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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)

SUPPLEMENTAL ANNOUNCEMENT

**REVISION OF ANNUAL CAP
AND
CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement of the Company dated 27 November 2019 in relation to certain continuing connected transactions of the Company (the "**Announcement**"). This supplemental announcement is made to supplement certain information contained in the Announcement. Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement unless the context otherwise requires.

REVISION OF ANNUAL CAP

The Directors have been closely monitoring the transactions contemplated under the Existing TCMH Agreements. However, due to a better than expected increase in customer orders, the utilisation of the annual cap for the transactions under the Existing TCMH Agreements was HK\$13,514,341.

The transaction amount under the Existing TCMH Agreements first exceeded the original annual cap in September 2019 in the amount of HK\$563,357. However, as further time was needed for the Company to compile the September transaction figures and to prepare a projection on customer demand for the period from October 2019 to December 2019 to determine the amount of the revised annual cap, there was a delay in the revision of the annual cap for the transactions under the Existing TCMH Agreements for the year ending 31 December 2019.

As a result of the original annual cap being exceeded and in anticipation of a significant increase in customer orders for certain motor parts and accessories in December 2019 due to competitive price the Group offers to its customers, the annual cap for the transactions under the Existing TCMH Agreements for the year ending 31 December 2019 was revised upwards from HK\$11,822,000 to HK\$22,543,000 on 27 November 2019.

Remedial actions taken and to be taken

In order to avoid recurrence of the above, in addition to the internal control measures established by the Company to monitor continuing connected transactions as set out in the section headed "Internal Control Measures" below, the Company has also taken the following measures and actions:

- (i) the Company will continue to conduct internal training sessions to explain the relevant Listing Rules' requirements and the reporting procedures for continuing connected transactions under the Listing Rules;
- (ii) the Company shall continue to circulate to the management and related departments of the Company the relevant Listing Rules and the Company's reporting procedures for continuing connected transactions under the Listing Rules on a regular basis;
- (iii) the company secretarial department of the Company shall continue to oversee and monitor the Company's on-going compliance with the Listing Rules; and
- (iv) the Company shall, as and when appropriate and necessary, seek legal or other professional advice as to any action required to be taken in relation to any proposed transactions or events in the future.

CONTINUING CONNECTED TRANSACTIONS

Transactions between the Group and the TCMH Group in relation to the TCMH Agreements

Pricing basis

With respect to the sale and purchase of motor parts and accessories by the Group to the TCMH Group, 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.

With respect of the purchase of motor parts and accessories by the Group, in determining the prevailing market price, the Group will obtain the prices of similar transactions in the market by collecting the relevant market information, reviewing and comparing the transactions conducted. In the absence of the prevailing market price, the operations department of the Company (or its respective subsidiary) will obtain quotations from at least two independent third parties for similar transactions and/or products with regard to the same type and quality of comparable products at a similar time for comparison and reference. Where the prevailing market price and/or price for similar transactions with independent third parties is unavailable, the parties shall determine the price with reference to the

costs of such parts or such other relevant factors. The head of the operations department of the Company (or its respective subsidiary) will review and approve the selling prices of the products. In any event, the price and terms on which the products purchased by the Group shall be on terms no less favourable to the Group than those prevailing in the market for the products of the same type and quality and at similar time and those offered by the TCMH Group to independent third parties.

With respect of the sale of motor parts and accessories by the Group, the pricing shall be determined on a "cost plus" basis, which will be determined based on free on board costs plus a margin of 6% to 8%. The margin is determined based on market practice adopted by other industry players. In any event, the prices and terms on which the products sold by the Group shall be no less favourable to the Group than those prevailing in the market for the comparable products of the same type and quality and at similar time and those on which comparable products are sold by the Group to independent third parties.

Transactions between the Group and the APM Group in relation to the APM2 Agreements

Pricing basis

With respect to the sale and rental of vehicles, material handling equipment and forklift by the Group to the APM Group, 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 charged to independent third parties; or
- (iii) where none of the above exists, then according to the price to be agreed between the parties.

With respect of the rental fees for vehicles, material handling equipment and forklift, in determining the prevailing market price, the Group will obtain the prices of similar transactions in the market by collecting the relevant market information, reviewing and comparing the transactions conducted. In the absence of the prevailing market price, the operations department of the Company (or its respective subsidiary) will obtain quotations from at least two independent third parties for similar transactions with regard to the same type and quality at a similar time for comparison and reference. Where the prevailing market price and/or price for similar transactions with independent third parties is unavailable, the parties shall determine the price with reference to, among other things, the number and model of and the rental period of the vehicles, material handling equipment and forklift and the relevant costs. The head of the operations department of the Company (or its respective subsidiary) will review and approve the prices of the transactions. In any event, the prices and terms of the transactions shall be no less favourable to the Group than those prevailing in the market for transactions of the same type and quality and at similar time and those on which comparable transactions are carried out by the Group with independent third parties.

With respect of the sale of vehicles, material handling equipment and forklift by the Group, the pricing shall be determined on a "cost plus" basis, which will be determined based on the cost of goods sold plus a margin of 15%. The margin is determined based on market practice adopted by other

industry players. In any event, the prices and terms on which the products sold by the Group shall be no less favourable to the Group than those prevailing in the market for the comparable products of the same type and quality and at similar time and those on which comparable products are sold by the Group to independent third parties.

Transactions between NJTC and TCIMSB in relation to the TCIMSB Agreement

Pricing basis

With respect to the sale of motor parts and accessories by NJTC to TCIMSB, NJTC 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 charged to independent third parties; or
- (iii) where none of the above exists, then according to the price to be agreed between the parties.

With respect of the sale of motor parts and accessories by the Group, having taken into account of and with reference to the above general pricing principles, the pricing shall be determined on a “cost plus” basis, which will be determined based on the cost of goods sold plus a margin of 8%. The margin is determined based on the average gross profit margin for the motor parts and accessories sold to customers for the previous 3 years. In any event, the prices and terms on which the products sold by the Group shall be no less favourable to the Group than those prevailing in the market for the comparable products of the same type and quality and at similar time and those on which comparable products are sold by the Group to independent third parties.

Internal Control Measures

The Group has established the following internal control measures to monitor the transactions contemplated under the TCMH Agreements, the APM2 Agreements and the TCIMSB Agreement to ensure that the terms of the agreements and their respective pricing basis are complied with:

- (i) The finance department of the Company will perform half-yearly reporting of the actual transaction amounts and the respective proposed annual caps of the transactions.
- (ii) The Company will have specifically designated personnel from the relevant departments to monitor the actual transaction amounts and report to the management team on a monthly basis in relation to the transactions to ensure that the respective proposed annual caps of the transactions are not exceeded and ensure compliance with the respective pricing basis of the transactions.
- (iii) The Company will conduct internal control review, including review of financial, operational and compliance controls, on a continuous basis.

- (iv) The auditors of the Company and the independent non-executive Directors will conduct annual review on the transactions in accordance with the Listing Rules.

Based on the above measures, the Directors are of the view that a system is in place to ensure that the pricing mechanism and the terms of the transactions contemplated under the TCMH Agreements, the APM2 Agreements and the TCIMSB Agreement are fair and reasonable and no less favourable to the Group than those offered to independent third parties (with respect to transactions for sale of goods and provision of services by the Group) and no less favourable to the Group than those offered by the seller to independent third parties (with respect to transactions for purchase of goods by the Group).

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

Hong Kong, 11 December 2019

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.