
4. INFORMATION ON THE CVB GROUP (Cont'd)

Nevertheless, the performance of the Malaysian economy in 2001 has been adversely affected by the greater-than-expected slowdown in the world economy, particularly in the United States (US) as well as the continuing weak performance of the Japanese economy. The recent attack on the US has led to greater uncertainties with respect to the severity and duration of the recovery in the US. There are concerns on the risks of the US economy entering into a recession and its contagion on other industrialised and developing economies. In the light of the more difficult environment, real GDP growth of the Malaysian economy is projected to grow by 1 to 2% for 2001. Following the lower growth in nominal value of Gross National Product (GNP) of 1.8%, GNP per capita is forecast to be somewhat lower at RM13,333 or USD3,509 (2000: RM13,411 or USD3,529).

Malaysia, being an open economy, where trade accounts for more than 200% of GDP, was also adversely affected by these external developments. The growth forecast of the Malaysian economy, which was revised downwards to 5 to 6% for 2001 in March from the Budget 2001 estimate of 7.5%, is being further adjusted to 1 to 2%, following primarily the recent developments in the US. Notwithstanding this, the strong fundamentals of the Malaysian economy continue to provide sufficient policy flexibility to implement growth-supporting measures to stimulate domestic economic activities without jeopardising the sustainability of the nation's potential growth prospects in the medium and long-term. In response to the adverse developments in the external sector and with a view to minimizing its immediate adverse spillover effects, the Government announced another stimulus package of RM4.3 billion on 25 September 2001. Apart from adding further stimulus to domestic economic activities, the package also aims to cushion the implications on the poor and other less advantaged segments of the society from the impact of the economic slowdown, generating business and income opportunities for small enterprises as well as providing skills training.

All major sectors are expected to be adversely affected by the slower growth in the economy, particularly manufacturing which is estimated to record a sharp deterioration in output growth. The steep decline in value added of the manufacturing sector has, however, to some extent been offset by the better performance from the agriculture, construction and services sectors. The services sector has provided the lead in the growth of the economy on account of better performance of government services and other services sub-sectors. In the construction sector, fiscal stimulus efforts by the Government, particularly for infrastructure projects coupled with the construction of low and medium-cost residential houses, have contributed towards its higher growth.

Malaysia's economic growth continues to be achieved within an environment of low inflation and unemployment. Inflation remains subdued and stable largely on account of the moderation in private sector demand as well as measures implemented by the Government to contain price increases. In spite of higher retrenchments, the nation still enjoys full employment.

(Source: Economic Report 2001/2002)

General Overview of the Economy of the State of Johor

A broad study of the economic context of the State of Johor in relation to the economic background of the Nation is carried out to provide a better understanding of Johor's performance in comparison to other States in Malaysia.

4. INFORMATION ON THE CVB GROUP (Cont'd)

The Johor economy had grown at a more rapid rate than the national growth rate for the past five years. The comparison of the growth rates for Malaysia and Johor State economy for the period from 1997 to 2001 are as follows:-

Table: Malaysia And Johor State Economic Indicators

YEAR	1997	1998	1999	2000	2001
GDP (%) National	7.3	-7.4	6.1	8.3	0.4
GDP (%) Johor	8.7	-3.8	6.0	8.5	2.5

(Source: Johor Economic & Social Report 2001/2002 & Bank Negara Annual Report 2001)

Johor's economy rebounded strongly in 1999 to a positive growth of 6.0% as opposed to the negative growth of 3.8% in 1998 arising from the financial crisis which struck the Asean region in late 1997. GDP continued to grow for the second consecutive year in 2000 with a positive growth of 8.5% which is higher than the country's growth rate of 8.3%. However, the GDP for the Johor State was estimated to grow at only 2.5% in 2001, as a result of the slowdown in the world economy. In spite of this, the GDP growth is relatively higher than the national growth of 0.4%.

Manufacturing sector remains as the main contributor to the GDP of Johor State in year 2001 despite the slowdown in the demand for industrial products. The share of manufacturing sector in the state GDP improved marginally from 38.5% in 2000 to 38.6% in 2001. The contribution from the construction sector remained modest, at 3.70% in 2001. The overall composition of the Johor State economy is expected to remain unchanged with manufacturing sector being the main contributor.

The key contributors of the Johor economy for the years from 1998 to 2002 (forecast) is tabulated in the Table below:

GDP BY SECTORS 1998-2002

SECTORS	SHARE OF GDP (%)				
	1998	1999	2000	2001	2002 (f)
Agriculture	22.7	22.5	21.2	20.3	19.8
Mining	0.6	0.6	0.5	0.5	0.4
Manufacturing	37.2	37.5	38.5	38.6	39.0
Commercial whole and retail sale, hotel & restaurant	10.4	10.5	10.8	11.0	11.3
Construction	3.5	3.6	3.6	3.7	3.7
Finance, Insurance, Real Estates and Business Services	8.0	7.7	7.9	8.1	8.1
Others	17.6	17.6	17.5	17.8	17.7
Total	100.0	100.0	100.0	100.0	100.0

Source: Johor Economic and Social Report 2001/2002

(f): Forecast

(Source: Extracts from Market Outlook Report, prepared by Jones Lang Wootton dated May 2001)

4. INFORMATION ON THE CVB GROUP (Cont'd)

4.7.2 Overview of Property Sector**(a) Overview of the Property Sector in Malaysia**

The Malaysian property market has generally seen an increase in the supply of all types of property between 1999- 2001. Total housing stock increased by about 19%, from 2,315,059 units in 1999 to 2,761,242 units in 2001. Stock of shophouses/offices also increased by about 5.8% within the same period, from 239,572 units in 1999 to 253,542 units in 2001. Supply of office space within purpose built offices increased by 37%, from 98.5 million sq ft in 1999 to 134.9 million sq ft in 2001. Retail space within purpose built shopping complexes also increased by 17% within the one year from 52.4 million sq ft in 1999 to 61.5 million sq ft in 2001. The Klang Valley, Johor and Penang are the three areas where the bulk of these developments were located.

The Malaysian market experienced an upward trend in the number of properties transacted between 1995 – 1997. Total transactions increased by 7% in 1996 when 270,548 transactions were recorded in the same year as opposed to 251,891 transactions in 1995. Property transactions continued to increase marginally (2%) to 274,749 in 1997. However in 1998, when Malaysia was faced with economic crisis, property transactions dropped significantly by 32% to 186,077 but bounced back in 1999 to 225,901 transactions. By the end of 2000, a total of 239,986 property transactions were recorded, an increase of 6% from 1999. The number of property transactions continued to increase in 2001 with 242,634 properties being transacted, indicating an increase of about 1% over the preceding year. In 2001, about 74% (178,727 numbers of the property transactions) of the properties transacted were priced below RM150,000 per unit, of which 133,100 numbers of property transactions or about 74% were residential units. This indicated strong demand for low end residential properties.

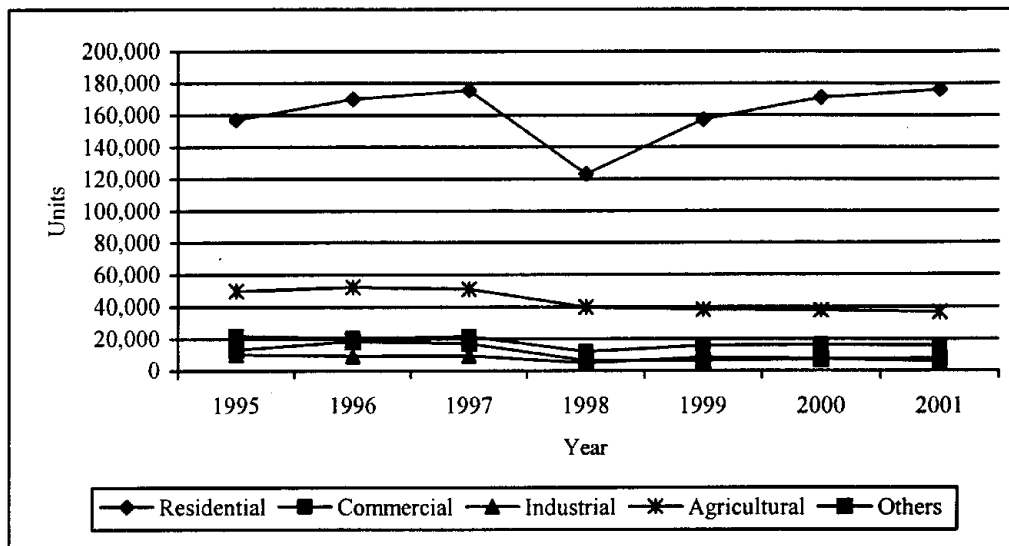
Residential properties made up the bulk of total property transactions in Malaysia. It contributed 62% (156,913 units) of total transactions in 1995 and increased gradually over the years to 73% (176,208 units) of total transactions in 2001. This confirms the sentiment that residential market remains to be popular despite the economic downturn, due to its ever increasing demand and “shortage” of supply.

Commercial and industrial property transactions have been on a declining trend between 1995 – 2001. In 1995, commercial properties represented 9% (21,804 units) of total transactions and reduced to 6.5% (16,862 units) in 2001, while only 6,098 (2.5%) industrial properties have been sold in 2001 compared to 10,248 (4%) in 1995.

4. INFORMATION ON THE CVB GROUP (Cont'd)

The graph below shows the trend in the number of Malaysian property transactions according to the sectors between 1995 – 2001.

PROPERTY TRANSACTIONS (MALAYSIA)- BY NUMBERS



Source: *Property Market Reports 1995-2001*

The total value of transactions in Malaysia has also shown a fluctuating trend, with the value of transaction showing an increasing trend from 1995 to 1997, reduced in 1998 then picked up between 1999 – 2000 and then dropped marginally in 2001. Total value of transaction increased by 23% in 1996 to RM48,994 million from RM39,858 million in 1995 and increased further by 9% to RM53,217 million in 1997. In 1998, as an effect of the economic downturn, the value of property transactions fell by 48% to RM27,912 million. However, in 1999 as the confidence level of the country's economic recovery increased, more properties were transacted thus increasing the value to RM34,423 million. Likewise, the value of property transaction increased by 14% to RM39,196 million in 2000. In line with the economic slowdown in 2001, the value of property transaction dropped to RM38,635 million, reflecting a contraction of 1.4% over the previous year.

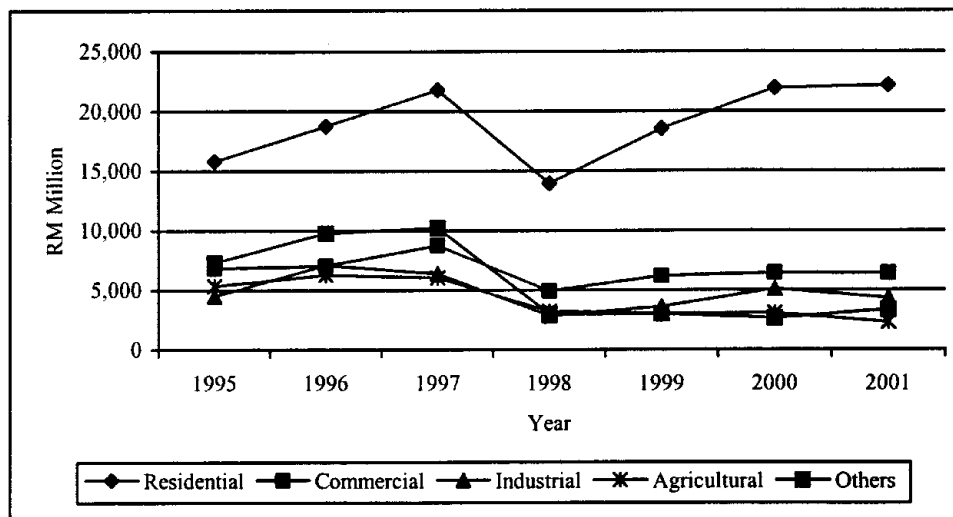
The residential properties contributed 40% (RM15,814 million) of the total value of property transactions in 1995 (RM39,857 million) and gradually increased to about 57% (RM22,199 million) of the total transactions value in 2001 (RM38,635 million). Approximately 69% or RM26,668 million of the total transactions value in 2001 (RM38,635 million) comprises properties priced above RM150,000 per unit, of which 46% or RM12,274 million is contributed by the residential sector.

Contribution by the commercial properties has been declining, from 17% (RM6,856 million) in 1995 to 16.6% (RM6,427 million) in 2001. As for the industrial properties, its contribution to the value of transaction has reduced marginally from 11.3% (RM4,505 million) in 1995 to 11.2% (RM4,320 million) in 2001.

4. INFORMATION ON THE CVB GROUP (Cont'd)

The graph below shows the trend in the number of Malaysian property transactions according to the sectors between 1995 – 2001.

PROPERTY TRANSACTIONS (MALAYSIA) – BY VALUE



Source : Property Market Reports 1995 – 2001

(Source: Extracts from Market Outlook Report, prepared by Jones Lang Wootton dated May 2001)

(b) Overview of Property Sector in Johor

The Johor economy returned a stronger growth after the financial crisis during 1997 to 1999 and the GDP of the state registered a positive growth of 8.5% in year 2000. The economy has since shrunk to a positive growth of 2.5% in 2001 as a result of the slowdown in the economy, regionally and globally. The property market in Johor which registered an increase in total number and value of transactions in 2000, recorded a decline in 2001. In 2001, 34,914 properties valued at RM5,654.71 million were transacted, indicating a decline of 0.75% and 7.11% in terms of total number and value of transactions respectively compared with the previous year.

In Johor, the various property sectors registered positive growth in 2000 with the exception of the agricultural sub-sector which recorded a negative 13% growth rate. In view of the weak economic condition in 2001, there was a decline in the property sector in Johor. All sectors have recorded a decline in terms of numbers of property transactions and transaction values with the exception of the residential sub-sector, which has recorded an increase in the number of property transactions. In 2001, the residential sub-sector maintained its dominance, contributing about 70.4% of the total number of transactions, followed by the agricultural sub-sector (16.4%). Commercial properties, development land and industrial sub-sectors each contributed about 7.1%, 3.9% and 2.1% of the total number of transactions respectively.

4. INFORMATION ON THE CVB GROUP (Cont'd)

The residential sub-sector remained the most active sector in year 2001 and is expected to be the domineering sub-sector in year 2002 whilst the other sub-sectors such as commercial and industrial sub-sectors are expected to be less active. The residential sub-sector registered a total of 24,594 property transactions in 2001 in comparison with 23,709 in 2000. In 2001, Johor Bahru district contributed about 13,891 transactions or about 56.5% of the total transaction volume followed by Batu Pahat and Muar districts, each contributing about 13.3% (3,262 number of property transactions) and 9.8% (2,413 number of property transactions) of the total volume of transactions respectively.

In Johor Bahru, the Skudai locality (within which Taman Univesiti and Bandar Nusajaya are located) is amongst the choice location for residential development as evidenced by the launch of several new housing schemes, as well as new phases with existing schemes such as Taman Mutiara Rini, Taman Sri Pulau Perdana, Taman Pulau Utama and Bukit Indah, Nusa Bestari II and Nusa Bestari Jaya. With the completion of the Jalan Skudai into a three lane dual carriageway together with a flyover at the Jalan Skudai-Jalan Gelang Patah intersection, have eased the traffic flow to Skudai town and its surrounding schemes from Johor Bahru city centre. The completion of a dual lane carriageway within Taman Sutera Utama (formerly known as Taman Sutera Zone 2), which links Jalan Skudai with Jalan Kampong Sungai Danga, has provided an alternative access to Bandar Nusajaya from Jalan Skudai.

The commercial sub-sector registered a slight decrease in 2001, with a total of 2,475 property transactions compared to 2,547 property transactions in 2000. Johor Bahru District remain the major contributor of the commercial transactions in the state, contributing about 46.2% of the total transaction volume followed by Batu Pahat (14.2% or 351 transactions) and Muar (12.9% or 320 transactions). The total value of transactions for the commercial sub-sector in 2001 was RM803.98 million, a decrease of about 8.2% from previous year's transacted value of RM875.78 million. The commercial shophouses form the bulk of transaction, which accounted for over 85% of the total number of property transactions. (*Source: Property Market Report 2001*)

(*Source: Extracts from Market Outlook Report, prepared by Jones Lang Wootton dated May 2001*)

4.7.3 Overview of Construction Sector

The fiscal stimulus programme, privatization of infrastructure projects and housing development contributed to a stronger growth of 2.3% in the construction sector. Construction activity in the non-residential sub-sector consolidated further due to the large overhang of office and retail space.

The property overhang situation improved primarily due to the sales of residential properties. As at end-June 2001, data compiled by the National Property Information Centre (NAPIC) of the Valuation and Property Services Department showed that the overhang of residential properties improved by 31.4% to 35,203 units, while the improvement in value terms was 26.5% to RM4.9 billion. The remaining unsold units were located mainly in poor locations. Demand for residential units was more resilient in the well-established locations.

Several measures were introduced during the year to reduce the property overhang. With liberalization of the FIC guidelines effective 25 April 2001, foreign purchases of commercial properties increased by 14% to RM634 million. However, sale of residential properties to foreigners declined.

(*Source: Bank Negara Malaysia Annual Report 2001*)

4. INFORMATION ON THE CVB GROUP (Cont'd)

The performance of the construction sector is expected to improve, growing by 4.9% in 2001 (2000:1.0%) despite a large overhang in commercial property. The better outlook is attributable to greater construction activities of low-and medium-cost houses as well as the implementation of infrastructure projects following the fiscal stimulus stance of the Government. (*Source: Economic Report 2001/2002*)

4.7.4 Industry Life Cycle and Sensitivity to Economic Downturn***Housing Supply (New launches)***

The number of new launches has been on an increasing trend, in line with the country's economic growth. As the population became more affluent, home-ownership trend was on the rise in the early to mid nineties. Housing developers were keen to accommodate this market segment, thus resulting in more houses being introduced into the market. Despite the "reasonably" high cost of borrowings, purchasers were eager to own residential properties for either owner occupation and/or for investment purposes.

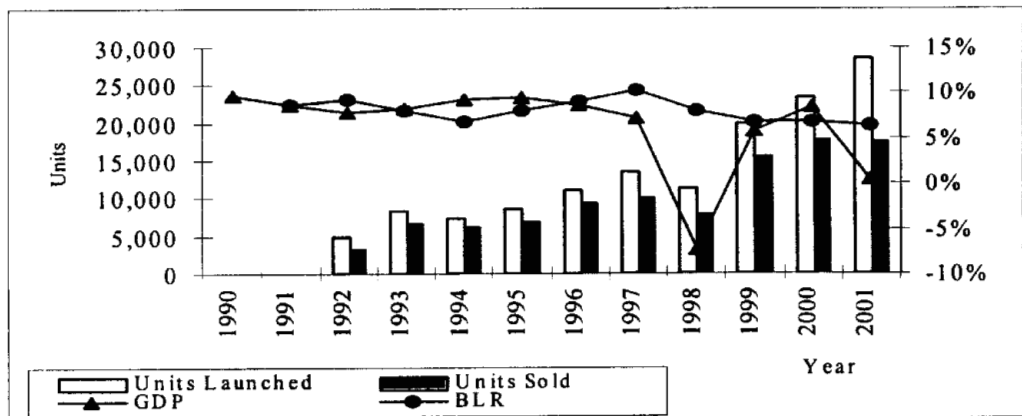
When the country was faced with the economic crisis in 1997/98, the government had taken several short term measures to curb excess spending which amongst others include the reduction of the margin of financing for properties, especially if it is for investment purposes as well as increasing the BLR to about 11%, resulting in borrowing rates at 13% to 14% as opposed to about 9% to 10% before the crisis period. This measure had a negative impact on the performance of the residential market, whereby sales of newly launched properties as well as those in the sub-sale market had declined considerably, as the cost of owning a property either for owner occupation or investment had increased.

The above measure had almost 'crippled' the housing industry. Thus in retaliation, the government through Bank Negara Malaysia had in late 1998 pushed the local banks to increase their funding in the housing sector by setting specific targets and strict monitoring, especially for properties below RM250,000. This had created an intense competition amongst the financial institutions, as they scrambled to meet the targets set by Bank Negara Malaysia, resulting in higher margin of financing as well as decline in the BLR for properties costing below RM250,000. The impact of these measures were seen from 1999 to 2001, whereby developers have focused on properties priced below RM250,000.

The recovery of the country's economy (positive GDP), coupled with the low cost of borrowings, attracted many developers to venture into affordable residential developments. Certain market segments which to a greater extent was not catered for during the good times, had seen an increasing trend in terms of supply and demand for houses, especially in the last two years, in line with the recovery of the country's economy.

4. INFORMATION ON THE CVB GROUP (Cont'd)

HOUSING UNITS LAUNCHED VS GDP GROWTH



Note: Units launched refer to the Klang Valley houses monitored by JLW Research Monitoring of new launches started from 1992 onwards.

Other property sectors have also been affected by the change in the economic situation. However, the impact was not felt as immediate as that of the residential market. For example the office market experienced an increase in vacancy during the economic downturn, as the economy affected businesses which then resulted in retrenchment (due to closures or businesses shrinking) thus affecting employment, hence lesser office accommodation was required.

The retail sector was also affected during recession, as occupancy of retail centres followed the declining trend of the GDP. As household income reduced due to retrenchment or salary cuts, household spending patterns too reduced. Lower retailers' turnover would consequently result in retailers downsizing their business operations by either reducing the number of outlets or closing down.

Market Prices

Market prices of houses have been increasing in the last 10 years, in correspondence with the country's high economic growth. The increase in prices was mainly due to high demand for houses whilst supply was unable to keep up with the increasing demand. However, in 1998 when the country experienced an economic downturn, market prices of houses, irrespective of prime or secondary locations fell. Demand that was previously backed by strong economic fundamentals was shaken thus resulting in lesser interest in property investment. Prices for residential properties dipped due to excessive supply as well as poor demand, especially from those in the 'investor category' due to the curb to the funding factor from financial institutions. Other market sectors such as office and retail also experienced a drop in rentals and market prices as demand for retail and office accommodation dropped sharply during the downturn.

(Source: Extracts from Market Outlook Report, prepared by Jones Lang Wootton dated May 2001)

Measures to strengthen the residential market introduced in the Budget 2001 and to a lesser extent the fiscal pre-emptive measures announced on 27 March 2001 has kept the market resilient. Demand for affordable housing of RM150,000 and below was very much evident and maintained at the previous two halves' level with 75% of residential transactions. In terms of price range, the RM100,001 – RM150,000 bracket led with 18.2% followed closely by the RM50,001 – RM75,000 and RM75,001 – RM100,000 ranges with 17.3% and 17.2% respectively. These price ranges saw marginal growth of 0.6% -1.8% in the share of transactions compared with the previous two halves. (Source: Property Market Report – Jan-Jun 2001)

4. INFORMATION ON THE CVB GROUP (Cont'd)

4.7.5 Government Legislation, Policies and Incentives for the Industry

The Malaysian property market entered the year 2001 equipped with specific measures to strengthen the industry as provided for in the Budget 2001 to cushion the weakening market dominated with high overhang in the residential, shops and industrial sector in addition to the high vacancy rates in the purpose built offices and shopping complexes. Among the measures were lowering of the ceiling rate of ad-valorem stamp duty on property transfers from 4% to 3%. The government introduced a similar measure by increasing the housing loan eligibility and permitted public sector employees to utilise the balance of their loan eligibility for a second house.

(Source: Property Market Report Jan-Jun 2001)

The construction of low- and medium-cost houses continue to be supported through the Government's housing programmes. Various funds were set up for low-cost housing, including the Fund for Hard Core Poor, Fund to Accelerate the Construction of Low-Cost Housing and Revolving Fund for Low-Cost Housing. Using these funds, about 36,000 units have been completed with another 57,000 units under construction. Under the Public Low-Cost Housing Programme, about 24,394 units have been completed and another 19,459 units are under construction. A total of 21,016 units of low cost houses are also being constructed under the Integrated Housing Programme, to cater for the rising housing needs of squatter settlements within Kuala Lumpur and other major cities.

(Source: Economic Report 2000/2001)

The softening of the United States of America's economy as a result of the attack on the U.S. on 11 September 2001 has sparked of a coordinated and unprecedented worldwide initiative to spur the global economy. The Malaysian government has on its part doubled its efforts to stimulate the domestic economy by launching a RM4.3 billion fiscal stimulus package coupled with a reduction of the Bank Negara Malaysia's intervention rate by 50 basis points to 5%. These efforts augurs well for the construction and property development sectors. *(Source: BNM Press Release dated 20 September 2001: Reduction in Intervention Rate)*

The Budget 2001 has also emphasized on some issues pertaining to the property sector as follows:

(a) *Increase in housing loan eligibility for civil servants*

The Budget proposed that the rate for housing loan eligibility for civil servants should be increased from between RM35,000 and RM200,000 to between RM40,000 and RM300,000 as from 1st January 2001. The last review on civil servants' housing loan eligibility was in 1993.

(b) *Allowance for purchase of second homes by EPF contributors*

To encourage the ownership of houses, the Budget also gave provision for EPF contributors to make withdrawals for the purchase of second homes, on the condition that they sell their first homes. This measure enables contributors to upgrade their homes.

4. INFORMATION ON THE CVB GROUP (Cont'd)

(c) *Review of stamp duty on transfer of property*

Effective from 1 January 2001, the rate of stamp duty payable by purchasers of property based on transaction value or market value of the property, (whichever is higher) is based on the following:-

Rate of Stamp Duty
1% on the first RM100,000
2% on the next RM400,000
3% on the remaining amount

In order to reduce the residential property overhang in the market, stamp duty is waived for purchases of residential properties made from 1 January 2002 to 30 June 2002. Documents exempted from stamp duty include the sale and purchase agreement within the six month period and the loan and security documentations. The residential property means houses, condominium units, apartments and flats built as a dwelling house and excludes shophouses, shop apartments, service apartments and bungalow lots. The exemption is only applicable for residential properties registered with the Real Estate and Housing Developers' Association Malaysia (REDHA), Sabah Housing Developers' Association (1992) or Sarawak Housing Developers' Association.

The National Land Code is the foremost legislation on land matters in the peninsular. However, there are several other major property legislation, which include, inter alia, as follows:

- **Strata Titles Act 1985 (Act 318)** - An Act to facilitate subdivision of buildings into parcels and the disposition of titles thereto and for purposes connected therewith.
- **Land Acquisition Act 1960 (Act 486)** - An Act relating to the acquisition of land, the assessment of the compensation to be made on account of such acquisition and other matters incidental thereto.
- **Real Property Gains Tax Act 1976 (Act 169)** - An Act to provide for the imposition, assessment and collection of tax on gains derived from the disposal of real property and matters incidental thereto.
- **Housing Developers (Control and Licensing) Act 1966 (Act 118)** - An Act to provide for the control and licensing of the business of housing development in West Malaysia and for matters connected therewith.
- **State Land Rules** - Laws relating to land and land tenure, the registration of title to land and of dealings therewith and the collection of revenue therefrom the various States.

The National Land Code (Section 433B) restricts the acquisition of land by non-citizens and foreign companies. However, non-citizens and foreign companies may acquire land under the categories "building" or "agriculture" with the prior approval of the State Authority. No such approval is required for land under the category "industry".

4. INFORMATION ON THE CVB GROUP (Cont'd)

However, due to the recent economic downturn (1997/1998), the FIC has relaxed certain conditions to assist in the recovery of the property sector. With effect from 22 April 1998, foreign interests (individuals and companies) are permitted to purchase all types of residential units, shophouses, and commercial and office accommodation, subject to the following conditions:

- The purchase price is above RM 250,000 per unit;
- The property is within projects that are newly completed or at least 50% completed; and
- Financing for the acquisition is obtained from overseas financial institutions

(Source: Extracts from Market Outlook Report, prepared by Jones Lang Wootton dated May 2001)

The FIC has amended rules and guidelines pertaining to asset acquisition making it more attractive and conducive. It included steps to expedite approvals by exempting acquisition by citizens involving less than RM10 million (previously was RM5 million) and exempting acquisitions less than RM20 million by selective groups, but the parties need to inform FIC. Rules on asset acquisition have also been relaxed for foreigners. Foreign manufacturers who are exempted from obtaining manufacturing licenses by the MITI are allowed to purchase industrial properties without local equity participation. Foreigners are allowed to own all types of residential units, shops, office space and retail space worth above RM250,000 without local equity participation. The properties, however, must be 50% completed when purchased and the purchase can be financed locally. Further relaxation was extended under the Silver-Hair Programme to allow foreigners to purchase residential units above RM150,000 in areas designated for such a programme. *(Source: Property Market Report – Jan-Jun 2001)*

The Government continued to place priority in the construction of low and medium cost houses in line with the objective of providing affordable housing to all Malaysians. A total of 192,000 low-cost units are targeted to be built during the Eight Malaysian Plan, of which 175,000 such units to be implemented through the Public Low Cost Housing Programs. To cater to the needs of squatter settlements within Kuala Lumpur and other major cities, 5,936 units are being constructed under the Integrated Housing Program. *(Source: Economic Report 2001/2002)*

4.7.6 Industry Players and Competition

CVB is one of the earlier property developers in Johor Bahru, established in the early 80's. Amongst the large scale property developers in the property development scene in Johor Bahru in the early eighties include Pelangi Berhad (Taman Pelangi), Daiman Berhad (Taman Johor Jaya), Tasek Realty (Taman Ungku Tun Aminah), UDA Holding (Bandar Baru Uda) and Permas Jaya Sdn Bhd (Bandar Baru Permas Jaya). More developers started to enter this sector in the late eighties/early nineties i.e after the recovering of the eighties recession. Amongst the developers include Mount Austin Sdn Bhd (Taman Mount Austin), MBf Properties (Taman Puteri Wangsa, Taman Bukit Kempas, Taman Desa Jaya), Crescendo Development Berhad (Taman Desa Cemerlang), IOI Properties (Bandar Putra), Asiatic Development Sdn Bhd (Bandar Inderapura), PJD Development Sdn Bhd (Taman Putri Kulai), UM Land Berhad (Bandar Seri Alam), Kemayan Corporation Sdn Bhd (Taman Bukit Mewah) and Focal Aims Berhad (Taman Kota Masai).

4. INFORMATION ON THE CVB GROUP (Cont'd)

By undertaking a large scale housing development such as Taman Universiti, CVB has established itself as one of the pioneer developers who have successfully completed a mixed residential township development within a reasonable time frame. Amongst the factors that boosted the development of Taman Universiti is that CVB had focused mainly on medium-cost and low-cost housing and as such was able to sustain a reasonable growth during the boom period as well as during the down turn.

The current landbanks of CVB in Johor Bahru are also strategically located. The two parcels of land located within Bandar Nusajaya i.e PTD Nos 71043 and 71044 (also known as Plots 14a & 14b) are immediately developable due to its location within an established residential area whilst the other parcels of land within Bandar Nusajaya i.e PTD Nos.116767 and 116769 (also known as Plots 1 & 3) are scheduled to enter the market within two years time.

CVB has created a reputation as being one of the largest providers of single storey terraced low-cost houses in Johor by developing 4,786 units of such units (*Source: Management of CVB*).

(Source: Extracts from Market Outlook Report, prepared by Jones Lang Wootton dated May 2001)

CVB has an advantage edge over other competitors as the Group has established a track record in Johor Bahru by developing township development such as Taman Universiti and the landbank that is strategically located for future development such as Bandar Nusajaya in Johor Bahru, Bandar Sungai Buaya in Serendah and Padang Meha township in Kulim. It has over the years provided the affordable housing to cater for the low and middle income group (over 85% of the total number of units within Taman Universiti comprise low-cost terraced houses and terraced houses).

A comparative analysis with other companies involved in the property development that are recently listed on the KLSE are set out below for illustrative purposes:-

Companies	Turnover RM'000	Profit before taxation RM'000	Price-to- Book Ratio *	Year ended
CVB	36,022	20,510	0.92	30-11-2001
Meda Inc. Berhad ¹	94,348	44,729	0.90	31-12-2000
KSL Holdings Berhad ²	53,259	24,822	1.20	31-12-2000
LBS Bina Group Berhad ³	266,532	44,484	2.17	31-12-2000
Merge Housing Bhd ⁴	96,958	23,411	1.36	31-05-2000
Glomac Bhd ⁵	110,014	24,878	0.90	30-04-2001
Hunza Properties Bhd ⁵	57,064	15,111	1.24	30-06-2001

Sources:

* *Price-to-book ratio based on the respective companies' initial public offerings*

1. *Prospectus dated 31 January 2002*

2. *Prospectus dated 28 December 2001*

3. *Prospectus dated 24 December 2001*

4. *Prospectus dated 28 February 2001*

5. *Annual reports of the respective companies*

4. INFORMATION ON THE CVB GROUP (Cont'd)

4.7.7 Outlook and Future Prospects**(a) Outlook of the Malaysian Economy**

The outlook of the external sector in 2002 remains uncertain, particularly in the light of the aftermath of the attack on the US. While it is generally viewed that the US may avoid a recession, the recovery would be delayed with an upturn taking place gradually in the later part of 2002. The prospect for a growth in Japan continues to be discouraging, with the economy not expected to witness a rapid growth. Given the weaker performance of the US and Japan, world growth has subsequently been revised downwards to 2.6%, with the GDP growth for the major industrialised countries decelerating to 1.3%.

The Malaysian economy is forecast to grow by 4 to 5% in 2002, led by stronger performances in the manufacturing and services sectors. The recovery in global electronics demand will contribute towards growth in the manufacturing sector while the pace of expansion in the services sector will be driven by higher economic activities and the Government fiscal stimulus.

(Source: Economic Report 2001/2002)

The Malaysian economy is expected to strengthen in 2002 following a strengthening of external demand. Past trends show that there is a brief lag between the recovery in the major economies and recovery in Malaysian exports. As such, the timing and magnitude of the recovery would have a significant impact on the Malaysian economy. Current indications suggest that external demand will not pick up as strongly as in the 1990-2000 period, where recovery was mainly led by the internet-boom and the Y2K factor. The current economic upturn is taking place amidst global excess capacity, particularly in the technology sector. External demand is, therefore, expected to strengthen gradually. Against this background, the recovery in the Malaysian economy would be modest, with real GDP expanding by 3.5% in 2002.

(Source: Bank Negara Annual Report 2001)

(b) Outlook of the Property Sector

For the year 2001, the property market is expected to stay mixed and remain in consolidation.

Price in the residential sector for 2001 is expected to uptrend further although this is likely to be at a lower rate than the 14.3% average annual increase projected by the Malaysian House Price Index in its first half yearly report of 2000. This view takes cognisance of the consolidation trend seen in the property market during the year.

4. INFORMATION ON THE CVB GROUP (Cont'd)

In all, the residential sector will continue to act as the front line sector for resurrecting the property market further in the economy that has yet to recover fully. As support, statistics on vacancy over the last six months showed the residential sector in a much healthier position than other sectors, while overhang in the residential sector dropped by 14.2%, vacancy in the office and retail space sectors actually grew, by 17.7% and 11.5% respectively. Further, overhang units within the residential sector constituted only 2.1% of the total stock while vacancy in the office and retail space sectors formed much larger proportions at 23.1% and 26.8% respectively. Nonetheless, the economy must improve further to generate the level of demand necessary to mop the excess supply in the affected sectors of the property market. In this context, the anticipated slowdown in the US economy will be a cause for concern (*Source: Property Market Report 2000*).

(c) **Outlook of the Construction Sector**

Growth in the construction sector is expected to be sustained at 2.4%, with impetus coming from the civil engineering and residential sub-sectors. Low interest rates and various pre-emptive measures implemented by the Government to address the excess supply situation in the property market will continue to support demand for residential housing.

On 27 November 2001, BNM lifted the restriction on the provision of bridging finance for the development of residential properties above RM250,000 and shop houses exceeding RM250,000 per unit located within residential areas, provided the projects have achieved break-even sales.

Meanwhile, activity in the non-residential sub-sector would continue to be constrained by excess capacity with activity focused mainly on ongoing projects.

(Source: Bank Negara Malaysia Annual Report 2001)

The recovery in private sector investment and fiscal expansion will contribute to growth in the construction sector by 4.3%. The demand for housing, in particular low- and medium-cost units as well as infrastructure projects in the health and education sub-sectors and rural development from the RM3 billion pre-emptive measures in March 2001 and the recent RM4.3 billion package in September 2001 will also contribute towards further growth in this sector.

(Source: Economic Report 2001/2002)

4.7.8 Prospect and Future Plans of the CVB Group

The future prospects of the CVB Group as a property developer remain bright given that our government has taken numerous steps to spur the property and construction industry to ensure the economic growth of our country for the next few years. Coupling with the expansionary fiscal and monetary policies undertaken by the Government to stimulate the economic growth, the prospects for the property market is favourable in the years ahead.

The CVB Group's past and present wide property portfolio ranges from low to medium cost houses, terrace houses, apartments and shop-offices indicates that the Group plays an active role in the achievement of socio-economic development and is capable of future growth.

4. INFORMATION ON THE CVB GROUP (Cont'd)

Some of the future plans are as follows:-

(i) **Expansion Of Land Bank**

CVB Group is constantly on the lookout for acquisition of more lands to enlarge its landbank at strategic locations as part of its expansion plan to enhance its market position to be one of the premier housing developers in the country. The Group views the current slow economic development as an opportunity to acquire lands and increase its landbank at reasonable costs.

Currently, the Group is focusing on acquiring potential lands and increasing its landbank in the growth areas of Klang Valley and Johor Bahru District. Besides land purchase, the Group is also on the search for joint-venture projects with State Corporations and private landowners.

CVB Group believes that the demand for affordable housing will always be on the top of the list and CVB will continue to concentrate its development on this category and be the main contributor in this segment of the market. However, the Group will not restrict itself only in the low and medium market but will develop a well-mixed and balanced products with some high cost properties catering to the up-market segment when the economy recovers.

One of the success factors of CVB Group lies in the prudent approach in its decision making on the acquisition of viable projects at good and strategic locations.

The Group is always guided by market and feasibility studies in its decision making before embarking on any new ventures. The process for decision making involves the following stages : -

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4. INFORMATION ON THE CVB GROUP (Cont'd)

Identify Potential Land

- Select location and potential growth areas
- Recommendation from real estate agencies
- Direct approach to landowners.

Preliminary Investigations

Conduct investigation on : -

- Master development plan of the area
- Zoning and density for land identified
- Population size in the area
- Availability of access and essential services
- Site visit to identify topography of land identified and surrounding developments.

Market Research & Analysis

Carry out : -

- Market information and data collection
- Market needs and demand
- Competition from other projects
- Demand and Supply situation
- Authorities policies and requirements

Visualisation of Development Plan

Visualise and formulate : -

- Development concept plan
- Project design brief
- Development components
- Development Schedule and timing
- Authorities policies and requirements

Feasibility Study

Carry out project costing and assessment : -

- Pricing and sales revenue
- Project development costs which include conversion and subdivision premium, statutory contributions, infrastructure cost, building construction cost, management and administration costs, marketing and promotion costs, financing cost and etc.
- Project profitability
- Land Valuation according market values.
- Cashflow analysis
- Sensitivity analysis

Decision Making

Market and feasibility studies will be presented to board of directors for consideration. After careful study and analysis, board of directors will forward a decision.

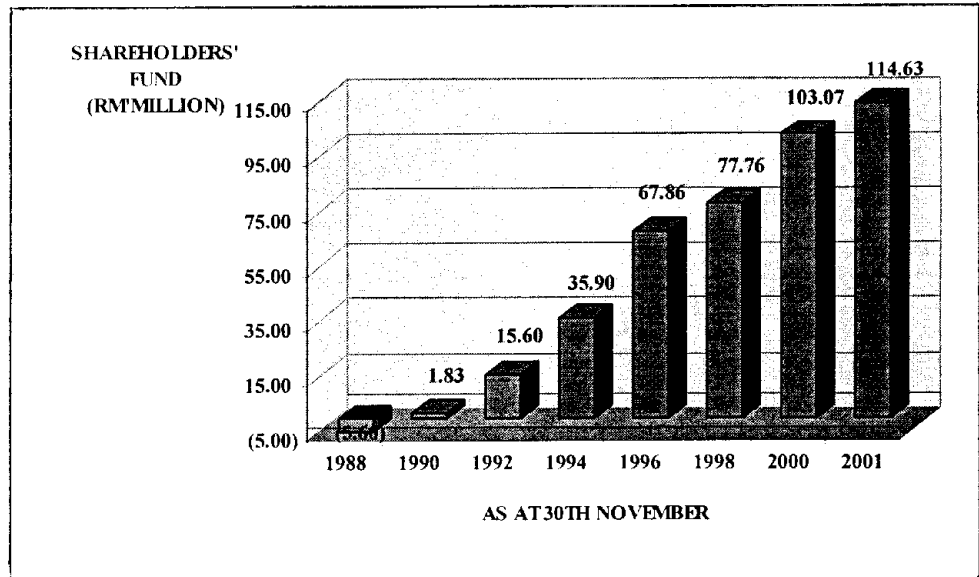
4. INFORMATION ON THE CVB GROUP (Cont'd)

(ii) New Venture

CVB Group acknowledges that expansion through direct ownership of land is costly in view of the escalating land prices as well as scarcity in strategically located land. In consideration of this, CVB Group will continue to look for possibility of strategic partnership with third parties for its future development projects. As mentioned in Section 4.5.3, on 28 October 1999, CVV participated in a joint venture company i.e. OBSB, which had been granted the right to submit detailed plans, terms and conditions for the mixed development of Pantai Lido Waterfront 2020 in Johor Bahru.

(iii) Marketing Strategy

The Group has established itself as one of the reputable property developers in Johor. Since its inception, the CVB Group has successfully braved through two economic downturn cycles in the 1980s and 1990s. The Group's financial strength continues to grow steadily over the years as represented graphically below:-



CVB Group's competitive edge not only lies with its ability to contain cost to an efficient level. Effective pricing strategy coupled with appropriate products positioning and target marketing is amongst the successful aptitudes that drives CVB Group to what it has managed to attain today.

CVB Group will continue to allocate a major proportion of its resources towards the development targeted at low and medium income level especially on residential properties costing less than RM250,000 where demand is less elastic while niche development will be focused on a more selective basis.

4. INFORMATION ON THE CVB GROUP (Cont'd)

(iv) Long-term property investment

CVB has vacant commercial land strategically located in Taman Universiti, a matured self-contained township with more than 60,000 residents. The Group has every intention to enlarge its property investment portfolio that would generate attractive recurring income to complement its existing core business in property development.

4.8 Major Customers

As the CVB Group is principally involved in property development, its customers are mainly retail purchasers in respect of which their respective purchases account for less than 10% of the Group's turnover.

4.9 Major Contractors/ Suppliers

The CVB Group is not dependent on any single contractor and supplier for building materials (i.e. none of the contractors/suppliers represent more than 10% of the Group's total contract sums for the past five years ended 30 November 2001).

The Group adopts various measures to minimize risk of dependency on certain contractors and/or suppliers as follows: -

- (a) The Group adopts an open tender system in selecting contractors and suppliers. The selection is made after due consideration of their experience, track record and qualification; and
- (b) The Group ensures that contractors are not awarded contracts more than they are capable to undertake. Under such circumstances, the Group continuously reviews and evaluates the work in progress and performance quality of each of the projects awarded to ensure prompt completion and reasonable quality attained.

Nevertheless, the Group has established long-term relationships with most of its contractors and suppliers over the past fifteen (15) years. By having a good rapport with the contractors/suppliers, as evidenced by the lengths of relationship between the Group and the contractors/suppliers, the CVB Group is able to secure construction works at competitive rates and the cost savings are eventually passed down to customers in term of lower sales price.

4. INFORMATION ON THE CVB GROUP (Cont'd)

The list of top ten (10) contractors/ suppliers of the Group for the past five financial years ended 30 November 2001 and the lengths of relationship are as follows:-

Contractors/ Suppliers	Services Provided to CVB Group	Aggregate Total Contract sum from financial year 1997 to 2001 RM'000	Length of Relationship (Years)
Well Deal Sdn Bhd	Building Contractor, Building of Sewerage Infrastructure & Tenaga Nasional Bhd (TNB) Substation	44,708	7
Pang Hock Constructions Sdn Bhd	Roadworks & Roadside Drainage	11,385	14
Layang Makmur Sdn Bhd	Building of Telephone and Electrical Infrastructure & Electrical Installation	9,622	8
Key Profile Sdn Bhd	Building Contractor & Building of TNB Substation	9,302	8
Tanjung Tebrau Sdn Bhd	Building Contractor	7,898	11
Rentas Jaya Sdn Bhd	Building Contractor	7,826	12
Sin Sin Construction Sdn Bhd	Building Contractor	6,227	14
Kencana Kristal Sdn Bhd	Building Contractor	5,820	8
Convast Construction Sdn Bhd	Building Contractor	5,789	1
Leo Brothers Development & Construction Sdn Bhd	Building Contractor	3,495	15