

13. DIRECTORS' REPORT

*(Prepared for inclusion in the Prospectus)*



華陽有限公司  
**HUA YANG BERHAD** (44094-M)  
(formerly known as Hua Yang Development Sdn Berhad)

**Registered Office:-**

123A Jalan Kampar  
30250 Ipoh  
Perak Darul Ridzuan

26 SEPTEMBER 2002

The Shareholders of  
**HUA YANG BERHAD**

Dear Sir/Madam,

On behalf of the Directors of Hua Yang Berhad, I report after due enquiry that during the period from 31 March 2002 (being the date to which the last audited accounts of the Group have been made) to 16 September 2002 (being a date not earlier than fourteen (14) days before the issue of this Prospectus) that:-

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in section 15.8, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries; and
- (e) save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheets in this Prospectus, there has been no changes in the published reserves or any unusual factors affecting the profit of the Group since the last audited accounts of the Group.

Yours faithfully  
For and on behalf of the Board of Directors  
**HUA YANG BERHAD**

**CHOR ENG CHOON**  
*Chief Executive Officer / Executive Director*

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**14. INDEPENDENT MARKET RESEARCH CONSULTANTS REPORT**

*(Prepared for inclusion in the Prospectus)*



ResearchLink Sdn Bhd  
7-2-11, Jalan 3/109F,  
Danau Business Center,  
Taman Danau Desa,  
Jalan Klang Lama,  
58100 Kuala Lumpur

24 September 2002

**Re: Independent Market Consultant Report for Hua Yang Berhad**

This report is prepared for inclusion in the prospectus of Hua Yang Berhad to be dated 30 September 2002 in relation to its listing on the main board of the Kuala Lumpur Stock Exchange. This research is undertaken with the purpose of providing an analysis of the market position of Hua Yang Berhad within the property development sector in Malaysia. The report provides a special focus on the sub-segment and the locations that HYB is operating in.

Information provided in this report was obtained through both primary and secondary sources. Interviews were conducted with the major players in the country as well as HYB's direct competitors with development projects in the same location. Primary research is conducted to gain an in-depth understanding of the current supply and demand situations and to provide an overall picture of the market performance and trends.

Desk research includes a review of the in-house database of ResearchLink Sdn Bhd, Companies Commission of Malaysia, Economic Report 2001, Eighth Malaysia Plan, Property Market Report 2001, National Property Information Centre Quarterly Report (Quarter 1, 2002), Bank Negara Report, Budget Speech 2002, Budget 2003, Department of Statistics and others.

The research was conducted in August to September in 2001. Subsequently, a few updates were made. An executive summary of the research findings is provided in the subsequent pages. Findings in this study may be used in the listing prospectus with consent from ResearchLink Sdn Bhd.

Yours faithfully,  
For and on behalf of  
**RESEARCHLINK SDN BHD**

A handwritten signature in black ink, appearing to read 'Mohd Fariz Abu Bakar', is written over a horizontal line.

**MOHD FARIZ ABU BAKAR**

**RESEARCHLINK SDN BHD**

(COMPANY NUMBER 425131-U)

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**14. INDEPENDENT MARKET RESEARCH CONSULTANTS REPORT (Cont'd)**

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**EXECUTIVE SUMMARY***Business Overview*

HYB group of companies ("HYB Group" or "the Group") are principally involved in investment holding, provision of management and secretarial services, property development and building construction activities. Its core strength is in the development of low-to-medium cost single and double storey terrace houses. Since 1978, it has been active in the business of property development in Perak. From 1989 onwards, it extended its operations to Klang Valley and has successfully developed and completed several mixed-development projects in Setapak, Serdang and Klang. For the past five financial years, HYB's accumulated turnover has exceeded RM255.86 million. It has completed approximately RM471 million of development projects over the years. It has property development projects in Selangor, Perak, Negeri Sembilan and Johor.

Its current two main property development projects are:

- Bandar Universiti in Seri Iskandar, Perak.  
It is a mixed development of property and commercial development with a land area of 728 acres.
- Taman Pulai Indah in Johor Bahru, Johor.  
It is a mixed development of property and commercial development with a land area of 371 acres. HYB's recent purchase of another 106-acre of land will make the total land size in Pulai increase to 477 acres.

In addition, it is currently undertaking affordable terrace houses in Ipoh and shop-houses in Batu Gajah. Collectively, these ongoing projects have contributed and will contribute some RM250 million sales revenue to HYB.

*Industry Players And Competition*

Among the key players in property development in Malaysia are Bandar Raya Development Berhad, IOI Properties Berhad, MK Land Holdings Berhad, Sime UEP Properties Berhad and SP Setia Berhad. However, none of these players have significant activities in the same markets that HYB is primarily active in namely Pulai, Johor and Seri Iskandar, Perak.

For the next 8 years, its flagship development projects will be Bandar Universiti in Seri Iskandar, Perak and Taman Pulai Indah in Johor Bahru, Johor. The market study was thus focusing on these two locations.

**Perak**

In Seri Iskandar, Perak, HYB is one of the five major residential housing developers. With a land size of 728 acres, its land bank is the second largest among the five players. HYB plans to build an integrated township in Seri Iskandar to capture the increasing demand. It is currently focusing on the development of low-to-medium cost single and double storey terrace houses.

The latest available statistics of incoming supply shows that as at the first quarter of 2002, there was an incoming supply of 31,872 residential units in Perak. HYB represents 3.03% of the total market with 1,028 units of residential development. For the single storey houses sub segment, HYB has a 4.77% market share and for the 2/3 storey houses, it has 5.12% market share.

Bandar Universiti is located in the district of Perak Tengah. Based on the incoming supply for single storey houses in the district of Perak Tengah as at the first quarter of 2002 (611 units), HYB's contribution to the market is 96.24%. In Seri Iskandar, Perak, HYB is the second largest residential developer after Malaysian Resources Corporation Berhad. Other developers within the vicinity are small players.

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**14. INDEPENDENT MARKET RESEARCH CONSULTANTS REPORT (Cont'd)**

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**Johor**

In Johor, HYB is one of the five major residential developers within the vicinity of Pulai, Johor Bahru. Its current property development in Taman Pulai Indah, Johor Bahru is 371 acres. It has purchased an additional piece of 106-acre of land that is adjacent to Taman Pulai Indah. Collectively, HYB owns 477 acres of land in Pulai and it is second only to Keck Seng (Malaysia) Berhad in terms of land size. Its plan over the long term is to develop the land into an integrated township.

HYB's residential development in Taman Pulai Indah represents 1.74% of the planned supply for the state of Johor of 87,113 units as at the first quarter of 2002. Based on the planned supply of residential properties in the district of Johor Bahru as at the first quarter of 2002, HYB's contribution represents 1.74%. HYB is one of the five residential developers that are primarily active within the vicinity of Pulai, Johor. The other four players are BCB Berhad, Cygal Berhad, Keck Seng (Malaysia) Berhad and Mah Sing Group Berhad. HYB's landbank is the second largest among the players after Keck Seng (Malaysia) Berhad.

*Source: Residential Property Stock Report First Quarter 2002*

**Competitive Advantages**

The competitive advantages of HYB are summarised as follows:

**1. Good reputation as a solid property developer**

With more than 20 years of experience in the property development market, HYB has gained the confidence from the public as a reliable developer that produces good quality properties. Its success in various projects in Kuala Lumpur, Perak, Negeri Sembilan and Selangor demonstrated the competency of the management team that constitutes professional managers with solid experience in property development.

Capitalising on its good reputation as one of the pioneer developers, its inroad into large-scale township development projects namely Bandar Universiti in Seri Iskandar and Taman Pulai Indah in Pulai has received good response. Phase 1 of the residential units in Bandar Universiti that was launched in June 2001 has a 100% take up rate and the shop houses enjoyed more than 60% take up rate. As for Taman Pulai Indah, more than 60% of the total 1201 units launched in 2001 have been taken up.

**2. Strategically located land banks**

Being equidistant from Kuala Lumpur and Penang, Seri Iskandar has been designated as the primary growth area for the 21<sup>st</sup> century. It is located in the heart of Perak, which is situated between Ipoh, the capital of Perak and Lumut, the major seaport of Perak. HYB's decision to venture into developing a big piece of land in Seri Iskandar is a wise move as it is set to be one of the most prominent developments in the Northern region of the country. It has become the education precinct of the state of Perak. Universiti Technology Petronas and Universiti Technology Mara are currently undergoing expansion. Collectively, these two campuses are expected to bring in 20,000 students. This will undoubtedly bring commercial activities and will have a spill over effect for housing needs in the nearby areas. The 3000-acre Science Park and the 282-acre Pharmaceutical Park will also bring industrial and commercial activities to Seri Iskandar in the near future.

Near to the Second Link to Singapore, Pulai is also strategically located. Out-skirt development away from Johor Bahru has traditionally been active in Senai and Skudai but has recently spilled over to Pulai. Situated near to Universiti Teknologi Malaysia, Sultan Ismail International Airport and Tanjung Pelepas Port, Taman Pulai Indah will benefit from the housing needs spurred by the activities in these nearby amenities. There is also demand for Malaysians who work in Singapore and want to reside in Johor.

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**14. INDEPENDENT MARKET RESEARCH CONSULTANTS REPORT (Cont'd)**

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**3. Right development mix at affordable price**

Bandar Universiti was launched in June 2001, a total of 444 terraced houses priced between RM35,000 to RM66,800 were launched and completed. In Taman Pulai Indah, the units launched in 2001 are also affordable terraced houses in the price range of RM50,000 to RM158,800.

HYB has indicated that the focus of the group for the next 3 to 5 years will continue to be offering affordable houses catering to the middle-income group. This is a wise decision as there is demand for affordable houses with good quality. Future projects of the Group are expected to yield a total sales value of RM1.40 billion over the next 8 years.

**4. Attractive value added components**

HYB's integrated township in Pulai will be built with comprehensive amenities that include schools, polyclinics, police station, recreation parks, hypermarket, private college as well as commercial centres in addition to residential houses. The same strategy will be used to develop Bandar Universiti into an integrated township. HYB purchased these two pieces of land at low cost. The low land cost allows HYB to have innovative marketing strategies that include allocating land for lake and recreational parks. Compared to other players in the same locality that could not afford such luxurious components in the development, HYB's projects are undoubtedly more attractive to the purchasers.

**Industry life cycle**

The property sector is dependent on the country's economic performance and political stability. The Malaysian economy recovered in 1999 after a downturn in 1998 due to the Asian crisis. Recovery continued into the subsequent years with consumer sentiment improving and income levels rising.

In the 2003 Budget Speech, the Ministry Of Finance expects pro-growth measures to raise domestic demand and lead drive the economy to a stronger growth of 6.0-6.5% in 2003, from 4.0-5.0% estimated for 2002. The government's gradual shift in emphasis from fiscal pump-priming and reliance on foreign trade and Foreign Direct Investment to promote domestic sources of growth is commendable and more sustainable over the longer term. This will be encouraging to the property sector, especially in the residential segment of the market.

However, the over-development during the economic boom era of the early and mid-90s has been carried over to the next millennium, resulting in a large property overhang in the commercial and retail segments of the property market. Fortunately, home ownership remained a priority for consumers with low-and-medium cost houses being selectively snapped up in selected areas due to the low interest rate environment, low inflation and the flexible financing options available.

Based on the year 2000's census, Malaysian population amounted to 23.3 million. Compared to the previous census done in 1991, the average annual population growth rate was 2.6% over the 1991 to 2000 period. With continuous growth in the nation's population coupled with the increase of purchasing power, this would lead to a continuous demand for residential developments.

In terms of population distribution by state, Selangor was the most populous state (4.17 million). Johor ranked second with total population of 2.72 million, followed by Sabah, Perak and Sarawak with 2.66 million, 2.11 million and 2.07 million, respectively. With the large number of population in Selangor, Johor, Sabah, Perak and Sarawak, there are expected to be an on going demand for property development in these states.

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**14. INDEPENDENT MARKET RESEARCH CONSULTANTS REPORT (Cont'd)**

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**Outlook and growth of the residential industry**

The Malaysian economy is slowly but surely recovering from the economic turmoil in 1998 resultant from the Asian crisis. Unfortunately, the over-development during the economic boom era of the early and mid-90s has been carried over to the next millennium, resulting in a large property overhang especially in the commercial and retail segments of the property market.

In general, the outlook for the broad property sector remains gloomy with the large property overhang in the country. Government statistic from the National Property Information Centre shows that the total value of unsold and vacant properties in the country stood at RM26.6 billion as at June 2001. The overhang comprises 2.53 million square metres of vacant office space, 1.45 million square metres of vacant shopping complex space, 35,203 unsold residential units, 7,817 unsold retail shop units and 3,295 unsold industrial units. The number of overhang-properties in industrial, retail shops and purpose-built office increased by 1.9% collectively from June 2001 to December 2001.

The residential property segment has shown some signs of improvement. Compared to the statistic in December 2000, property overhang in the residential sector has reduced by 31.4%. This sub-segment is competitive with many players. However, many have not been able to sustain during the economic turmoil in the past 3 years and some have been eliminated from the industry. The recovery and growth of the residential property sub-segment is very much dependent on the state of economic development in the country. The health of the economy has a direct impact on the sentiment of the public on committing to long-term investment in properties. It is expected that any further sentiment upswing would likely be driven mainly by a firm economic recovery.

The Malaysian government has come out with fiscal stimulus package to help boost economic development. It has approved 9 toll road projects at a total cost of RM12.0 billion and to restart the Bakun project at RM7 billion. In addition, a RM3billion stimulus package was introduced to help accelerate economic development.

The government also realises that structural changes such as government policies and incentives may play a part in lifting the buying interests. One such incentive is the removal of stamp duty for the purchase of residential property build by developers registered with the Real Estate and Housing Developers' Association of Malaysia, the Sabah Housing Developers' Association or the Sarawak Housing Developers' Association between Jan 1 and June 30, 2002. This is likely to have an impact on the low to medium end of the market segment of the residential market, namely those with prices averaging below RM200,000 per unit.

On 27 November 2001, Bank Negara removed the restriction on the banking system for the provision of bridging finance for the development of residential properties above RM250,000 per unit as well as for the development of shop houses exceeding RM250,000 located within residential areas. This is expected to contribute positively towards premium residential properties and shop houses in suburban locations. This is also likely to boost the overall domestic economic activities.

Mortgage rate is likely to remain low for the next two years. Being cautious on corporate sector loans, banks have zoomed in their loan provision to the consumer sector. The latter is considered to have lower risk during the downturn of an economic cycle. The excess liquidity in the banking sector is likely to help interest rates stay low, at least for the next two years. This augurs well for the residential property market.

## 14. INDEPENDENT MARKET RESEARCH CONSULTANTS REPORT (Cont'd)

**Table 1: Mortgage Rate Offered for Residential Property as at 16 September 2002**

Bank	First Year	Subsequent Years
Malayan Banking Berhad	2.88%	2 <sup>nd</sup> year: BLR + 0% Subsequent years: BLR + 0.60%
Public Bank Berhad	2.80%	2 <sup>nd</sup> year: BLR + 0% Subsequent years: BLR + 0.60%
RHB Bank Berhad	2.80%	2 <sup>nd</sup> year: BLR + 0.25% Subsequent years: BLR + 0.60%
Hong Leong Bank Berhad	2.38%	2 <sup>nd</sup> year: BLR + 0% Subsequent years: BLR + 0.60%
Affin Bank Berhad	4.75%	2 <sup>nd</sup> year: 4.75% Subsequent years: BLR + 1.00%

*Source: Various Banks*

The young demographic profile of the country indicates that the demand for affordable residential houses will remain firm in the next few years. The population with the age between 20 and 40 is close to 8 million or 33% of the population. This age group is likely to buy their first house. Therefore, the demand for affordable residential properties is expected to remain strong, particularly in the developed town areas. The key success factor is having strategically located land banks, right marketing mix and good property management expertise.