Transactions on an annual basis is more than 0.1% but less than 5%, the Transactions constitute continuing connected transactions of the Company subject to the reporting and announcement requirements but are exempt from circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Reference is made to the announcement of the Company dated 30 December 2016 in relation to the Existing Assembly Agreement and Existing Parts Purchase Agreements.

## **CONTINUING CONNECTED TRANSACTIONS**

### **1. Transactions between TC Subaru and TCMA relating to the Assembly Agreement**

As the Existing Assembly Agreement will expire on 31 December 2017 and TC Subaru will continue to appoint TCMA as its assembler to assemble vehicles, the Assembly Agreement was entered into by TC Subaru and TCMA on 30 November 2017 in relation to the appointment of TCMA as TC Subaru's assembler to assemble vehicles during the one year period with effect from 1 January 2018 to 31 December 2018.

Pursuant to the Assembly Agreement, payment of ex-work assembly charges by TC Subaru to TCMA are based upon the range of volume and estimated cost required to produce each model of the vehicles agreed by TC Subaru and TCMA and will be settled no later than 30 days after the invoice date and payment of other applicable charges relating to special works or down-time charges would be subject to the mutual agreement between TC Subaru and TCMA.

#### ***Pricing basis***

The prices and terms of the Assembly Transactions in respect of the Assembly Agreement are on arm's length terms taking into account similar services available from independent third parties in the market.

In negotiating the assembly charges with TCMA, TC Subaru follows the standard methodology used by many manufacturers in estimating the following costs to be incurred by TCMA in the assembly of vehicles:

- direct material usage which is determined by (i) size of the cars, (ii) color material and thickness, (iii) any specific material unique to a brand which is normally specified by the principle of a brand and (iv) common materials and consumables used by the brand which will be apportioned by volume;
- direct labor cost includes the number of headcounts required which will be based on volume requirement, production process, unique requirement by the brand, and quality control process stipulated by the principle of a brand;
- Variable overheads consisting of utilities, energy cost, repair and maintenance for machinery and equipment, indirect materials and other factory expenses; and
- Fixed overheads comprising mainly support staff cost for manufacturing and administration, factory rental, depreciation of plant and office facilities and other administration expenses.

TC Subaru compared its cost estimation following the above standard methodology against the assembly charges quoted by TCMA. It concluded that the assembly charges under the Assembly Agreement is on arm's length price.

### ***Historical Figures***

The historical figures for the aggregate annual transaction amount under the Existing Assembly Agreement for the year ended 31 December 2016 and the six months ended 30 June 2017 were HK\$84,818,000 and HK\$21,879,328 respectively.

### ***Annual Cap***

Based on (i) the estimated demand of TC Subaru for the assembly services to be provided by TCMA under the Assembly Agreement and (ii) the terms of the Assembly Agreement, the Company estimates that the proposed annual cap for the transaction under the Assembly Agreement for the year ending 31 December 2018 will not exceed HK\$87,947,000.

### ***Reasons for and benefits of the transaction***

The Assembly Transactions provide TC Subaru with reliable technical assembly services for transactions contemplated under the Master Agreement. Given the Group's long established and stable business relationship with the TCMH Group and the competitive price the connected persons offered pursuant to the Assembly Transactions, the Board considers that the Assembly Transactions are beneficial to the business of the Group.

The Directors (including the independent non-executive Directors) consider that the Assembly Transactions are on normal commercial terms and are fair and reasonable, and are in the ordinary and usual course of business of the Group and is in the interests of the Group and its shareholders as a whole.

## **2. Transactions between TCSAT and TCMA relating to the Technical Assistance Agreement**

TCSAT is in the midst of setting up its manufacturing plant for the manufacture of Subaru vehicles in Thailand. The Technical Assistance Agreement was entered into between TCSAT and TCMA on 30 November 2017 in relation to provision of the Technical Assistance Services by TCMA to TCSAT during the one year period from 1 January 2018 to 31 December 2018.

TCSAT shall pay the relevant service fee and out of pocket expenses within 60 days from the receipt of invoice from TCMA.

### ***Service Fee***

The service fee and terms of the transactions contemplated under the Technical Assistance Agreement were mutually agreed between the Group and TCMA on arm's length basis. In negotiating the service fee with TCMA, the Group had made reference to the fee for similar transactions with Subaru Corporation providing similar services. It was concluded that service fee with TCMA would be more cost effective.

In determining the service fee for Technical Assistance Services, TCSAT could only obtain quotations from Subaru Corporation and TCMA for the prices of similar transactions because these are unique services that can only be provided by companies who have experience in assembling Subaru vehicles. Besides Subaru Corporation related entities, the only other company in the region who has this experience is TCMA.

Pursuant to the Technical Assistance Agreement, the service fee payable by TCSAT to TCMA for the Technical Assistance Services range from US\$210 to US\$300 per man-day; in accordance to the respective TCMA personnel's rank. The service fee shall be calculated in accordance with the estimated number of man-month spent by the respective TCMA personnel in providing the Technical Assistance Services to assist in the setup of TCSAT's manufacturing plant.

### ***Historical figures***

Historical figures are not available.

### ***Annual Cap***

Based on (i) the Technical Assistance Services to be provided by TCMA and (ii) the terms of the Technical Assistance Agreement, the Company estimates that the proposed annual cap for the transaction under the Technical Assistance Agreement for the year ending 31 December 2018 will not exceed HK\$7,582,000.

### ***Reasons for and benefits of the transaction***

Pursuant to the Technical Assistance Agreement, TCMA will provide the Group with the Technical Assistance Services which includes but not limited to technical training for the Group's employees,

technical support and advisory services.

Prior to entering into the Technical Assistance Agreement, the Group had conducted a feasibility study and ascertained that obtaining the Technical Assistance Services from TCMA would be more cost-effective than obtaining the Technical Assistance Services from Subaru Corporation. It was also noted that TCMA's experience and operations processes is more similar to TCSAT future assembly operations. Hence, it would be more appropriate to obtain the Technical Assistance Services from TCMA.

Given the Group's long established and stable business relationship with the TCMH Group and the competitive price offered by TCMA pursuant to the Technical Assistance Agreement, the Board considers that the transactions contemplated under the Technical Assistance Agreement are beneficial to the business of the Group.

The Directors (including the independent non-executive Directors) consider that the Technical Assistance Agreement are on normal commercial terms and are fair and reasonable, and are in the ordinary and usual course of business of the Group and are in the interests of the Group and its shareholders as a whole.

### **3. Transactions between TC Subaru and APM Subsidiaries relating to the Parts Purchase Agreements**

As the Existing Parts Purchase Agreements will expire on 31 December 2017 and the Group will continue to purchase certain Parts from the APM Subsidiaries, the Parts Purchase Agreements were entered into between TC Subaru and each of the APM Subsidiaries respectively on 30 November 2017, pursuant to which the APM Subsidiaries agreed to sell to TC Subaru the Parts from time to time during the one year period from 1 January 2018 to 31 December 2018.

In order to ensure that the transactions under the Parts Purchase Agreements will be conducted on normal commercial terms, TC Subaru had invited potential suppliers from various countries in the ASEAN region, including the APM Subsidiaries, to attend a kick-off meeting. At the meeting, the potential suppliers were informed of the requirements for the Parts, such as the quality standard and minimum local content requirement for the purpose of obtaining the tax benefits available at the ASEAN Free Trade Area. The potential suppliers were invited to make submission of quotations to bid to become TC Subaru's supplier under the Parts Purchase Agreements.

TC Subaru would select the successful candidate with reference to the following assessment criteria: (i) the ability to deliver the required quality standard of the Parts; (ii) the ability to fulfill the minimum local content requirement; and (iii) the reasonableness of the price quotation. Further, approval from Subaru Corporation, the manufacturer of Subaru vehicles, was required. The APM Subsidiaries attended the kick-off meeting and submitted the quotation. More than 20 other suppliers who are independent third parties were invited to attend the kick-off meeting and most of them had submitted the quotations.

TC Subaru eventually selected the APM Subsidiaries as the successful candidates as they offered competitive pricing taking into account the quality standard and the local content requirement for the Parts which they offered.

### ***Pricing basis***

Pursuant to the Parts Purchase Agreements, the price of the Parts shall be agreed upon by the parties based on arm's length negotiation and set out in the price notice(s) on the basis that each of the APM Subsidiaries shall not provide the Parts to TC Subaru on terms which are less favourable than those offered by the APM Subsidiaries to any third parties for the supply of the Parts of comparable quality and quantity.

In negotiating the price of the Parts with the APM Subsidiaries, the Group shall follow the following general pricing principles:

- (i) relevant market price;
- (ii) in the absence of the relevant market prices, with reference to the price for similar transactions with independent third parties; or
- (iii) where none of the above exists, then according to the price to be agreed between the parties.

In determining the prices for the purchase under the Parts Purchase Agreements where similar comparables are available, TC Subaru will obtain the prices of similar Parts in the market by obtaining quotations from at least two independent third parties, which will then be compared against the price quoted by the APM Subsidiaries.

Based on the above measures, the Directors can ensure that a system is in place to check that the price of the Parts is no less favourable than those offered by independent third parties.

### ***Historical figures***

The historical figures for the aggregate annual transaction amount under the Existing Parts Purchase Agreements for the year ended 31 December 2016 and the six months ended 30 June 2017 were HK\$74,970,000 and HK\$7,168,481.

### ***Annual Cap***

Based on (i) the estimated demand of TC Subaru for the assembly services to be provided by TCMA under the Assembly Agreement; and (ii) the terms of the Parts Purchase Agreements, the Company estimates that the proposed annual cap for the transaction under the Parts Purchase Agreements for the year ending 31 December 2018 will not exceed HK\$10,667,000.

### ***Reasons for and benefits of the transaction***

TC Subaru has appointed TCMA as an assembler to assemble vehicles under the Assembly Transactions. To provide the necessary raw materials for the Assembly Transactions, TC Subaru has entered into the Parts Purchase Agreements with the APM Subsidiaries.

The Directors (including the independent non-executive Directors) consider that (i) the terms of the Parts Purchase Agreements are on normal commercial terms and are fair and reasonable; (ii) the above annual cap is fair and reasonable; and (iii) the entering into of the Parts Purchase Agreements is in the ordinary and usual course of business of the Group and is in the interests of the Group and its shareholders as a whole.

### **AGGREGATED REVISED ANNUAL CAPS**

Based on the entering into each of the Assembly Agreement, the Technical Assistance Agreement and the Parts Purchase Agreements, the aggregate transaction amount under the Transactions would increase. As a result, the estimated aggregate transaction amount under the Transactions for the year ending 31 December 2018 would exceed the Existing Annual Cap. Accordingly, the Board has decided to revise upwards the Existing Annual Cap.

Based on the revised projection, the Directors estimate that the aggregate annual transaction amount under the Transactions for the year ending 31 December 2018 shall not exceed HK\$118,598,000.

### **LISTING RULES IMPLICATIONS**

TCMA is a subsidiary of TCMH, and TCC is interested in more than 30% of the equity interests in TCMH. As TCC is a controlling shareholder (as defined in the Listing Rules) of the Company, TCMA is a connected person of the Company and the transactions contemplated under the Assembly Agreement and Technical Assistance Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Each of the APM Subsidiaries is a subsidiary of APM, and TCC is interested in more than 30% of the equity interests in APM. As TCC is a controlling shareholder (as defined in the Listing Rules) of the Company, each of the APM Subsidiaries is a connected person of the Company and the transactions contemplated under the Parts Purchase Agreements constitute continuing connected transactions of the Company under the Listing Rules.

Given that the Transactions were entered into by the Group with parties connected or otherwise associated with one another, the Transactions were aggregated pursuant to Rule 14A.81 of the Listing Rules. As the highest percentage ratios defined under Rule 14.07 of the Listing Rules in relation to the Transactions on an annual basis is more than 0.1% but less than 5%, the Transactions constitute continuing connected transactions of the Company subject to the reporting and announcement requirements but are exempt from circular (including independent financial advice) and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## GENERAL INFORMATION

The principal business of the Group includes (a) distribution and aftersales of motor vehicles in Singapore, Hong Kong, Thailand, Taiwan, Philippines, Malaysia, Indonesia, Vietnam and Cambodia, and the sales and aftersales of motor vehicles in Southern part of the PRC; (b) distribution of industrial equipment in Singapore, Vietnam and Thailand; (c) property development and rental in Singapore and Hong Kong; (d) vehicle seat manufacturing in the PRC; and (e) provision of vehicle transportation service and human resource management service in relation to transportation business in Japan.

The principal business of TCMA is the assembly of motor vehicles and engines.

The principal business of the APM Subsidiaries is the manufacture and sale of automotive parts and components.

Each of Mr. Tan Eng Soon (chairman of the Board and an executive Director) and Mr. Tan Kheng Leong (an executive Director) holds approximately 22.85% and 15.38% of TCC respectively. Therefore, each of Mr. Tan Eng Soon and Mr. Tan Kheng Leong was considered to have a material interest in the Transactions and has abstained from voting on the relevant resolution(s) of the Board approving the Revised Annual Cap and respective terms of the Assembly Agreement, the Technical Assistance Agreement and the Parts Purchase Agreements.

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings:

<b>"APM"</b>	APM Automotive Holdings Berhad, a company incorporated in Malaysia with limited liability, the shares of which are listed on Bursa Malaysia
<b>"APM Group"</b>	APM and its subsidiaries, including APM Subsidiaries
<b>"APM Subsidiaries"</b>	collectively, four subsidiaries of APM, being APM Climate Control Sdn. Bhd., APM Auto Electrics Sdn. Bhd., APM Shock Absorber Sdn. Bhd. and APM Automotive Modules Sdn. Bhd.
<b>"APMVN"</b>	APM Springs (Vietnam) Company Limited, a company incorporated in Vietnam and a subsidiary of APM
<b>"APMVN Agreement"</b>	the agreement dated 30 December 2016 between TCVN and APMVN in relation to the sale and rental of vehicles, material handling equipment, forklift, parts and accessories
<b>"APMVN Transactions"</b>	collectively, the transactions between TCVN and APMVN to



be entered into pursuant to the APMVN Agreement

<b>" Assembly Agreement"</b>	the assembly agreement dated 30 November 2017 between TC Subaru and TCMA for the provision by TCMA to TC Subaru of assembly services for the assembly of vehicles
<b>"Assembly Transactions"</b>	the assembly transactions in relation to the appointment by TC Subaru of TCMA as an assembler to assemble vehicles pursuant to the Assembly Agreement
<b>"Board"</b>	the board of Directors
<b>"Company"</b>	Tan Chong International Limited, a company incorporated in Bermuda with limited liability
<b>"Directors"</b>	the directors of the Company
<b>"Existing Annual Cap"</b>	HK\$12,402,000, being the previous annual cap of the Transactions for the year ending 31 December 2018 as disclosed in the announcement of the Company dated 30 December 2016
<b>"Existing Assembly Agreement"</b>	the assembly agreements dated 30 December 2016 between TC Subaru and TCMA for the provision by TCMA to TC Subaru of assembly services for the assembly of vehicles
<b>"Existing Parts Purchase Agreements"</b>	the seven parts purchase agreements dated 30 December 2016 between TC Subaru and each of the APM Subsidiaries respectively
<b>"Group"</b>	the Company and its subsidiaries
<b>"Hong Kong"</b>	the Hong Kong Special Administrative Region of the PRC
<b>"Parts Purchase Agreement(s)"</b>	the four parts purchase agreements dated 30 November 2017 between TC Subaru and each of the APM Subsidiaries respectively
<b>"Listing Rules"</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
<b>"Macao"</b>	the Macao Special Administrative Region of the PRC
<b>"Master Agreement"</b>	the master agreement entered into between Subaru

Corporation and TC Subaru on 6 March 2012

<b>"Parts"</b>	certain parts including components and various kinds of materials for Subaru motor vehicles designed, manufactured and/or assembled by Subaru Corporation or licensees of Subaru Corporation
<b>"Price Notice(s)"</b>	the price notice(s) to be agreed between TC Subaru and the APM Subsidiaries from time to time during the term of the Parts Purchase Agreements which sets out the price of the Parts to be purchased by TC Subaru from the APM Subsidiaries
<b>"PRC"</b>	the People's Republic of China, and for the purpose of this announcement, excludes Hong Kong, Macao and Taiwan
<b>"Revised Annual Cap"</b>	HK\$118,598,000, being the revised annual cap of the Transactions for the year ending 31 December 2018
<b>"Subaru Corporation"</b>	previously known as Fuji Heavy Industries Limited, a corporation established under the laws of Japan, the shares of which are listed on the Tokyo Stock Exchange and the manufacturer of Subaru vehicles
<b>"TCC"</b>	Tan Chong Consolidated Sdn. Bhd., a company incorporated in Malaysia with limited liability
<b>"TCMA"</b>	Tan Chong Motor Assemblies Sdn. Bhd., a company incorporated in Malaysia and a subsidiary of TCMH
<b>"Technical Assistance Services"</b>	(i) technical support such as engineering, assembly and manufacturing support, (ii) technical training such as security training, environment, health and safety training and production training and (iii) advisory services pursuant to the Technical Assistance Agreement
<b>"TCMH"</b>	Tan Chong Motor Holdings Berhad, a company incorporated in Malaysia with limited liability, the shares of which are listed on Bursa Malaysia
<b>"TCMH Agreements"</b>	the four agreements dated 30 December 2016 between the Group and the TCMH Group
<b>"TCMH Group"</b>	TCMH and its subsidiaries

<b>"TCMH Transactions"</b>	collectively, the transactions between the Group and the TCMH Group to be entered into pursuant to the TCMH Agreements
<b>"TCSAT"</b>	Tan Chong Subaru Automotive (Thailand) Company Limited, a company incorporated in Thailand and a subsidiary of the Company
<b>"TC Subaru"</b>	TC Subaru Sdn. Bhd., a company incorporated in Malaysia and a wholly-owned subsidiary of the Company
<b>"Technical Assistance Agreement"</b>	the technical assistance agreement dated 30 November 2017 entered into between TCSAT and TCMA
<b>"Transactions"</b>	collectively, (i) the TCMH transactions, (ii) the APMVN Transactions; (iii) the Assembly Transactions, (iv) the Technical Assistance Services; and (v) the transactions between TC Subaru and APM Subsidiaries relating to the Part Purchase Agreements

By the order of the Board  
**Tan Chong International Limited**  
**Teo Siok Ghee**  
**Liew Daphnie Pingyen**  
*Joint Company Secretaries*

Hong Kong, 30 November 2017

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

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