Shamsir Jasani Grant Thornton

Chartered Accountants

REPORTING ACCOUNTANTS' LETTER ON THE PROFIT PROJECTIONS FOR THE FINANCIAL YEARS ENDING 31 DECEMBER 2008 AND 2009

Date: 18 October 2006

The Board of Directors
Hektar Asset Management Sdn. Bhd.
("Hektar Asset Management")
Block A-2-4, Plaza Damas
No. 60, Jalan Sri Hartamas 1
Sri Hartamas
50480 Kuala Lumpur

Dear Sirs,

We have reviewed the profit projections of Hektar Real Estate Investment Trust ("Hektar REIT") for the financial years ending 31 December 2008 and 2009 as set out in the accompanying statement (which we have stamped for the purposes of identification) in accordance with the Standard on Auditing (AI 3400: the Examination of Prospective Financial Information) applicable to the review of projections. The profit projections have been prepared for the purpose of inclusion in the Prospectus to be dated 15 November 2006 in connection with the following transactions: -

i. Establishment of Hektar REIT principally involves the establishment of a real estate investment trust to acquire and invest in income-producing real estate in Malaysia which is primarily used for retail purposes with a view to provide Unitholders with distribution of income and potential capital growth.

   a) Issuance of the promoter's units

      In conjunction with the Establishment of Hektar REIT, 1,000 units issued to the Manager at RM1.00 per unit;

   b) Appointment of Hektar Asset Management as the manager of Hektar REIT; and

   c) Appointment of AmTrustee Berhad as the trustee of Hektar REIT

ii. Acquisitions of Subang Parade and Mahkota Parade ("Acquisitions of the Subject Properties") for a total purchase consideration of RM512,000,000. The Acquisitions of the Subject Properties are to be financed by part proceed from the public offering of RM167,500,000, issuance of 160,500,000 units at an issue price of RM1.00 per unit and borrowings of RM184,000,000.

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Vendors	Subject Properties	Considerations RM
Hektar Premier Sdn. Bhd. ("HPSB")	Subang Parade (as defined in the prospectus)	280,000,000
Hektar Black Sdn. Bhd. ("HBSB")	Mahkota Parade (as defined in the prospectus)	232,000,000

iii. Public offering of 159,500,000 units in Hektar REIT for subscription which comprise of the following:-

- 10,000,000 units available for application by the Malaysian public at the retail price of RM1.05 per unit under the retail offering;
- 6,000,000 units available for application by eligible employees, directors and business associates of Hektar Group at the retail price of RM1.05 per unit under the retail offering; and
- 143,500,000 units available for application by institutional and selected investors at an illustrative institutional price of RM1.11 per unit under the institutional offering.

The final retail price will equal the lower of:-

(a) the retail price of RM1.05 per unit; or

(b) 95% of the institutional price, subject to rounding adjustments.

iv. Listing of 320,001,000 units in Hektar REIT on the Main Board of Bursa Malaysia Securities Berhad which includes the units highlighted in Note (i), (ii) and (iii) above.

The projections have been prepared for the above purposes and should not be relied on for any other purposes.

Our review has been undertaken to enable us to form an opinion as to whether the profit projections are, in all material aspects, properly prepared on the basis of the assumptions made by the Directors of Hektar Asset Management and are presented on a basis consistent with accounting policies to be adopted by Hektar REIT and complies with generally accepted accounting principles. The Directors of Hektar Asset Management are solely responsible for the preparation and presentation of the profit projections and the assumptions on which the profit projections are based.

Projections, in this context, mean prospective financial information prepared on the basis of assumptions as to future events which Hektar Asset Management expects to take place and the actions which Hektar Asset Management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which the projections are based, such information is generally future oriented and therefore uncertain.

Shamsir Jasani Grant Thornton

We should emphasis that the projections cover an extended future period of time for which there are inherent risks and, therefore, should be treated with caution. Due to the extended period of time, there is an inherent limitation on the ability of the Directors of Hektar Asset Management to make best-estimate assumptions. The Directors of Hektar Asset Management in preparing the projections have, therefore, out of necessity, based them on assumptions of future events and actions which are not necessarily expected to take place. Thus, actual results are likely to be different from the projections since anticipated events frequently do not occur as expected and the variation could be material. The profit projections cannot be regarded as profit forecast and accordingly, we do not express any opinion as to whether the profit projections will be achieved nor can we guarantee or confirm the achievement of those results.

Subject to the above:-

(i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors of Hektar Asset Management, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the profit projections; and

(ii) in our opinion, the profit projections, so far as the calculations are concerned, are properly prepared on the basis of the assumptions made by the Directors of Hektar Asset Management and are presented on a basis consistent with applicable approved accounting standards to be adopted by Hektar REIT as disclosed in Note 18 of Appendix I.

Yours faithfully,

SHAMSIR JASANI GRANT THORNTON
NO. AF: 0737
CHARTERED ACCOUNTANTS

DATO' N. K. JASANI
NO: 708/03/08(J/PH)
PARTNER

Member of Grant Thornton International

Appendix I

Hektar Real Estate Investment Trust ("Hektar REIT")

The Directors of Hektar Asset Management project that in the absence of unforeseen circumstances, the net income after taxation of Hektar REIT for the financial years ending 31 December 2008 and 2009 will be as follows:

	2008 RM'000	2009 RM'000
Revenue	70,236	72,247
Net income before taxation	28,829	29,713
Taxation	-	-
Net income after taxation	28,829	29,713

The principal bases and assumptions made by the Directors of Hektar Asset Management upon which the profit projections have been prepared are set out below:

Revenue

1. Rental income is recognised in the income statement when it accrues and it is based on the assumption that there is no forfeiture of existing tenancy agreements and that all of the tenancy agreements expiring in the projections years will be renewed upon expiry. Rental income is derived based on projected average occupancy rate of approximately 99% for Subang Parade and Mahkota Parade for the financial years ending 31 December 2008 and 2009.

2. The tenancy agreements are generally committed for a period of 3 years. Upon expiry of existing tenancy agreement, the rental rates are expected to be revised upward ranging from 0% to 15%.

3. Income from casual tenants and exhibition is expected to increase 5% and 3% per annum for the financial years ending 31 December 2008 and 2009 respectively.

4. The operation of beverage concessionaire in Mahkota Parade will be outsourced to HBSB for a proposed rental projected to increase 3% per annum for the financial years ending 31 December 2008 and 2009 based on the computation of 30% per annum of the gross beverage revenue of the beverage concessionaire.

5. Car park collection income is expected to increase 2% per annum for the financial years ending 31 December 2008 and 2009.

Hektar Real Estate Investment Trust ("Hektar REIT")

Direct Costs

6. Assessment and quit rent are projected to remain intact for the projection years.

7. Insurance and utilities are expected to increase 4% per annum for the financial years ending 31 December 2008 and 2009.

8. Pursuant to the property management agreement to be entered into between the Manager and Izrin and Tan Properties Sdn Bhd, the Property Management Company, the marketing and promotion expenses will be incurred by the Property Management Company on behalf of Hektar REIT and will be reimbursed from the Manager. Marketing and promotion expenses are expected to increase 4% per annum for the financial years ending 31 December 2008 and 2009.

9. Pursuant to the property management agreement, the Subject Properties will be managed by the Property Management Company at a fixed operating cost of approximately RM11,691,000 and RM12,294,000 or 16% and 17% of the gross revenue for the financial years ending 31 December 2008 and 2009 respectively, whichever is higher.

10. The property management fee is in accordance with the Valuers, Appraisers and Estate Agent Acts 1981 and will be payable at the following rates based on the property management agreement:-

    Scale based on annual gross revenue:-

    5% of first RM30,000
    3% of residue up to RM100,000
    2% of residue over RM100,000

    A 5% government service tax on the property management fee will be payable.

11. Allowance for doubtful debts of RM100,000 per year is provided for both Mahkota Parade and Subang Parade for the projection years.

Trust Expenses

12. The manager's base fee and performance fee are at rate of 0.25% per annum of the gross asset value and 3.50% per annum of net property income before deduction of property management fee. A 5% government service tax on the base fee and performance fee will be payable.

13. The Trustee's fees are based on 0.035% per annum of the net asset value including the manager's fee. A 5% government service tax on the trustee's fees will be payable.

Hektar Real Estate Investment Trust ("Hektar REIT")

Property Value

14. Hektar REIT will adopt the fair value model stipulated in Financial Reporting Standard ("FRS") 140: Investment Property. Under the fair value model of FRS 140, the fair value of the investment property shall reflect market conditions at the balance sheet date (i.e. the investment property is revalued every year). Any surplus or deficit will be recognised in the current year income statement. The fair value of the Subject Properties as for projection years are assumed to be the same as the purchase consideration.

Borrowings and Borrowings Cost

15. A Murabahah Overdraft facility is expected to be secured to part finance the Acquisitions of the Subject Properties. The profit sharing on the borrowings of RM184 million is at the rate of cost of fund of the lender bank plus 0.75% per annum. The profit rate is assumed at 5.85% per annum. It is assumed that the profit rate will remain at this rate and the facility will be available throughout the projection years.

Other Assumptions

16. The listing scheme and the establishment of Hektar REIT are assumed to be completed in December 2006.

17. The entire projected distributable income for the financial years ending 31 December 2008 and 2009 will be distributed to unitholders. The distributable income excludes the fair value adjustments in the income statements, if any. In accordance with the Income Tax Act, 1967, all distributable income that is distributed to unitholders in the same basis period will not be subjected to tax to Hektar REIT.

18. The profit projections of Hektar REIT have been prepared on a basis consistent with applicable approved accounting standards in Malaysia. The following accounting policies will be adopted by Hektar REIT:-

    (i) Revenue - rental income

    Revenue from rental of properties is recognised on the accrual basis unless collectibility is in doubt, in which case, they are recognised on a receipt basis.

Appendix I

Hektar Real Estate Investment Trust ("Hektar REIT")

Other Assumptions (cont'd)

18. (ii) Expenses

All expenses, including interest and other costs incurred in connection with borrowings, are expensed as incurred.

19. There will be no material contingent liabilities during the projection years which may materially affect the projections. Hektar REIT will not be subjected to any material litigation or proceedings which could have a material adverse impact on Hektar REIT's business, operating results and financial condition.

20. There will be no material changes in present legislation or government regulations which will adversely affect the operations of Hektar REIT.

21. Hektar REIT will not be affected by industrial disputes or any other abnormal factors of changes affecting operations or its planned operations.

22. There will be no adverse economic, political and property market conditions which will materially affect the activities of Hektar REIT.

23. There will be no material changes in the planned accounting, management and operational policies of Hektar REIT.

24. There will be no material changes in the current principal activities, composition and structure of Hektar REIT.

25. There will be no significant changes in the rate of inflation.

Stamped for the purpose of identification on:
18 OCT 2006
Shamsir Jasani Grant Thornton

ERNST & YOUNG Tax Consultants Sdn. Bhd.
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19 October 2006

The Board of Directors
Hektar Asset Management Sdn Bhd
(formerly known as Impiland Sdn Bhd)
Block A-2-4, Plaza Damas
No. 60, Jalan Sri Hartamas 1
Sri Hartamas
50480 Kuala Lumpur

Dear Sirs

TAXATION OF THE REAL ESTATE INVESTMENT TRUST AND UNIT HOLDERS

This letter has been prepared for inclusion in the Prospectus to be dated 15 November 2006 in connection with the offer of units in Hektar Real Estate Investment Trust (hereinafter referred to as "the REIT").

The purpose of this letter is to provide prospective unit holders with an overview of the Malaysian tax implications of the following:

- Taxation of the REIT
- Taxation of Unit holders

TAXATION OF THE REIT

The taxation of the REIT is subject to the provisions of the Malaysian Income Tax Act, 1967 ("MITA"), particularly Sections 61, 61A and 63C which deal generally with the taxation of unit trusts and unit trusts which are approved by the Securities Commission as Real Estate Investment Trusts.

Income of the REIT, where subject to tax, will be taxed at the rate applicable to REITs, which is currently 28%, after making the tax adjustments outlined below. However, pursuant to the Finance Bill 2006, it is proposed that the income tax rate be reduced to 27% effective from Year of Assessment 2007.

In accordance with Section 61A of the MITA, the REIT will be exempt from income tax on the amount of income distributed to unit holders in the basis period for the year of assessment. Therefore, the REIT is only liable to tax on that portion of its total income that is not distributed to unit holders in the basis period. However, pursuant to the Finance Bill

2006, it is proposed that a REIT be exempted from tax on all income provided that at least 90% of their total income is distributed to unit holders in the basis period.

In arriving at its chargeable income, the REIT will be entitled to deduct those expenses which are allowable under the MITA.

Rental income derived from the letting of real property by the REIT is deemed to be a business source of income. In view of this, the REIT is entitled to claim capital allowances on qualifying capital expenditure incurred on plant and machinery used in its business. The REIT will also be entitled to claim industrial building allowances in respect of those buildings that are defined as industrial buildings in the MITA. However, any unutilised allowances or losses arising from the rental source cannot be carried forward to future years nor can these be deducted against the REIT's other sources of income.

Exempt income

As mentioned above, the REIT will not be taxed on income distributed to unit holders in the basis period for the year of assessment.

The REIT may also receive other tax exempt income as follows:

- Dividends

  Tax exempt dividends may be received from investments in companies which had previously enjoyed or are currently enjoying tax incentives provided under the relevant legislations.

- Interest

  (i) interest from securities or bonds issued or guaranteed by the Government of Malaysia;

  (ii) interest from debentures (other than convertible loan stock) approved by the Securities Commission;

  (iii) interest from Bon Simpanan Malaysia issued by Bank Negara Malaysia;

  (iv) interest derived from Malaysia and paid or credited by banks or financial institutions licensed under the Banking and Financial Institutions Act 1989 or the Islamic Banking Act 1983;

(v) interest received from bonds or securities issued by Pengurusan Danaharta Nasional Berhad; and

(vi) interest derived from bonds (other than convertible loan stock) paid or credited by any company listed on the Malaysian Exchange of Securities Dealing and Automated Quotation Berhad (MESDAQ).

- Discount

  With effect from the year of assessment 2006, tax exemption will be given on discount paid or credited to any unit trust in respect of investments as specified in items (i), (ii) and (iii) above.

Foreign income

Dividends, interest and other income derived from sources outside Malaysia and received in Malaysia by a resident unit trust is exempt from Malaysian income tax. However, such income may be subject to tax in the country from which it is derived.

Tax credit

Tax deducted at source from Malaysian dividends received by the REIT will be available for set-off against the tax liability of the REIT. Should the tax deducted at source exceed the tax liability of the REIT, the excess is refundable to the REIT.

Gains from the realisation of investments

Gains from the realisation of investments will not be treated as income of the REIT and hence, are not subject to income tax.

However, gains arising from the disposal of real property or of shares in 'real property companies' [as defined under the Real Property Gains Tax Act, 1976 (RPGTA)] will be subject to real property gains tax under the RPGTA.

Stamp duty on acquisition of real property

The REIT is exempted from stamp duty on all instruments of transfer of real property to the REIT. However, the acquisition of shares in real property companies will be subject to

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The Board of Directors
Hektar Asset Management Sdn Bhd
(formerly known as Impiland Sdn Bhd)
19 October 2006

stamp duty at the rate of 0.3% on the market value or consideration paid for the shares, whichever is the higher.

TAXATION OF UNIT HOLDERS

For Malaysian income tax purposes, unit holders will be taxed on their share of the distributions received from the REIT.

The income of unit holders from their investment in the REIT broadly falls under the following categories:

1. Distributions from income on which the REIT is exempt from tax pursuant to Section 61A, MITA;
2. Distributions from income on which the REIT has been taxed at 28%; and
3. Distributions from non-taxable and other exempt income of the REIT.

In addition, unit holders may also realise a gain from the sale of units.

The income tax implications of each of the above are explained below.

1. Distributions from income on which the REIT is exempt from tax pursuant to Section 61A, MITA

The unit holder will be taxed on the distributions received at the following tax rates.

Unit holders	Malaysian tax rates
Malaysian tax resident:	
• Individual and non-corporate unit holders (such as co-operatives, associations and societies)	• Progressive tax rates ranging from 0% to 28% (Final withholding tax of 15% from 1 January 2007)*
• Trust bodies and institutional investors #	• 28% (Final withholding tax of 15% from 1 January 2007)*
• Corporate unit holders (i) A company with paid up capital in	• For every first RM500,000 of

respect of ordinary shares of not more than RM2.5 million (at the beginning of the basis period for the year of assessment)	chargeable income @ 20% • Chargeable income in excess of RM500,000 @ 28% (27% from the Year of Assessment 2007)*
(ii) Companies other than (i) above	28% (27% from the Year of Assessment 2007)*
Non-Malaysian tax resident (Note):	
• Individual and non-corporate unit holders (such as co-operatives, associations and societies)	• 28% (Final withholding tax of 15% from 1 January 2007)*
• Institutional investors #	• 28% (Final withholding tax of 20% from 1 January 2007)*
• Corporate unit holders	• 28% (27% from the Year of Assessment 2007)*
• Trust bodies	• 28% (Final withholding tax of 15% from 1 January 2007)*

* Proposed reduction pursuant to the Finance Bill 2006.
# This means a pension fund, collective investment scheme or such other persons approved by the Minister of Finance.

2. Distributions from income on which the REIT has been taxed at 28% (or 27% with effect from year of assessment 2007 *)

The amount distributed from the REIT will be grossed up to take into account the underlying tax of the REIT and the unit holder will be taxed on the gross distribution at the following rates. Such distributions carry a tax credit, which will be available for set-off against the tax chargeable on the unit holder.

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19 October 2006

Unit holders	Malaysian tax rates
Malaysian tax resident:	
• Individual and non-corporate unit holders (such as co-operatives, associations and societies)	• Progressive tax rates ranging from 0% to 28%
• Trust bodies	• 28% (27% from the Year of Assessment 2007)*
• Institutional investors #	• Taxed at their own relevant tax rates
• Corporate unit holders (iii) A company with paid up capital in respect of ordinary shares of not more than RM2.5 million (at the beginning of the basis period for the year of assessment)	• For every first RM500,000 of chargeable income @ 20% • Chargeable income in excess of RM500,000 @ 28% (27% from the Year of Assessment 2007)*
(iv) Companies other than (i) above	28% (27% from the Year of Assessment 2007)*
Non-Malaysian tax resident (Note):	
• Individual and non-corporate unit holders (such as co-operatives, associations and societies)	• 28%
• Institutional investors #	• 28% (27% from the Year of Assessment 2007)*
• Corporate unit holders	• 28% (27% from the Year of Assessment 2007)*
• Trust bodies	• 28% (27% from the Year of Assessment 2007)*

* Proposed reduction pursuant to the Finance Bill 2006.
# This means a pension fund, collective investment scheme or such other persons approved by the Minister of Finance.

3. Non-taxable and exempt distributions

Tax exempt distributions made out of gains from the realisation of investments and other exempt income earned by the REIT will not be subject to Malaysian tax in the hands of the unit holders.

Gains from sale of units

Gains arising from the realisation of investments will not be subject to income tax in the hands of unit holders unless they are insurance companies, financial institutions or traders/ dealers in securities.

Unit splits and Reinvestment of distributions

Unit holders may also receive new units as a result of unit splits or may choose to reinvest their distributions. The tax implications of these are as follows:

- Unit splits - new units issued by the REIT pursuant to a unit split will not be subject to tax in the hands of the unit holders.

- Reinvestment of distributions - Unit holders may choose to reinvest their income distribution in new units by informing the Manager. In this event, the unit holder will be deemed to have received the distribution and reinvested it with the REIT.

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We hereby confirm that, as at the date of this letter, the statements made in this report correctly reflect our understanding of the tax position under current Malaysian tax legislation and the related interpretation and practice thereof, all of which are subject to change, possibly on a retrospective basis. We have not been retained (unless specifically instructed hereafter), nor are we obligated to monitor or update the statements for future conditions that may affect these statements.

ERNST & YOUNG Tax Consultants Sdn. Bhd.
(Company No. 179793-K)

The Board of Directors
Hektar Asset Management Sdn Bhd
(formerly known as Impiland Sdn Bhd)
19 October 2006

The statements made in this letter are not intended to be a complete analysis of the tax consequences relating to an investor in the REIT. As the particular circumstances of each investor may differ, we recommend that investors obtain independent advice on the tax issues associated with an investment in the REIT.

Yours faithfully
Ernst & Young Tax Consultants Sdn Bhd

Azhar Lee
Executive Director

Ernst & Young Tax Consultants Sdn. Bhd. has given their consent to the inclusion of their letter as Tax Adviser in the form and context in which it appears in this Prospectus and has not withdrawn such consent prior to the delivery of a copy of this Prospectus for approval.

MIRP

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INDEPENDENT RETAIL PROPERTY MARKET OVERVIEW REPORT

5 October 2006

Hektar Premier Sdn Bhd
Block A-3-4, Plaza Damas
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Malaysia

Hektar Black Sdn Bhd
Block A-3-4, Plaza Damas
No. 60, Jalan Sri Hartamas 1
Sri Hartamas, 50480 Kuala Lumpur
Malaysia

Dear Sirs,

HEKTAR REIT - INDEPENDENT MARKET OVERVIEW

As requested, we have prepared an Independent Retail Property Market Overview for the purpose of inclusion in the Prospectus to be issued in connection with the initial public offering of units in the Hektar Real Estate Investment Trust (Hektar REIT), and the listing of Hektar REIT on Bursa Malaysia.

This report contains economic overviews of Malaysia, Selangor and Malacca, as well as overviews of the retail market in the Klang Valley and Malacca. An independent review of the Hektar REIT properties – Subang Parade and Mahkota Parade shopping centres – was also carried out.

Our report has been based upon information available as at 22 June 2006, and updated again on 5 October 2006. Its findings are detailed in the following pages.

MIRP Consult Sdn Bhd

Tina Leong Siew Mun
Research Director

Cheah Chong Liang
Executive Director

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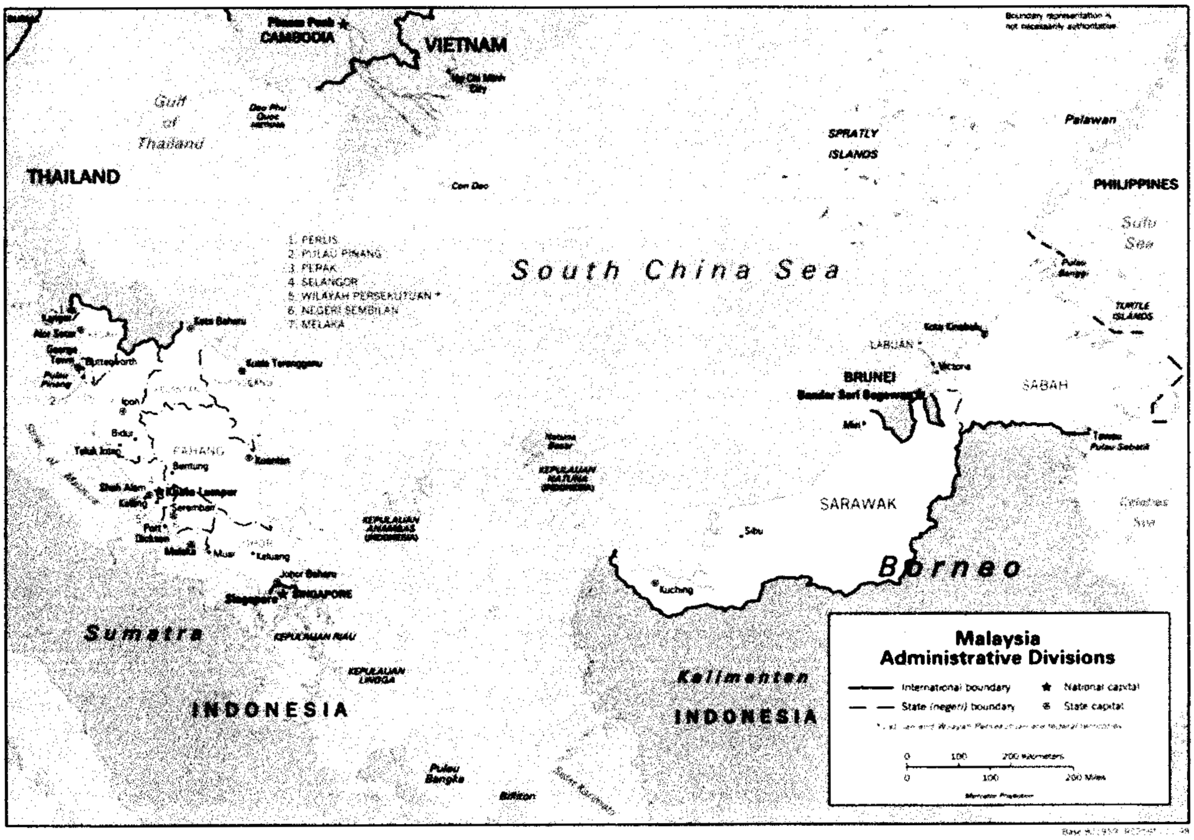
SECTION 1: OVERVIEW OF THE MALAYSIAN ECONOMY

1.1 Introduction to Malaysia – Geography, Brief History and Government

Map 1: Malaysia and the Region



Malaysia occupies a land area of 330,252 sq km and consists of West (Peninsular) Malaysia and East Malaysia, as shown on Map 1. West Malaysia borders Thailand in the north and in the south, it borders Singapore, separated by the Straits of Malacca.

A former British colony, the Federation of Malaya became independent in 1957. Malaysia was formed in 1963, consisting of Peninsular Malaysia, Singapore and the East Malaysian states of Sabah and Sarawak. Singapore left the federation in 1965 but has remained one of Malaysia's major trading partners.

Malaysia has a population of 26.9 million, of which the Malays and other Bumiputeras constitute a majority of 61%, followed by the Chinese at 24.5%, Indians at 7% and other races, 1%. Non-citizens account for 6% of the population.

Although Malaysia is a federal constitutional monarchy, the functions of the king are now purely ceremonial. Executive power is vested in the Cabinet, led by the Prime Minister. The Cabinet is chosen from among members of both houses of parliament. This consists of a non-elected Upper House of Parliament (the Senate or Dewan Negara) with 70 seats, and a Lower House (the Hall of the People or Dewan Rakyat) with 219 elected seats.

The country's governing coalition Barisan Nasional (BN) has held power since independence. The coalition consists of Malaysia's predominant political party, the United Malays National Organisation (UMNO); the Malaysian Chinese Association (MCA); the Malaysian Indian Congress (MIC), and a number of other smaller parties. This political majority has given BN the free hand to restructure the former agrarian economy to one that is diversified and relatively prosperous, securing it the commendable position of an emerging tiger in the1990s.

1.2 Current Economic Policy and the 9th Malaysia Plan

The current government under Datuk Seri Abdullah Badawi, has focused on providing infrastructure and an enabling environment for businesses to compete globally. This involves laying out a reform agenda to fight corruption, improve the delivery of government services, reducing red tape, improving efficiency and lowering the cost of doing business. Efforts are also being made to limit broader fiscal risks by reforming government-linked corporations (GLCs).

Malaysia's most recent five-year development plan, the 9^{th} Malaysia Plan (2006-2010) unveiled in March, embodies these objectives and sets out a blueprint in line with the country's vision of attaining developed nation status by 2020. It targets an average growth of 6% per annum between 2006 and 2010.

The development budget for the 9^{th} Malaysia Plan was increased to RM200 billion for the next five years, representing a growth of 17.6% from the RM170 billion allocated for the previous period, with an additional RM20 billion anticipated to come from private sector initiatives. Sectors that received the biggest allocations are education, infrastructure and utilities. A major departure from past plans is the reduced emphasis on mega projects and the focus on smaller scale infrastructural projects that have a higher multiplier effect. Another thrust is the development of human resources or human capital through education, to make Malaysians more competitive globally.

In an attempt to diversify sources of growth, which has emanated largely from the manufacturing and services sectors, the agriculture sector will also be revitalised as the third engine of growth, with emphasis on modernisation and promotion of large scale commercial farming and biotechnology. In the services sector, information communications technology, the financial sector (including Islamic banking), education, tourism and health services have been identified as new areas of growth.

1.3 Historical Economic Performance

Table 1: East Asia and Selected Countries – GDP and GDP Per Capita, 2004

Countries	GDP US$ billion	GDP International dollars, PPP billions	GDP per Capita International dollars, PPP
China	1,649.3	7,123.7	5,530.0
Korea	679.7	980.7	20,400.0
Singapore	106.8	118.2	26,590.0
Hong Kong	163.0	210.7	31,510.0
Malaysia	**117.8**	**246.0**	**9,630.0**
Thailand	163.5	510.3	8,020.0
Indonesia	257.6	779.7	3,460.0
Japan	4,623.4	3,744.1	30,040.0
Australia	631.3	605.9	29,200.0
United Kingdom	2,140.9	1,832.3	31,460.0
United States	11,667.5	11,628.1	39,710.0

Source: World Bank Development Indicators 2005, UrbisJHD Pty Ltd

Note: The purchasing power parity (PPP) is one of the indicators used to compare the standard of living between countries as it takes into account the differences in wages and cost of living. An international dollar has the same purchasing power over GDP, as a US dollar has in the United States.

Malaysia's economy was valued at International $246 billion adjusted for Purchasing Power Parities (PPP) in 2004.

The country is classified as an upper middle income country by the World Bank. Its' PPP adjusted GDP per capita amounted to US$9,630 in 2004, ranking it ahead of Thailand, China and Indonesia. In 2005, Malaysia's GDP per capita on a PPP basis, increased to International $10,318.

Table 2: East Asia and Selected Countries – Real GDP Growth, 1988-2005 (%)

Country	Averages 1988-1997	1998-2005	1988-2005	2001-2005	2004	2005	2006f	2007f
China	9.9	8.8	9.4	9.5	10.1	9.9	9.5	9.0
Korea	7.7	4.2	6.1	4.5	4.6	4.0	5.5	4.5
Taiwan	7.0	4.0	5.6	3.1	6.1	4.1	4.5	4.5
Singapore	9.1	4.4	7.0	3.9	8.7	6.4	5.5	4.5
Hong Kong	5.2	3.8	4.6	4.3	8.6	7.3	5.5	4.5
Malaysia	**9.3**	**3.8**	**6.8**	**4.5**	**7.1**	**5.3**	**5.5**	**5.8**
Thailand	8.4	3.0	6.0	5.0	6.2	4.4	5.0	5.4
Indonesia	6.9	2.1	4.8	4.7	5.1	5.6	5.0	6.0
Philippines	3.8	3.8	3.8	4.4	6.0	5.1	5.0	5.6
Japan	2.9	1.0	2.1	1.5	2.3	2.7	2.8	2.1
Australia	3.3	3.5	3.4	3.1	3.6	2.5	2.9	3.2
United Kingdom	2.2	2.7	2.4	2.3	3.1	1.8	2.5	2.7
United States	3.0	3.1	3.1	2.6	4.2	3.5	3.4	3.3

Source: IMF World Economic Outlook 2006

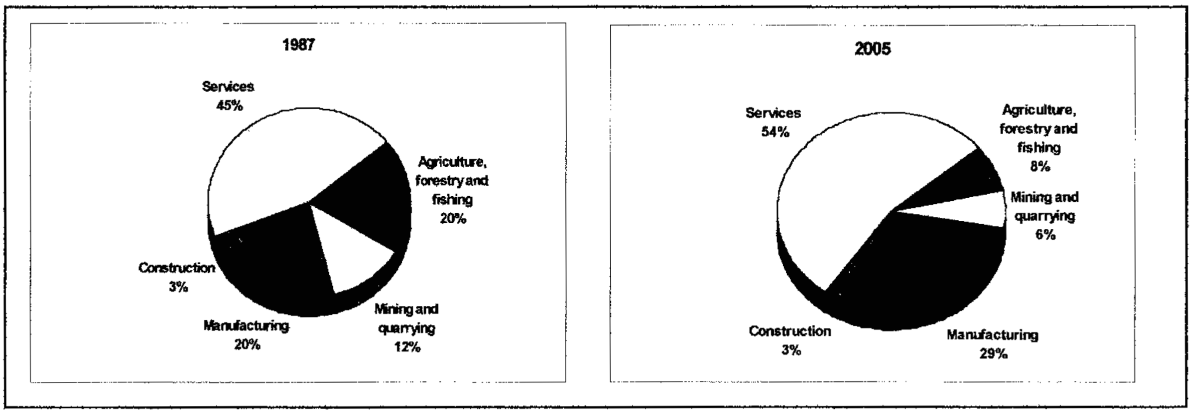
Malaysia's economic growth has been strong, with GDP averaging 6.8% between 1988 and 2005. This is above that achieved by all the countries listed above, except in the instance of Singapore and China.

Growth has largely been driven by the government's policy of attracting foreign direct investments into the manufacturing sector since the 1980s; the implementation of mega-infrastructure projects in the 1990s; and at the turn of the millennium, a combination of strong exports and private domestic consumption.

Malaysia is one of the world's largest trading nations, with exports accounting for 121% of GDP in 2005. Electronics and electrical products in turn, constitute half of exports, at 53% in 2005.

Chart 1 shows the transformation of its economy from 1987 to 2005. Agriculture and manufacturing accounted for a similar share of 20% of GDP in 1987. By 2005, however, agriculture's portion had shrunk to 8% whilst manufacturing's share had increased to 29%. Services' share of GDP also rose, from 45% in 1987 to 54% in 2005.

Chart 1: GDP by Economic Activity, 1987 & 2005



Source: Bank Negara Monthly Bulletins

1.4 Competitiveness

Malaysia improved its competitiveness ranking in 2006, moving up to the 23rd position among 61 economies. According to the World Competitiveness Yearbook Scoreboard compiled by the International Institute for Management Development (Switzerland) (IMD), Malaysia rose from the 28th position registered a year ago. IMD calculates the competitiveness of economies after considering economic performance, government efficiency, business efficiency and infrastructure.

Furthermore, according to the World Economic Forum's Global Competitiveness Index 2006, Malaysia continued to remain the second most competitive country in ASEAN after Singapore.

Malaysia's performance in 2006 is attributed largely to improvements in productivity and efficiency as indicated by its total factor productivity (TFP) which grew by 29% during the Eighth Malaysia plan period (2001-2005), from 24% registered in the previous five-year plan.