



TAN CHONG MOTOR HOLDINGS BERHAD

(INCORPORATED IN MALAYSIA)
(12969-P)

陳 唱 摩 多 机 構 有 限 公 司

TAN CHONG MOTOR HOLDINGS BERHAD

- **Assembly Agreement with TC Subaru Sdn Bhd (Recurrent Related Party Transactions)**

Introduction

The Board of Directors of Tan Chong Motor Holdings Berhad (“TCMH” or “the Company”) is pleased to announce that on 6 March 2012, Tan Chong Motor Assemblies Sdn Bhd (“TCMA”), a subsidiary of TCMH, entered into an Assembly Agreement (“Agreement”) with TC Subaru Sdn Bhd (“TCS”) pursuant to which TCS appoints TCMA as its contract assembler to assemble passenger vehicles.

Information on TCMA

TCMA, a 70% owned subsidiary of TCMH, was incorporated under the Companies Act, 1965 in Malaysia on 7 May 1974 with a current authorised and paid-up share capital of RM10.0 million and RM2.0 million respectively. Its principal business activities are assembly of motor vehicles and engines and trading of parts.

Information on TCS

TCS is a subsidiary of Tan Chong International Limited (“TCIL”). It was incorporated under the Companies Act, 1965 in Malaysia on 28 November 2002 with a current authorised and paid-up share capital of RM5.0 million and RM3.0 million respectively. It is principally engaged in importation and distribution of motor vehicles. TCS is a distributor of Subaru vehicles in Malaysia.

Salient Terms of the Agreement

The salient terms of the Agreement are as summarised below:

- (i) The Agreement is a master agreement for the assembly of passenger vehicles (“Vehicles”) by TCMA for TCS (collectively, “the parties”).
- (ii) The term of the Agreement is effective from 6 March 2012 to 31 December 2013 (“Term”). If TCS is desirous of extending the Term for a further period from the date of expiration of the Term (“Extended Term”), TCS shall, at least six (6) months prior to the expiration of the Term, give a written notice to TCMA of its intention to renew the Agreement and TCMA will consider TCS’s request and agree to the Extended Term subject to terms and conditions to be mutually agreed between the parties.

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- (iii) The models and number of Vehicles to be assembled shall be agreed upon by the parties from time to time. The first vehicle model to be assembled under the Agreement is a Subaru model.
- (iv) The assembly charges and localisation fees (where applicable) shall be established based on the agreed range of volume and estimated cost required to produce each model of the Vehicles.
- (v) The installation of the assembly infrastructure necessary for the assembly of the Vehicles at TCMA's premises is at the cost and expense of TCS.
- (vi) TCS and TCMA shall prior to the commencement of the assembly of each model of vehicle agree in writing on the volume requirements of TCS for each year ("Volume Guarantee") and a Volume Guarantee compensation shall be payable by TCS to TCMA in the event of any shortfall in the Volume Guarantee for that particular year.

Pursuant to TCMA's appointment by TCS as its contract assembler under the Agreement, TCMA, TCS and Fuji Heavy Industries Ltd ("FHI"), the manufacturer of Subaru automobiles, have on 6 March 2012 entered into following two Memoranda:

- (i) Memorandum regarding Intellectual Property whereby FHI has agreed to provide TCMA with FHI's information and intellectual property that is required for TCMA to assemble the Vehicles for TCS for a term same as the Agreement.
- (ii) Memorandum for Quality Management whereby FHI has agreed to provide TCMA with the quality standards and quality management services for TCMA to assemble the Vehicles.

Rationale

The provision of contract assembly services by TCMA to TCS pursuant to the Agreement enables TCMA to utilise the production capacity of its assembly plants at an optimum level.

Financial Effects

The start of production for the assembly of the Vehicles is January 2013. Based on the forecasted assembly units during the Term, the expected total assembly charges and related localisation fees payable by TCS to TCMA pursuant to the Agreement for the Term is estimated at RM30.22 million.

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The Agreement will not have any material effect on the earnings, net assets and gearing of TCMH Group for the current financial year ending 31 December 2012. However, it is expected to contribute positively to the Group's earnings and net assets for the financial year ending 31 December 2013.

The total amount of transactions between TCMH Group and TCIL Group for the preceding 12 months from the date of the Agreement was RM3.63 million.

The highest percentage ratio applicable to the Agreement pursuant to Paragraphs 10.02(g) and 10.12 of the Main Market Listing Requirements is 2.01%.

The Agreement does not require approval of the shareholders of TCMH.

Directors' and Major Shareholders' Interests

TCS is a subsidiary of TCIL, of which Tan Chong Consolidated Sdn Bhd ("TCC") is a controlling shareholder. TCC is a major shareholder of TCMH.

Dato' Tan Heng Chew, a Director and major shareholder of TCMH, is deemed interested in the Agreement by virtue of his deemed interest in TCC pursuant to Section 6A of the Companies Act, 1965.

Mr Tan Eng Soon, a Director and major shareholder of TCMH, is deemed interested in the Agreement by virtue of his deemed interest in TCC pursuant to Section 6A of the Companies Act, 1965. Mr Tan is also a director of TCIL and brother of Dato' Tan Heng Chew.

Mr Tan Kheng Leong, a major shareholder of TCMH, is deemed interested in the Agreement by virtue of his deemed interest in TCC pursuant to Section 6A of the Companies Act, 1965. He is a director of TCIL.

Accordingly, Dato' Tan Heng Chew and Mr Tan Eng Soon ("Interested Directors") have abstained and will continue to abstain from deliberating and voting on the board resolutions in respect of the Agreement.

Other than as disclosed above, none of the Directors or major shareholders of TCMH Group or persons connected with them, has any interest, direct or indirect, in the Agreement.

Recurrent Related Party Transactions

The provision of contract assembly services by TCMA to TCS pursuant to the Agreement is regarded as recurrent related party transactions because the transactions are recurrent, of a revenue nature and in line with the ordinary course of business of TCMA.

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Statement by Audit Committee

The Audit Committee has reviewed the Agreement and having considered all aspects of the Agreement, is of the view that the Agreement is in the best interest of TCMH Group; fair, reasonable and on normal commercial terms; and not detrimental to the interest of the minority shareholders of the Company. The view was taken based on the following consideration:

- (i) The benefits of the Agreement to the Group including optimisation of asset utilisation, increased customer base and profit contribution.
- (ii) The assembly charges and localisation fees payable by TCS to TCMA were arrived at after a series of negotiations between the parties on terms which are consistent with TCMA's normal business pricing practices and are not more favourable to TCS than those applicable to other customers of TCMA.

Directors' Statement

The Directors of TCMH (except for the Interested Directors) are of the opinion that the Agreement is in the best interest of the TCMH Group.

Document for Inspection

The Agreement is available for inspection at the registered office of TCMH at 62-68 Jalan Ipoh, 51200 Kuala Lumpur from Mondays to Fridays (except public holidays) during business hours for a period of three (3) months from the date of this announcement.

This announcement is dated 6 March 2012.