

Special Update on Investments in Malaysia – 15 December 2009

Iskandar Malaysia

Iskandar Malaysia (“Iskandar”), a 2,217sq km project stretching from Tanjung Pelepas to Pasir Gudang, and from Senai to Johor Bahru, south of Peninsular Malaysia, is the single largest development project ever to be undertaken in the region.

Officially launched on 4 November 2006, Iskandar is one of the most important and ambitious initiatives under the 9th Malaysia Planⁱ (“9MP”) with the simple objective of creating a special economic zone to rival the other economic zones in the region for foreign investments. The Government has allocated RM6.83 billion to finance infrastructure projects there and Iskandar has to date attracted RM50.47 billion worth of investmentsⁱⁱ with a sizeable amount of investment from Middle Eastern investors. The Government expects Iskandar to create 800,000 jobs and attract around US\$100 billion in investmentⁱⁱⁱ over the next 20 years to be Malaysia’s largest economic zone upon completion. Iskandar which is 3 times the size of Singapore currently has five flagship zones^{iv} and is not entirely a greenfield development as there are developed areas or ‘brownfields’ such as the Johor Bahru city centre. Iskandar Investment Berhad, a company wholly owned by the Federal and State investment agencies^v will drive the implementation of catalyst projects within Iskandar.

One of the biggest projects within Iskandar is the RM750 million Legoland Malaysia, the first Lego-land theme park in Asia scheduled to be ready by April 2012. Another major project is the branch campus for UK’s University of Newcastle’s medical faculty, named Newcastle University Medicine Malaysia which is expected to be ready in 2011. A new multi-million dollar Iskandar Financial District that promises to be the hub of Islamic finance in South East Asia is also being developed.

In line with the Government’s policy to increase focus on value-added and knowledge intensive activities in the country, incentives will be granted for certain targeted sectors. For instance, the following incentives are granted for the following targeted sectors:

| Targeted Sectors | Incentives |
|--|--|
| <p>Logistics</p> <ul style="list-style-type: none"> i. Integrated logistic services providers ii. International procurement centres (‘IPCs’)/ regional distribution centres (‘RDCs’) | <ul style="list-style-type: none"> • 5 years Pioneer Status and tax exemption at 70% of statutory income, or • 60% Invest Tax Allowance (‘ITA’) for 5 years that can be set off against 70% of statutory income • For IPCs and RDCs, full tax exemption for 10 years |
| <p>Tourism</p> <ul style="list-style-type: none"> i. Establishment of hotels (up to 3 stars) ii. Expansion/modernization of existing hotels iii. Establishment and expansion of tourist projects iv. Establishment of recreational camps v. Establishment of convention centres | <ul style="list-style-type: none"> • 5 years Pioneer Status and tax exemption at 70% of statutory income, or • 60% ITA for 5 years that can be set off against 70% of statutory income • Exemption from import duty and/or sales tax on selected equipment used in the hotel/tourism industry |
| <p>Education</p> <ul style="list-style-type: none"> i. Technical or vocational training ii. Private Higher Education Institutions (‘PHEIs’) providing selected courses in Science (new set up) or existing PHEIs in the selected fields of Science undertaking additional investments for upgrading or expansion capacity | <ul style="list-style-type: none"> • 100% ITA on qualifying capital expenditure incurred within 10 years to be set off against 70% of statutory income • Special building allowance of 10% per year • Exemption on import duty and/or sales tax on educational equipment including laboratory equipment • Exemption on withholding tax on royalties paid to non-resident franchisors • Additional incentives are available for PHEIs with their own multimedia faculties providing multimedia courses |

Creative Industries

- i. Film and video production

- 5 years Pioneer Status and tax exemption at 70% of statutory income, or
- 60% ITA for 5 years that can be set off against 70% of statutory income
- Other incentives are available for multimedia development and applications

Financial services, advisory services and consulting services

- i. Provision of regional headquarters services under business process outsourcing/ offshoring

- 10 years tax exemption on the provision of regional headquarters services to related companies including certain types of business process outsourcing/offshoring
- Additional incentives are available for selected Islamic financial services

To further boost investments in Iskandar, the Government announced in the recent 2010 Budget that Malaysian and foreign knowledge workers residing in Iskandar and working in qualifying activities will be taxed at 15% (compared with a graduated scale of up to 26% in other parts of Malaysia) indefinitely if they apply and commence employment before 31 December 2015.

The Iskandar Regional Development Authority (“IRDA”)^{vi}, a statutory body responsible for the directions, policies and strategies in relation to development within Iskandar, has also announced that in view of the dynamic nature of the business environment, it will constantly be reviewing the incentives offered to ensure needs of investors and businesses are met, and that Iskandar is globally competitive. Strategic projects which can bring about extensive economic advantages may be considered for customised package of incentives based on the merit of each project.

As this project is aimed to be a model of economic development in a competitive era of globalisation and high technology, the IRDA has also established an Approval and Implementation Committee to identify, monitor and co-ordinate the roles and activities of all relevant Government entities to ease doing business and improve the Government’s delivery system. In addition, there is the Iskandar Service Centre that acts as the coordinating and facilitation agent on behalf of the Government where investors can obtain approvals for various aspects of developments including planning and land matters, licenses and permits, immigration, business set-up and incentives.

For further information and assistance on investments in Malaysia, please contact the RL Corporate M&A Team at rexlex@raslanloong.com or Tel: +603 2093 3939 Ext. 286.

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ⁱ A comprehensive blueprint on the allocation of the national budget from 2006 to 2010 in all economic sectors in Malaysia prepared by the Economic Planning Unit of the Prime Minister’s Department and the Finance Ministry with the approval of the Malaysian cabinet.

ⁱⁱ The Sun, 16 November 2009.

ⁱⁱⁱ The Insider, <http://www.themalaysianinsider.com/index.php/business/39701-malaysias-iskandar-investment-attracts-us136b>

^{iv} Johor Baru City Centre, Nusajaya, Western Gate Development, Eastern Gate Development and Senai-Skudai.

^v South Johor Investment Corporation Berhad owned by Khazanah Nasional Berhad, the investment holding arm of the Malaysian government (60%), the Employee Provident Fund (20%) and Kumpulan Prasarana Rakyat Johor Berhad, a company wholly owned by the state government of Johor (20%).

^{vi} The IDRA was set up in February 2007 under the Iskandar Regional Development Authority Act 2007 (“IRDA Act”). The IDRA Act has created a unique precedent in Malaysian legislation by allowing the federal and the Johor state government equal say and representation^{vi}. As a first in Malaysia, the IRDA is jointly chaired by the Prime Minister and the Chief Minister of Johor, who both share a single vote for decision making.

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Important Notice: The contents of this document are no more than a general guide for investors, outlining some of the main issues which should be considered. It is necessarily selective and should not be used as a substitute for formal professional advice.