

TAN CHONG MOTOR HOLDINGS BERHAD
Manufacturing License for Luxury Passenger Vehicles and Commercial Vehicles

1.0 INTRODUCTION

The Board of Directors of Tan Chong Motor Holdings Berhad (“TCMH”) is pleased to announce that TC Manufacturing Company (Sabah) Sdn Bhd (“TCMC Sabah”), a wholly-owned subsidiary of TCMH, has received an approval letter dated 25 October 2010 (“Approval Letter”) from the Ministry of International Trade and Industry Malaysia in respect of TCMC Sabah’s application for a Manufacturing License under the Industrial Co-Ordination Act 1975 (“Manufacturing License”) to undertake the following activities at Kota Kinabalu Industrial Park (“KKIP”), Sabah:

- (i) manufacture and assembly of luxury passenger vehicles; and
- (ii) manufacture and assembly of commercial vehicles.

The Approval Letter is subject to, among others, the condition that the manufacturing and assembly activities shall be for luxury passenger cars with engine capacities of 1,800 cc and above, at on the road price of not less than RM150,000.

2.0 INFORMATION ON TCMC SABAH

TCMC Sabah was incorporated under the Companies Act, 1965 in Malaysia on 13 June 2005 with an authorized and paid-up share capital of RM100,000.00 and RM2.00 respectively. Its intended principal business activities are manufacture and assembly of motor vehicles. Since the incorporation, TCMC Sabah has not commenced operation. With the granting of the Manufacturing License, TCMC Sabah intends to set up a 4-wheel drive vehicles manufacturing plant in KKIP (“Project”).

3.0 INFORMATION ON THE PROJECT

KKIP is owned and managed by the State Government of Sabah. Located 25 km north of Kota Kinabalu, the capital of Sabah and occupying an area of 8,320 acres, KKIP has been planned based on a fully integrated and self-contained development concept and it is set to be the next major centre of growth for the state. KKIP would establish Sabah as the gateway to the Brunei-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA).

The Project would focus on the construction of a manufacturing facility for 4-wheel drive vehicles with an initial planned production capacity of 3,000 units per annum. The Group plans to invest up to RM285.0 million for the Project (including purchase of 50 acres of land in KKIP), which will be implemented over several phases. TCMH Group together with the State Government of Sabah would discuss with the Federal Government on incentives to be granted for the implementation of the Project.

4.0 RATIONALE FOR THE PROJECT

TCMH Group plans to expand its automotive manufacturing operations to another key ASEAN region. Our strategy is to have a long term presence in large emerging markets with a very careful approach to the cost of investment. BIMP-EAGA is a sub-regional economic cluster in South East Asia with a combined population of 57.5 million.

The Project would help to promote automotive parts manufacturing industry in Sabah and the export of automotive parts and vehicles from Sabah to BIMP-EAGA.

5.0 PROSPECTS AND RISK FACTORS

There is a growing trend for global automakers to reduce exports from Japan and increase imports outside Japan as a measure to cope with the stronger Yen. We believe this will speed up shifting production overseas in the long term. ASEAN in its diversity is ideal for dispersed manufacturing. And Borneo, the third largest island in the world, is a strategic location for the Group to establish a pioneer market presence in an untapped region by most global OEMs with growth potential and low production costs.

The Group does not foresee any extraordinary material risk factor associated with the Project except for business risks, operational risks, foreign exchange risks and risks arising from changes in the laws, regulations and Government policies pertaining to the automotive industry. ASEAN remains a protected market characterized by import duties on completely built-up vehicles, as well as excise duties and taxes on purchases of passenger cars, SUV and MPV. These are major impediments to the growth of the automotive industry. No assurance can however be given that any adverse development in such risk areas would not affect the business, financial position and/or performance of the Project.