REPORT AND VALUATION

ON

MARKET STUDY
ON
RETAIL, OFFICE, AND
HOTEL PROPERTY SECTORS
IN
KUALA LUMPUR

PREPARED FOR

YTL LAND SDN. BHD.

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PRELIMINARIES

1.0 PRELIMINARIES

1.1 Introduction

YTL LAND SDN. BHD. had in March 2005 commissioned AZMI & CO SDN. BHD. to conduct a market study pertaining to the retail, office and hotel property sectors in Kuala Lumpur in conjunction with the proposed disposal of the Properties by YTL Land Sdn. Bhd. into the Real Estate Investment Trust to be established and listed on the Main Board of Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad).

1.2 Objectives

The purpose of the market study is to ascertain the future scenario of the property market in relation to the retail, office and hotel sectors, after investigating the existing property market conditions and review of the economy and other related indicators affecting the property market.

1.3 Study Approach and Methodology

- Visits have been undertaken to the subject site, surrounding areas and competing developments
- Enquiries have been made, as necessary, to identify major developments in the study area and relevant details pertaining thereto

- Enquiries have been made to check on existing developments in and around the study area to establish matters such as type(s) of development, take-up rates, rental rates achieved and other relevant information
- Enquiries have been made, whenever deemed necessary, to seek information to establish future supply and demand probabilities in the study area
- References have been made to relevant publications, periodicals and news articles including:
  - Property Market Reports
  - Economic Reports
  - Bank Negara Reports
  - Eighth Malaysian Plan
  - Statistics Reports
  - Tourism Reports
  - KL Structure Plan 2020

  Additionally, recourse has been made to our own in-house data, itself gathered from numerous and disparate sources.

1.4 Limitations to Study

So far as has been reasonably possible, information given to us by third-parties has been verified to our satisfaction. Whilst we believe all such information contained within this Report to have been correct at the time of its gathering, we accept no liability or responsibility for any inaccuracy arising therefrom.

This Market Study has been prepared on the basis of current market conditions and on the assumption that there will be no material changes thereof within the foreseeable future. It is prepared upon the instructions of YTL LAND SDN. BHD. and is confidential to such client and its professional advisers. No liability or responsibility to any party or person(s) other than the aforesaid Client is recognised or accepted by us or by any associated company or representative.

ECONOMIC FACTORS
&
PROPERTY MARKET OVERVIEW

2.0 ECONOMIC FACTORS & PROPERTY MARKET OVERVIEW

2.1 The National Economy

1995 – 2000

For most of the early 90's, Gross Domestic Product (GDP) grew at an average of over 8.6% per annum. In the mid-nineties, the performance of the Malaysian economy was even more robust. The manufacturing and construction sector had enjoyed double-digit growths between 1995 until 1998, when recession caused both these sectors to register double-digit negative growths. Growth in the construction sector in the early 90's was supported not only by 'traditional' property developments but also by implementation of ongoing and new infrastructure projects. During this period, the impetus to growth was the manufacturing sector, which accounted for 33% of the nation's GDP. However, in 1999, the manufacturing sector's share of the GDP fell to 30% whilst the services sector accounted for a substantial 54% of the GDP up from 44% in 1995.

The country's sustained economic success caused a surge in direct investments by foreign multi-nationals competing for a share in the booming Malaysian domestic consumer market, while Malaysian companies aware of their own relatively small home base sought overseas expansion. In 1995, foreign investments was at RM9,143 million which by 1996 almost doubled to RM17,056 million. In 1999, however, investments fell to only RM12,274 million, a reflection of global economic uncertainties especially in the US. Annual per capita income rose from RM10,068 in 1995 to RM12,305 in 1999 or an average growth of 5.0% per annum.

2000 – 2005

The slow-down of the global economy and attacks on the US had a substantial impact on the nation's economy in 2001. The Government's quick intervention with pre-emptive packages to stimulate domestic demand, introduced in 2001, helped prevent a prolonged and deeper economic slowdown in Malaysia. Since 2002, the nation has been enjoying strong growths of the GDP of between 4.1% and 7.0%.

GDP in Constant Price (1987 = 100)

Year	RM (Million)	%Growth	% Share of GDP	
			Manufacturing	Services
1995	166,625	9.8%	33.1%	44.3%
1996	183,292	10.0%	34.2%	44.7%
1997	196,714	7.3%	35.7%	44.8%
1998	182,237	-7.4%	27.9%	55.5%
1999	193,422	6.1%	29.4%	55.0%
2000	210,557	8.9%	31.9%	53.9%
2001	211,227	0.3%	30.0%	56.9%
2002	219,988	4.1%	29.9%	58.1%
2003	231,675	5.3%	30.8%	57.6%
2004	248,040	7.1%	31.6%	57.4%
2005 (f)	262,922	6%	32.2%	56.9%

(Source: Bank Negara Malaysia)

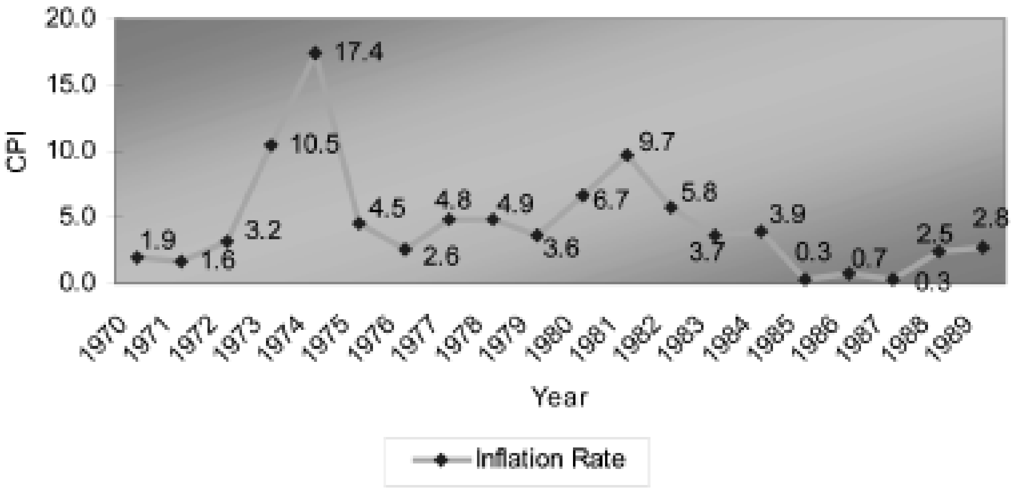
The manufacturing sector's contribution to the GDP in 2004 is now at 32% whilst the services sector contributes about 57% to the GDP. This shows that the services sector, which includes retail, hotel trade and the finance, insurance, real estate sub-sectors now accounts for a major share of the Malaysian economy. **The services sector has been growing at an average rate of 7% per annum since 1995**.

2.1.1 Inflation

1996 – 2006

The rate of inflation as measured by the Consumer Price Index showed significant incremental in 1998 following the depreciation of the Ringgit since mid-1997. The slowdown of the economy also caused the employment situation to deteriorate, which saw unemployment rates increased to 3% in 1998 from 2.6% in 1997. Before the financial crisis, the CPI has been on a downward trend since 1996 but the onset of the financial crisis saw inflation rise to 5.3% in 1998, the highest rate since 1982.

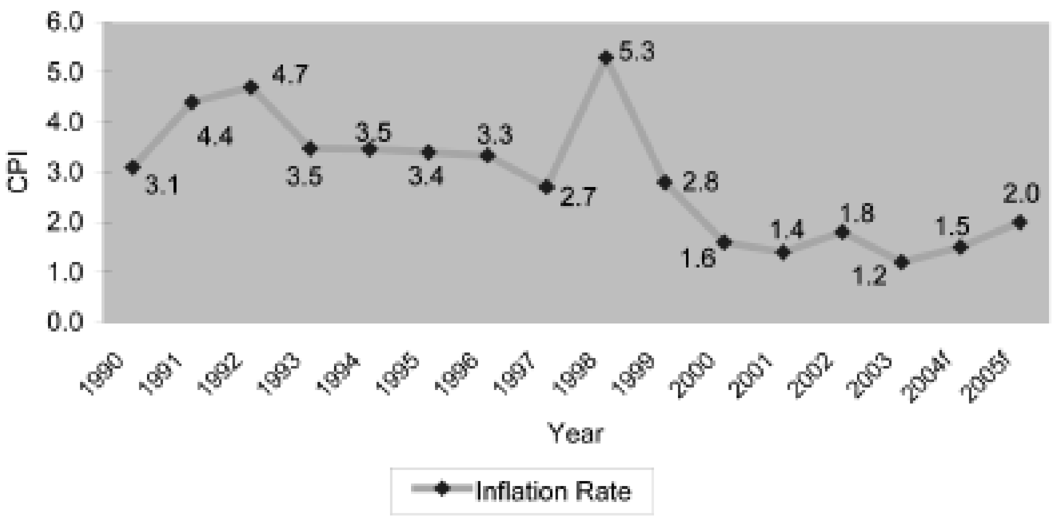
Inflation Rate in Malaysia 1970-1989



(Source: Economic Reports, Bank Negara Malaysia)

Between 2000 and 2004, however, inflation has been kept low to between 1.2% and 1.8% given the weak external environment of the early 2000's. However, the pick-up in economy of advanced countries in 2004 and 2005 will put pressure on inflation and it is projected inflation to be around 2.0% in 2005 and 2.5% in 2006. **This inflation rate is still very much below the historical 10-year rates of 1970's, 1980's and most of the 1990's.**

Inflation Rate in Malaysia
1990-2005 (f)



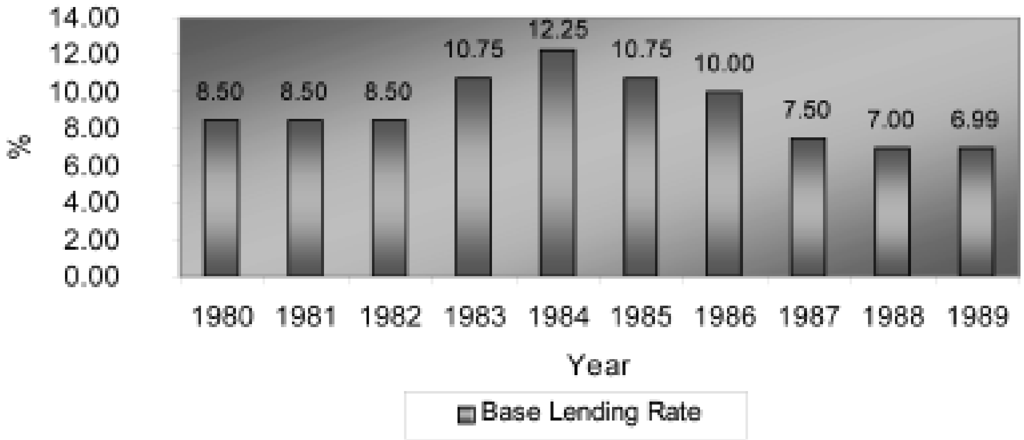
(Source: Economic Reports, Bank Negara Malaysia)

2.1.2 Base Lending Rate (BLR)

<u>1980 - 2004</u>

From the high 12.25% in 1984, the BLR at 5.98% in 2004 is at the lowest rate since the last 24 years. In 1999, the BLR was at 6.79%, down by 16% from the previous year and consequently in that year, loans to the residential property sector increased by 71% from RM29,891 million (1998) to RM51,123 million in 1999.

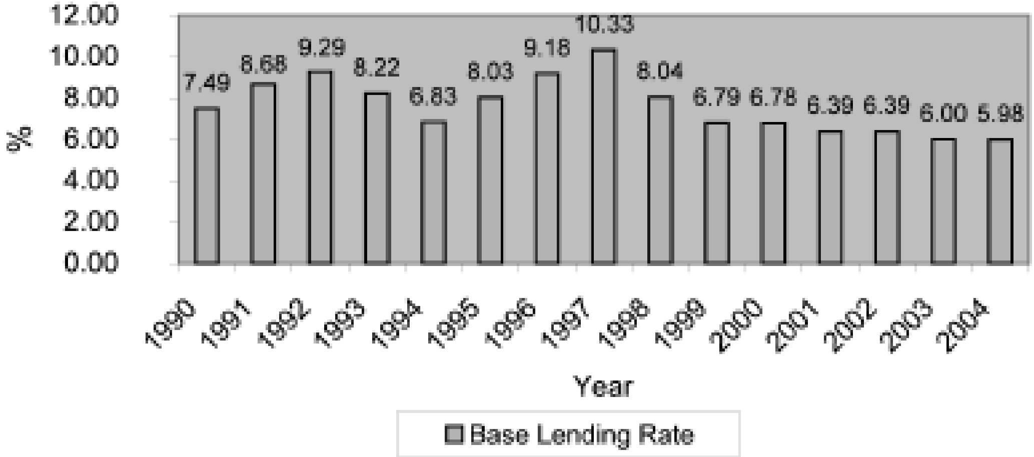
Base Lending Rate (BLR)
1980 - 1989



(Source: Economic Reports, Bank Negara Malaysia)

Since 2000, commercial banks have extended loans to the residential sector at a growth rate of 6% per annum over the last 4 years until 2004.

Base Lending Rate (BLR)
1990 - 2004



(Source: Economic Reports, Bank Negara Malaysia)

Housing Loan by Commercial Banks

2000 - 2004

Year	Housing Loans (RM Million)	% Growth
2000	61,773	20.8
2001	73,925	19.7
2002	87,094	17.8
2003	68,840	21.0
2004	78,158	13.5
2000 - 2004		**6.0%**

(Source: Bank Negara Malaysia)

The low interest rates will provide the stimulus to steady growth in the next year and this will contribute to the sustained performance of the property market.

2.2 Property Market Overview

The overall property market continued to perform well in the first half of 2004. The Budget 2004 reaffirmed the Government's position as the driver of the property industry. A total of RM13.80 billion was allocated to the economic, infrastructure, and industrial sectors.

On the investment front, ample liquidity and prevailing low interest rates effectively supported the financing needs of the private sector. Loan disbursements increased further by 2.9% during the second quarter to RM492.77 billion, consisting of RM197.39 billion (40%) to the property sector and 295.38 billion (60%) to the non-property sector, registering 2.5% and 3.1% increases, respectively, from the first quarter. The higher loan disbursements to business remain broad based, mainly to the manufacturing sector, the wholesale and retail trade, restaurants and hotel sector, and the finance, insurance and business services sector. Lendings to the property sector increased across the board – for purchases of residential property (2.5%), non-residential property (2.4%) and construction work (1.7%). Lendings to construction work noted a 1.7% decrease for the construction of industrial buildings and factories, although units that started construction during the period recorded a 5.7% increase (406 units) in volume from the second half of 2003 (384 units).

The property sector was bullish, due to the stronger Malaysian economic performance, accommodative financial policy and supportive Government policies and measures. Against the first half of 2003, all sub-sectors registered growths of between 14.0%-38.6% in the volume and 29.9%-77.9% in the value of transactions. The residential property sub-sector recorded growths of 15.9% and 29.9%, in the volume and value of transactions, respectively, while other sub-sectors grew as follows: commercial property by 31.7% and 64.7%, agricultural by 28.5% and 77.9% and development land by 38.6% and 42.4%.

Market activities continued to improve when compared to the second half of 2003 at 4.8% and 19.2% in the volume, and value, of transactions, respectively. The expansion was driven by the agricultural and development land sub-sectors, which recorded increases of 13.1% and 19.1%, respectively, in the volume of transactions and increases of 50.9% and 40.8%, respectively, in the value of transactions. Commercial and residential sub-sectors increased by 6.9% and 1.8%, respectively, in the volume of transactions and 26.9% and 7.1%, respectively, in the value of transactions. The industrial sub-sector performed moderately as showed by a slight increase of 1.7% in the volume of transactions but grew substantially by 19.8% in the value.

Analysis by State showed that all States recorded positive growths in the volume of transactions, with major States of Kuala Lumpur and Selangor registering 28.7% and 0.6% growths, respectively (Source: JPPH – Property Market Report, First Half 2004).

RETAIL MARKET OVERVIEW

3.0 RETAIL MARKET OVERVIEW

The overview of the retail market will commence with a look at the performance of the retail indicators, which influence upon the retail market. This is followed by the overview of the retail property sector.

3.1 Retail Indicators

3.1.1 Retail Sales

1995 – 1999

Between 1994 and 1997, growth of retail sales in Malaysia has been high from 7% to 10% annual growth, with the total value of retail sales peaking to RM46.5 billion in 1997. The recession of 1998 led to the poor performance of the Malaysia retail trade, which contracted to a –20% in that year. However the following year, retail sales made a very strong recovery and registered a 7% growth and witnessed retail sales of RM39.9 billion from RM37.2 billion the previous year.

Retail Sales Malaysia

1994 – 2005 (e)

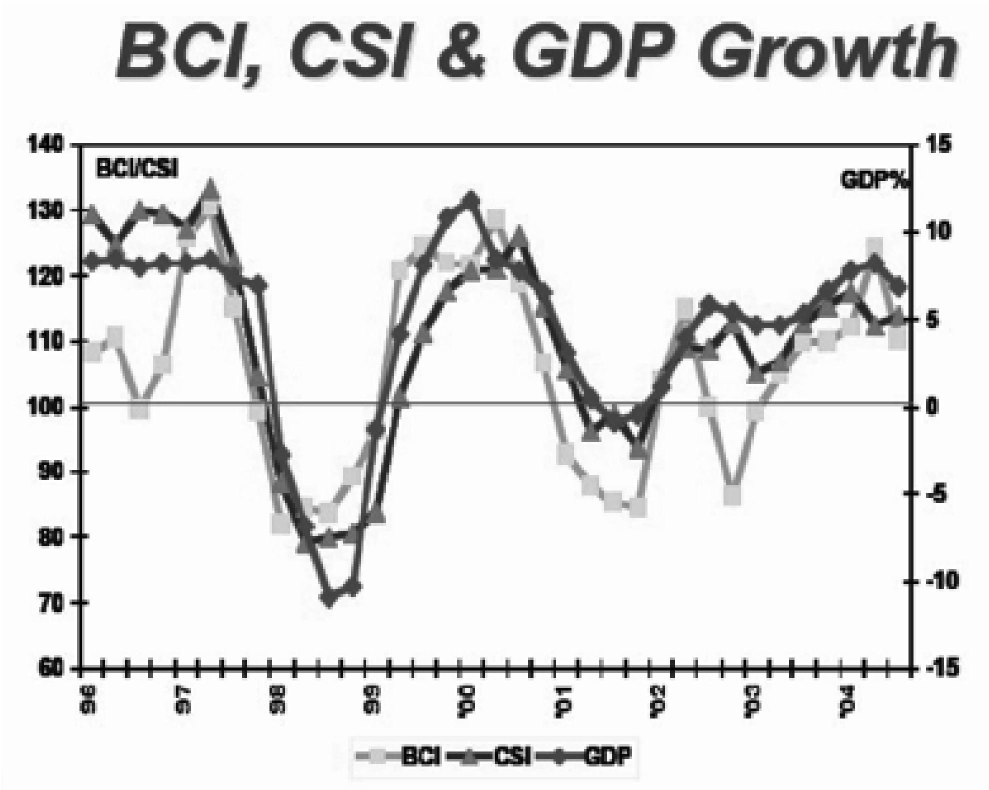
Year	Retail Sales Growth Rate (%)	Retail Sales (RM in Billion)
1994	8.0	36.1
1995	10.1	39.7
1996	9.4	43.4
1997	7.0	46.5
1998	-20.0	37.2
1999	7.4	39.9
2000	10.4	44.1
2001	1.7	44.8
2002	3.0	46.2
2003	3.6	47.8
2004	8.0	51.7
2005 (e)	7.0	55.3

Note: (e)=estimate
(Source: Retail Group Malaysia)

<u>2000 – 2004</u>

In 2003, the total value of retail sales was at RM47.8 billion. The retail industry suffered set-backs in 2003 from a weak economy, the outbreak of SARS, the Iraq war and threats to security. In spite of these, the retail sales achieved its highest since 1994.

In 2004, the performance of the retail trade continued to be robust due to rising disposable income, changing preferences of consumers, higher tourist arrivals and strong performance of the Malaysian economy. Between 2000 and 2005, the retail sales growth averaged 5% per annum. **Over a longer period of 1994 to 2005, the retail sales growth averaged 4% per annum.**



(Source: MIER)

3.1.2 Tourist Arrivals and Expenditure

<u>1995 – 1999</u>

Tourist arrivals during this period increased by only 6% due to the recession of 1998. Tourism receipts rose by 34% from RM9,175 million in 1995 to RM12,321 million in 1999 or an average of 8% per annum. Tourist spending on food and shopping accounted for between 38% and 41%, whilst shopping alone accounted for between 20% and 23%. Tourist receipts from shopping alone amounted to RM2,800 million in 1999 or an average of RM400 per person.

Tourist Arrivals and Receipts
1995 – 2004

Year	Tourist Arrivals	Growth	Receipts from Tourism (RM Million)	Growth
1995	7,468,749	4%	9,175	11%
1996	7,138,452	-4%	10,354	13%
1997	6,210,921	-13%	9,670	-7%
1998	5,550,748	-11%	8,580	-11%
1999	7,931,149	43%	12,321	44%
2000	10,221,582	29%	17,355	41%
2001	12,775,073	25%	24,222	40%
2002	13,292,010	4%	25,781	6%
2003	10,576,915	-20%	21,291	-17%
2004	15,703,406	48%	30,000 (e)	41% (e)

Note: (e)=estimate
(Source: MIHR, Tourism Malaysia)

<u>2000 – 2004</u>

Tourist arrivals soared 54% from 10.221 million in 2000 to 15.703 million in 2004. The estimate for 2004 for tourism receipts is expected to be around RM30,000 million which translates to a 73% incremental from RM17,335 million in 2000. Even though tourist arrivals fell by 20% in 2003 due to SARS and the Iraq war, arrivals recovered the following year. **Since 2000, the average growth of tourist arrivals is at 10.5% per annum, whilst tourism receipts are at an estimated 15% per annum.**

Tourist Expenditure
1995 - 2004

Year	Total Revenue (RM Million)	Growth	Shopping	Growth	Food & Beverage	Growth
1995	9,175	20%	21%	2%	18%	1%
1996	10,354	4%	20%	1%	18%	0%
1997	9,670	-1%	22%	2%	19%	1%
1998	8,580	0%	23%	1%	17%	-2%
1999	12,321	44%	23%	0%	18%	1%
2000	17,355	41%	23%	0%	20%	2%
2001	24,222	2%	21%	-2%	17%	-3%
2002	25,781	2%	21%	0%	19%	2%
2003	21,291	3%	21%	0%	16%	-3%
2004	30,000 (e)	41%	23%	2%	18%	2%

Note: (e)=estimate
(Source: MIHR, Tourism Malaysia)

Tourist spending on shopping is between 21% and 23%, whilst spending on both shopping and food accounts for between 37% and 43%. In 2000, tourism receipts from shopping was RM4,000 million or RM390 per person. It is forecasted that in 2004, tourism receipts from shopping will almost double to RM6,900 million or RM440 per person. This means that since 2000, tourist receipts from shopping have been increasing at about 3% per annum. **Over the last 9 years from 1995, the annual growth of tourists is at 8.5%, whilst tourism receipts have grown at an average of 14% per annum.**

3.1.3 Economic Performance and Consumer Sentiments

1995 – 1999

The economic performance affects the retail industry where significant growth of the economy gives rise to higher disposable income and stronger consumer sentiments. The same holds for the reverse. Between 1995 and 1997 when GDP was at a high of 9.8% - 10% to 7.3% (in 1997), the Consumer Sentiment Index (CSI) peaked to above 130 points. In 1998, when the economy was at a recession and GDP was –7.4%, the CSI correspondingly fell to –80 points.

2000 – 2004

The strong economic recovery in 2000 saw GDP surged to 8.9%, which also witnessed the CSI rebound from negative sentiments in 1998 and 1999 to above 120 points. This, however, did not hold beyond the year. The GDP growth of 0.3% in 2001 saw the CSI dip again to a –50 points. The performance of the economy has, therefore, a direct impact on consumer sentiments and ultimately the retail industry.

(Source: MIER)

For the year 2004, the third quarter registered a strong CSI of 113 points against a robust GDP growth forecast of 7.1%. The moderate GDP growth forecasted for 2005 and 2006 is likely to reflect the moderate growth for the retail industry during these years. **Retail Malaysia Association forecasted that retail sales growth in 2005 is likely to be around 7% slightly below 8% growth in 2004, in tandem with the slower economic growth forecasted for this year.**

3.1.4 Population and Employment in Kuala Lumpur

The economic catchment of Kuala Lumpur encompasses the whole country not only because it is the capital city but is also an international business centre and is located in the most industrialised and fastest growing region in the country.

1991 – 2000

Kuala Lumpur achieved a commendable GDP growth rate of 4.2% p.a. between 1995 and 2000 compared to the national GDP growth rate of 4.7% p.a. during that period. The per capita GDP for Kuala Lumpur registered a growth rate of 6.1%, increasing from RM22,799 to RM30,727 during the same period. In comparison to Malaysia, the per capita GDP for Kuala Lumpur is more than twice that of the national average. The rate of growth of the Kuala Lumpur GDP per capita at 6.1% between 1995 and 2000 is almost at the same growth rate of the national's per capita GDP, which was at 6.3% for that period.

Gross Domestic Product (GDP)
1995 – 2000

Area	GDP (RM Million)		Average Annual Growth Rate (%)
	1995	2000	
Kuala Lumpur	21,157	25,968	4.2
Malaysia	166,625	209,269	4.7

(Source: Eighth Malaysia Plan)

In 1991, the city centre's population was 1,262,000 and based on the Kuala Lumpur Structure Plan 2020, the population in 2000 was estimated at 1,423,900, which is a 13% incremental over 9 years or a 2% growth per annum.

Per Capita Gross Domestic Product (GDP)
1995 – 2000

Area	Per Capita GDP (in RM million)		Average Annual Growth Rate (%)	Ratio of Per Capita GDP to Malaysia Average	
	1995	2000		1995	2000
Kuala Lumpur	22,799	30,727	6.1	2.12	2.11
Malaysia	10,756	14,584	6.3	1.00	1.00

(Source: Eighth Malaysia Plan)

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Against this, the employment in 2000 is estimated at 838,400. **The average growth rate of the population in the city centre between 2000 and 2020 is projected to be at 2.2% per annum whilst the employment growth is projected to grow at 2.6% per annum.** City Hall targets that by 2020 the city centre will have a population of 2,198,400 with an employment base of 1,419,600. The employment to population ratio for Kuala Lumpur in 2000 is 59%. The Kuala Lumpur Structure Plan 2020 projects that between 2000 and 2020, new employment created will be 581,200 persons. By 2020, the ratio of employment to the city's population is estimated to be at 64%.

Kuala Lumpur Population and Employment
2000 – 2020

Socio-Economic Parameter	2000	2020	Average Annual Growth Rate 2000 – 2020
Population	1,423,990	2,198,400	2.2%
Employment	838,400	1,419,600	2.6%
Employment / Population Ratio	59%	64%	

(Source: Department of Statistics)

The distribution of employment in the city who are employed in the "fibre" (finance, business, insurance, real estate) sub-sector, which are the major users of purpose-built office space, is at 24% of the city's total employment. In 2000, the employment in the "fibre" sub-sector was 202,800. **By 2020, based on a projected employment of 1,419,600, the "fibre" sub-sector is estimated to have an employment of 340,700 (24% of total employment) in the city. The next largest employment sector for Kuala Lumpur in year 2000 is the wholesale, retail, hotel and restaurant sub-sector, which employs 17% of the city's employees at 144,400. By 2020, it is estimated that this sub-sector will have an employment of 241,000, which reflects a growth rate of 3% per annum.**

Distribution of Employment by Major Sectors in Kuala Lumpur

Sectors	Kuala Lumpur	
	('000)	%
Primary	**9.0**	**1.1**
Secondary	**131.3**	**15.7**
Manufacturing	88.1	10.5
Construction	43.2	5.2
Tertiary	**698.1**	**83.3**
Utilities	24.1	2.9
Wholesale & retail trade, restaurant & hotel	144.4	17.2
Transport, storage and communications	66.5	7.9
Finance, insurance, real estate and business services	202.8	24.2
Personal services	125.7	15.0
Government services	134.6	16.1
Total Employment	**838.4**	**100**
Population	1,423,900	
Employment/Population Ratio	0.59	

(Source: Eighth Malaysia Plan)

3.2 Retail Property Market

3.2.1 Retail Property Location

Retail supply from shopping centres in Kuala Lumpur can be divided into 3 different locations i.e. the GT (Golden Triangle), CBD (Central Business District) and DA (Decentralised Areas). GT area is bounded by Jalan Sultan Ismail, Jalan Raja Chulan and part of Jalan Ampang. CBD area represents the old part of the city which includes China Town, Jalan Tuanku Abdul Rahman, Jalan Raja Laut, Jalan Pudu and Jalan Pahang, whilst DA covers suburban of Kuala Lumpur includes Damansara, Petaling Jaya, Subang Jaya, Shah Alam and Putrajaya.