
8. IMR REPORT

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Date: 27 June 2023

The Board of Directors

KTI Landmark Berhad
(Formerly known as KTI Property Berhad)

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Dear Sirs/ Madams,

Independent Market Research Report on the Residential Property and Shop Market, Hotel Industry and Construction Industry in Sabah (“IMR Report”)

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD (“SMITH ZANDER”) for inclusion in the draft Prospectus in conjunction with the proposed listing of KTI Landmark Berhad (“KTI Landmark”) on the ACE Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry in which KTI Landmark and its subsidiaries (“KTI Landmark Group”) operate and to offer a clear understanding of the industry dynamics. KTI Landmark Group is a property developer, principally involved in the provision of design and build construction services (i.e. property development activities with focus on residential and commercial (i.e. shops) property in Sabah) and the Group’s own property development activities (i.e. residential, commercial (shops) and mixed development comprising a combined development of high-rise condominiums/serviced apartments, retail space and hotel) in Sabah. KTI Landmark Group’s property development activities are also supported by in-house construction services. Hence, the scope of work for this IMR Report will thus address the following areas:

- (i) The residential property and shop market in Sabah;
- (ii) The hotel industry in Sabah; and
- (iii) The construction industry in Sabah.

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an “overall industry” perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies mentioned in this report or otherwise.

For and on behalf of SMITH ZANDER:



DENNIS TAN TZE WEN
MANAGING PARTNER

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The research for this IMR Report was completed on 6 June 2023.

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About SMITH ZANDER INTERNATIONAL SDN BHD

SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.

Profile of the signing partner, Dennis Tan Tze Wen

Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has 25 years of experience in market research and strategy consulting, including over 20 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

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1 THE RESIDENTIAL PROPERTY AND SHOP MARKET IN SABAH**1.1 OVERVIEW OF SABAH**

Situated on the tip of the island of Borneo, Sabah is the second largest state in Malaysia, covering an area of 73,621 kilometres square. Population in the state of Sabah comprised of 10.39% of Malaysia's population in 2022 with approximately 3.39 million persons. In Sabah, Kota Kinabalu is the most populated district comprising of 14.44% of the total population in Sabah in 2022¹.

Sabah's gross domestic product ("GDP") was recorded at RM78.67 billion in 2021¹, contributing 5.66% to the country's total GDP. In 2020, Sabah's GDP recorded a year-on-year ("YOY") decline of 9.17% from RM85.64 billion in 2019 to RM77.79 billion in 2020 due to the outbreak of the COVID-19 pandemic that had affected economic activities. This stemmed from the mandate of the Government for the temporary closure of operations that had led to a disruption of business and logistics activities. In comparison, Malaysia's GDP was recorded at RM1.35 trillion in 2020, a YOY decline of 4.93% from RM1.42 trillion in 2019. Nevertheless, the country's economy recorded a healthy recovery of 2.96% to RM1.39 trillion in 2021 and had further recovered in 2022 by 8.63% to RM1.51 trillion. Whereas Sabah's GDP recovered by 1.13% to RM78.67 billion in 2021. Between 2018 and 2022, Malaysia's GDP recorded a compound annual growth rate ("CAGR") of 2.65%.

Key economic indicators, 2017 – 2022(p)

| Indicators | 2017 | 2018 | 2019 | 2020(e) | 2021(p) | 2022(p) |
|---|-------|-------|-------|---------|----------------------|---------|
| Sabah GDP (RM billion) | 83.79 | 85.01 | 85.64 | 77.79 | 78.67 ⁽¹⁾ | N/A |
| Sabah GDP growth rate (%) | 8.09 | 1.46 | 0.74 | (9.17) | 1.13 ⁽¹⁾ | N/A |
| Sabah GDP share to Malaysia total GDP (%) | 6.45 | 6.25 | 6.03 | 5.76 | 5.66 ⁽¹⁾ | N/A |
| Malaysia GDP (RM trillion) | 1.30 | 1.36 | 1.42 | 1.35 | 1.39 | 1.51 |
| Malaysia GDP growth rate (%) | 5.69 | 4.62 | 4.41 | (4.93) | 2.96 | 8.63 |

Notes:

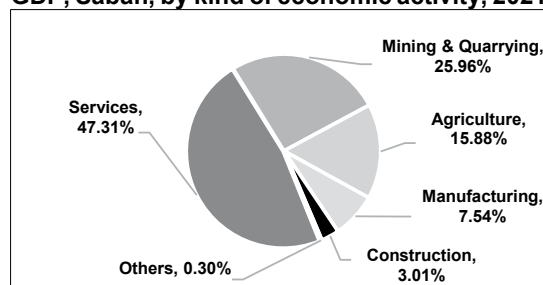
- (e) – Estimates;
- (p) – Preliminary.

Sources: Department of Statistics Malaysia ("DOSM"), SMITH ZANDER

The economy of Sabah is primarily driven by the services sector that comprised of 47.31% of Sabah's GDP in 2021. This was followed by the mining and quarrying sector at and agriculture sector at 25.96% and 15.88% respectively.

The economy of Sabah is also driven by tourism. In December 2000, Kinabalu National Park ("KNP") was declared as a World Heritage Site by The United Nations Educational, Scientific and Cultural Organisation (UNESCO). KNP is renowned for its diverse species of flora and fauna and is one of the most important biological sites in the world.

Boasted as one of the richest collections of biodiversity in the world, KNP offers a variety of activities (e.g. trekking, hiking, camping and recreational walk) to tourists, with Mount Kinabalu being the main attraction of the park. Sabah is also well known for its islands, beaches and diving sites. These attractions drive the state's eco-tourism segment domestically and internationally.

GDP, Sabah, by kind of economic activity, 2021¹

Sources: DOSM, SMITH ZANDER

1.2 OVERVIEW OF THE PROPERTY MARKET IN SABAH

The property development market is driven by the development of other economic sectors in the country, such as the construction, manufacturing, services, agriculture, mining and quarrying sectors. The property market is broadly categorised into residential, commercial and industrial properties:

- Residential properties include landed property such as terrace houses, semi-detached houses, detached houses, cluster houses and bungalows; as well as low-rise and high-rise property such as townhouses, flats, condominiums and serviced apartments;
- Commercial properties include shops, purpose-built offices, small office/home office, shopping complexes and hotels; and
- Industrial properties include terrace factories, semi-detached factories, detached factories, cluster factories and industrial complexes.

KTI Landmark Group is a property developer, principally involved in the provision of design and build construction services (i.e. property development activities with focus on residential and commercial (i.e. shops) property in Sabah) and the Group's own property development activities (i.e. residential, commercial (shops) and mixed development comprising a combined development of high-rise condominiums/serviced apartments, retail space and hotel) in Sabah. *Chapter 1 – The Residential Property and Shop Market in*

¹ Source: Latest available information as at the date of research completion.

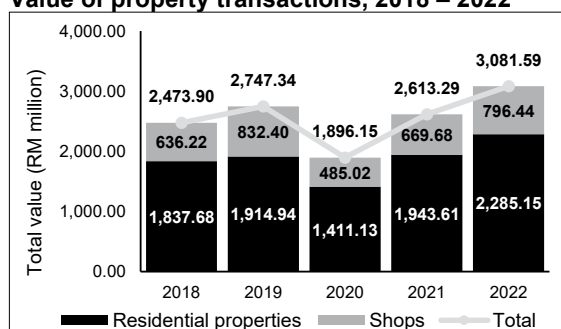
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Sabah of this report will focus on the residential property and shop market in Sabah. As KTI Landmark Group intends to venture into the hotel industry, the industry performance of the hotel industry in Sabah is discussed in *Chapter 2 – The Hotel Industry in Sabah* of this report. Further, KTI Landmark Group's property development activities are supported by in-house construction services and this will be discussed in *Chapter 3 – The Construction Industry in Sabah* of this report.

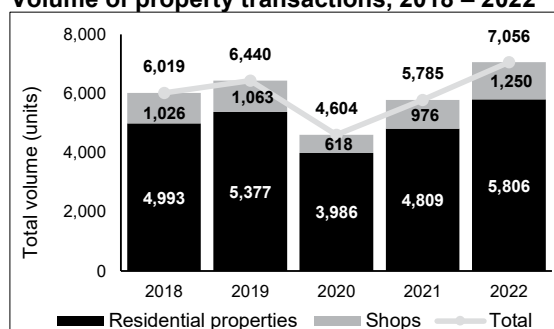
Market Performance and Size of the Property Market in Sabah²

The performance of the residential property market in Sabah, measured in terms of total value of property transactions, increased from RM1.84 billion in 2018 to RM2.29 billion in 2022, at a CAGR of 5.60%. In terms of total volume of property transactions, the performance of the residential property market in Sabah increased from 4,993 units in 2018 to 5,806 units in 2022, at a CAGR of 3.84%.

The performance of the shop market in Sabah, measured in terms of total value of property transactions, increased from RM0.64 billion in 2018 to RM0.80 billion in 2022, at a CAGR of 5.74%. In terms of total volume of property transactions, the performance of the shop market in Sabah increased from 1,026 units in 2018 to 1,250 units in 2022, at a CAGR of 5.06%.

Value of property transactions, 2018 – 2022

Sources: National Property Information Centre ("NAPIC"), SMITH ZANDER

Volume of property transactions, 2018 – 2022

Sources: NAPIC, SMITH ZANDER

COVID-19 impact on the property market and the recovery

In 2020, the value of property transactions for both residential properties and shops in Sabah decreased by 26.31% and 41.73% respectively. Likewise, the volume of property transactions for residential properties and shops decreased by 25.87% and 41.86% respectively. The decline was due to the adverse economic impact arising from the COVID-19 pandemic in 2020 that had led to the imposition of nationwide movement restrictions by the Government to curb the spread of the COVID-19 virus. This had impacted economic activities and business operations.

To mitigate the adverse economic impact of the COVID-19 pandemic, Bank Negara Malaysia ("BNM") had announced several measures such as the reduction of overnight policy rate ("OPR") between March 2020 and July 2020 whereby the OPR was reduced by 100 basis points to 1.75%, as well as a 6-month loan deferment until September 2020 to ease the cash flow of individuals and SMEs through the Prihatin Rakyat Economic Stimulus Package (PRIHATIN). In June 2021, another 6-month loan deferment was introduced effective July 2021 under the National People's Well-Being and Economic Recovery Package (PEMULIH) stimulus package. Further, to stimulate the property market and provide financial relief to homebuyers, the Government had introduced several initiatives through the Pelan Jana Semula Ekonomi Negara (PENJANA) Short-Term Economic Recovery Plan being the:

- reintroduction of the Home Ownership Campaign (HOC), between 1 June 2020 and 31 December 2021, whereby stamp duty exemptions and/or reductions are granted for the purchase of new residential properties priced between RM300,000 and RM2.50 million³; and
- removal of 70% financing limit on third housing loan for properties priced RM600,000 and above, as well as the exemption of real property gains tax ("RPGT") for Malaysians who sell their residential property (up to 3 residential properties) between 1 June 2020 and 31 December 2021.

Under Budget 2021, the Government proposed to further extend the full stamp duty exemptions on the instruments of transfer and instrument of securing loans for the first residential property purchased by Malaysians to 31 December 2025, with the price limit on properties being increased from RM300,000 to RM500,000. Following that, the property market in Sabah registered a recovery in 2021 whereby the value

² 5-year data is presented in this section to provide a more comprehensive illustration on the performance of the market due to the unprecedented outbreak of the COVID-19 pandemic that had affected economic activities in 2020 and 2021.

³ Full exemption on the stamp duty is limited to the home price up to RM1.00 million and 3% stamp duty for home price between RM1.00 million to RM 2.50 million; while full exemption is given on stamp duty on securing loan for loan amount up to RM2.25 million.

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of property transactions for both residential properties and shops increased by 37.73% and 38.07% respectively; while the volume of property transactions for residential properties and shops increased by 20.65% and 57.93% respectively.

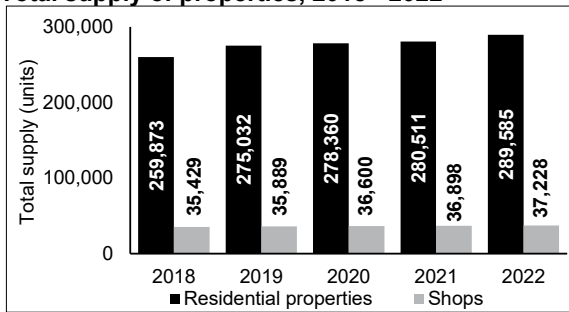
The economy continued to grow with the national GDP expanding by 8.63% YOY in 2022. Similarly, the value of property transactions for both residential properties and shops in Sabah also recorded a YOY growth of 17.57% and 18.93% respectively in 2022. Coupled with the recovery in consumer sentiment, the expansion of the property market in 2022 was also driven by the Government’s proposal to remove RPGT on the disposal of properties held by Malaysians and permanent residents in Malaysia for more than 5 years under Budget 2022. This proposal came into effect in January 2022, to ease the financial burden of property owners from paying higher taxes for the disposal of properties.

To further drive the property market post COVID-19, the Government had, under Budget 2023, announced the continued exemption of stamp duty for first-time homeowners whereby full stamp duty exemptions will be granted for homes valued at RM500,000 and below until 31 December 2025, whereas 75% stamp duty exemptions will be granted for homes valued between RM500,001 and RM1 million until 31 December 2023. With the abovementioned Government initiatives in place, coupled with economic recovery, consumer sentiment and purchasing power are expected to improve which will drive the continued growth of the property market in Sabah. Please refer to *Chapter 1.3 – Key Demand Drivers, Risks and Challenges* for further information on the key market drivers.

Supply conditions of the residential property and shop market in Sabah

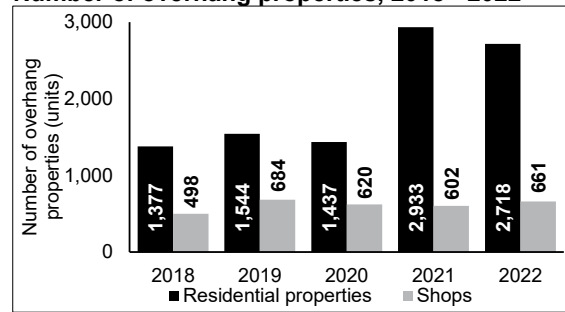
From 2018 to 2022, the total supply of residential properties increased from 259,873 units to 289,585 units at a CAGR of 2.74%. In 2022, the total supply of 289,585 units of residential properties comprised an existing stock⁴ of 237,108 units and future supply⁵ of 52,477 units. From 2018 to 2022, the total supply of shop units increased from 35,429 units to 37,228 units at a CAGR of 1.25%. In 2022, the total supply of 37,228 units of shops comprised an existing stock of 32,866 units and future supply of 4,362 units.

Total supply of properties, 2018 - 2022



Sources: NAPIC, SMITH ZANDER

Number of overhang properties, 2018 - 2022



Sources: NAPIC, SMITH ZANDER

Properties transacted come from the pool of existing stock, incoming supply and/or planned supply. Overhang units are completed units with CCC in the review period but remained unsold for more than 9 months since the issuance of CCC. Existing stock is the total stock of all completed sold and unsold residential units in the market that have received CCC, therefore overhang units are included in the existing stock supply. From 2018 to 2022, the number of overhang residential properties increased from 1,377 units to 2,718 units at a CAGR of 18.53%. Meanwhile, the number of overhang shops increased from 498 units to 661 units at a CAGR of 7.34% over the same period.

Despite the increase in overhang residential properties, the number of overhang units (at 2,718 units) in 2022 in Sabah is below the national average of overhang residential properties at approximately 3,372 units per state. Out of the 2,718 units of overhang residential properties in 2022, condominiums/apartments accounted for 2,199 units, followed by terrace houses at 430 units, and semi-detached houses at 89 units. Nevertheless, the shop market in Sabah recorded a relatively higher overhang at 661 units in 2022, which is above the national average of overhang shops at approximately 420 units per state. Out of the 661 units of overhang shops in 2022, 2-storey to 2-1/2-storey shops accounted for 267 units, followed by stratified shops at 244 units, and 3-storey to 3-1/2-storey shops at 150 units. The overhang of shop units is attributed to various factors including relatively higher pricing, property location and demand for shops which is influenced by economic conditions in Sabah.

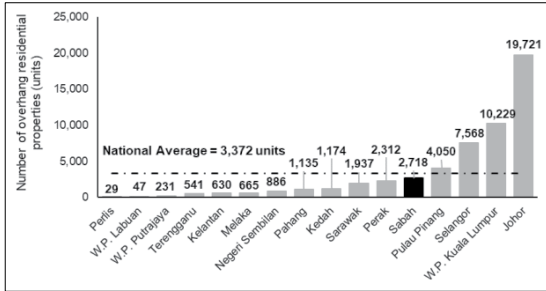
⁴ Existing stock refers to total stock of all completed sold and unsold properties in the market that have received Certificate of Completion and Compliance (“CCC”).

⁵ Future supply comprises incoming supply and planned supply. Incoming supply refers to total number of properties in the market that are currently under construction; whereas planned supply refers to total number of properties where building plans have been approved but construction works are yet to commence.

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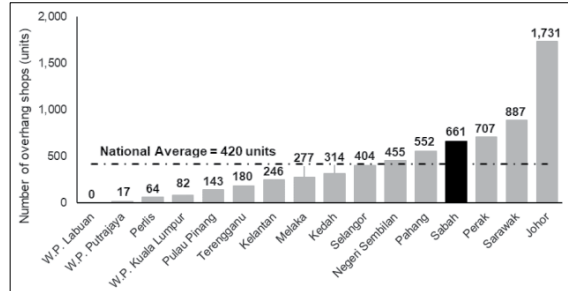


Overhang of residential properties by state, 2022



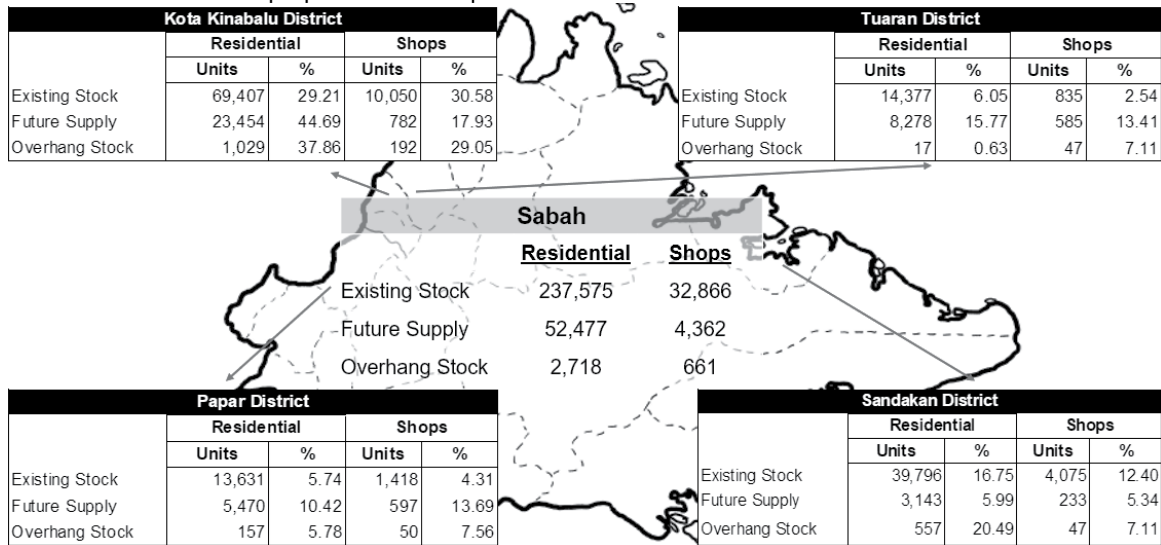
Sources: NAPIC, SMITH ZANDER

Overhang of shops by state, 2022



Sources: NAPIC, SMITH ZANDER

KTI Landmark Group's on-going and future projects are located in the districts of Kota Kinabalu, Tuaran, Papar and Sandakan respectively. The following map presents a summary of the supply and overhang conditions of residential properties and shops in these districts in Sabah in 2022.



Sources: NAPIC, SMITH ZANDER

Kota Kinabalu and Sandakan are the 2 most populated districts in Sabah (i.e. 0.49 million persons and 0.43 million persons in 2022 respectively) recording the highest number of existing stock for residential properties and shops in 2022 compared to other districts. Kota Kinabalu also recorded the highest number of future supply and overhang for both residential properties and shops in Sabah. In terms of overhang, Sandakan, Tuaran and Papar districts have a relatively low number of overhang units for both residential properties and shops.

1.3 KEY DEMAND DRIVERS, RISKS AND CHALLENGES

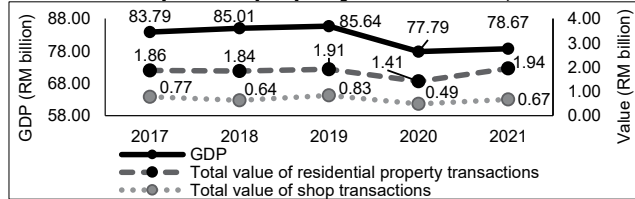
Key Demand Drivers

► **Economic growth and rising disposable income signify growth opportunities in the property market in Sabah**

The key indicator that influences the property market is the stability of the nation's economy. A robust economy has a positive impact on the property market while a sluggish economy will likewise result in sluggish demand for properties. Economic growth has the potential to contribute to increased disposable income amongst the population, arising from higher employment and increased earnings for businesses and consumers, consequently leading to increased demand for residential properties and shops.

Between 2017 and 2019, Sabah's wealth, as depicted by its GDP, increased from RM83.79 billion to RM85.64 billion at a CAGR of 1.10%. During the same period, the value of property transactions for residential properties and shops also increased, at a CAGR of 1.34% and 3.82% respectively. In 2020, Sabah's GDP decreased by 9.17% to RM77.79 billion, due to the adverse economic impact arising from the

Economic impact on property transactions, 2017-2021



Sources: DOSM, NAPIC, SMITH ZANDER

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COVID-19 pandemic. Similarly, the value of property transactions for residential properties and shops also decreased at 26.18% and 40.96% respectively in 2020. In 2021, in line with the recovery in national GDP, the property market in Sabah also demonstrated a similar recovery and is further supported by the various stimulus introduced by the Government during the COVID-19 pandemic to drive property demand as set out in *Chapter 1.2 - Overview of the Property Market in Sabah*. The economic wealth of the population is expected to continue to increase over the long-term and has the potential to contribute to higher demand for residential properties and shops in Sabah.

► **Increase in investments drives demand for residential properties and shops**

Sabah's economy is mainly driven by the services, mining and quarrying, and agricultural sectors. The services sector is the largest contributor at 47.31% (i.e. RM37.22 billion) of Sabah's GDP in 2021 (i.e. the main contribution to the services sector is derived from the wholesale and retail trade, food and beverages and accommodation sub-sector, which collectively contributes to 16.29% of Sabah's total GDP in 2021 which are supported by local demand and tourism activities). In 2021, the mining and quarrying sector is the second largest contributor of Sabah's GDP at 25.96% (i.e. RM20.42 billion), followed by the agricultural sector at 15.88% (i.e. RM12.49 billion).

In addition, Sabah's economy is supported by the manufacturing sector which accounts for 7.54% (i.e. RM5.93 billion) of Sabah's GDP in 2021. The Sabah government aims to boost GDP contribution from the manufacturing sector. Some examples of recently announced local and foreign investments in Sabah are as follows:

- In 2021, a joint-investment by Kumpulan Yayasan Sabah and Tegas Bangsa Sdn Bhd for the development of Lok Kawi Resort City in Sabah was announced. The project comprises of theme parks, resort hotels, shopping complexes, commercial and office blocks, and residential with a gross development value of RM7 billion. This is expected to create 5,000 job opportunities in Sabah;
- Linaco Manufacturing (M) Sdn Bhd, a Malaysian-based company, is setting up a coconut processing plant and a high-yield coconut plantation in Paitan which is expected to commence operations by 2026. This is expected to create 4,400 jobs for the employment market in Sabah;
- SK Nexilis Co., Ltd., a South Korean-based company, is setting up a copper foil manufacturing facility in Kota Kinabalu Industrial Park ("KKIP") which is expected to commence operations by 2023. This is expected to create 400 jobs for the employment market in Sabah; and
- SBH Kibing Solar New Materials (M) Sdn Bhd, a Malaysian-based company, is setting up a solar glass panel manufacturing plant in KKIP and a silica sand processing plant in Sikuati which is expected to commence operations by 2024. This is expected to create 2,100 jobs for the employment market in Sabah.

In 2022, Sabah attracted RM11.50 billion worth of total investments comprising of RM9.20 billion from foreign direct investment and RM2.30 billion from domestic direct investment. Out of the RM11.50 billion, total approved manufacturing investments were recorded at RM8.40 billion. This accounts for 9.97% of Malaysia's total approved manufacturing investments of RM84.27 billion recorded in 2022.⁶

Due to the business expansion(s) and/or investment(s) mentioned above, it is likely to result in growth of Sabah's overall economy. The growth in economic activities will also lead to increased job opportunities, increased disposable income, higher business earnings and expansion of businesses. All of which would likely drive the demand for residential properties and shops in Sabah.

► **Government-driven initiatives to drive demand for residential properties, including affordable housing**

To encourage home ownership by low and middle-income individuals, the Government has introduced various affordable housing programmes throughout the country which has been implemented by the respective local state authorities. In Sabah, Lembaga Pembangunan Perumahan dan Bandar (LPPB) being the state authority responsible for overseeing housing and township development has implemented the development of affordable housing projects such as Program Perumahan Rakyat ("PPR") and Perumahan Penjawat Awam ("PPAM"). The PPR is a programme for the resettlement of squatters and to provide affordable homes to low and middle income citizens in Sabah. The PPAM programme was introduced in 2013 to provide affordable homes to all Malaysian government servants and retired government servants, including employees of the Federal Government, State Government, State or Local Authorities and Statutory Bodies, from low and middle incomes.

In the 12th Malaysia Plan (2021 – 2025), the Government announced that a total of 500,000 affordable housing will be developed to increase home ownership through various affordable housing initiatives, such as the PPR project in Sabah. In line with this initiative, the Government announced an allocation of RM1.50 billion on the development of affordable housing projects under Budget 2022. In addition, the Government proposed a guarantee worth RM2.00 billion to banks via the Housing Credit Guarantee Scheme ("HCGS"), to begin in 2022 by providing financial assistance for the lower income group for the purchase of properties.

⁶ Source: Malaysian Investment Development Authority ("MIDA").

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Moreover under Budget 2023, the Government had extended the guarantee under the HCGS to RM5 billion, and the allocation is expected to benefit 20,000 borrowers. These affordable housing initiatives are expected to drive the demand for residential properties in Sabah. Further details on Government initiatives to drive the overall property market, during and post COVID-19 pandemic, are set out in *Chapter 1.2 - Overview of the Property Market in Sabah*.

Key Market Risks and Challenges**► Adverse economic conditions may negatively impact the demand for properties**

The property market is dependent on the state of the economy. As properties are generally long-term high value investments (which require years of commitment to service the loans), the decision to purchase properties is usually cautiously made. Consideration of various factors such as economic conditions, property prices, market sentiment, development outlook of the property location and interest rates of housing loans are commonly borne in mind prior to making any investments. Therefore, any changes to Malaysia's economic conditions that affect consumers' purchasing power may consequently boost or dampen the demand for properties. A growing economy signifies a wealthier population with higher purchasing power which would likely lead to high value investments being made - such as the purchase of properties. Conversely, a decline in economic conditions, such as the prolonged effect of the COVID-19 pandemic or global economic crisis, may lead to loss of businesses and jobs, pay cuts, lower salary growth, increase in unemployment rates, and reduced consumer purchasing power. This would lead to more reluctance by consumers to make investments, especially with regards to high value assets such as properties.

► Unfavourable changes in Government policies may affect property sales

The property market is subject to Government policies in Malaysia. Any adverse changes in Government policies in relation to the property market could adversely affect the sale of residential properties. For example, the changes in OPR by BNM may affect the interest rates for housing loans, which will subsequently impact the total purchasing cost of properties, and eventually affect market sentiment and demand for residential properties.

Government policies may also affect property sales amongst foreigners in Malaysia. The Malaysia My Second Home ("MM2H") programme is a programme that allows foreigners to purchase property and reside in Malaysia. Following the suspension of the MM2H programme in July 2020 due to the COVID-19 outbreak, the programme was reintroduced in August 2021 with 9 conditions for new applications beginning October 2021. Among 9 conditions are applicants must have a minimum fixed deposit of RM1 million, liquid assets worth RM1.50 million and must bear a processing fee of RM5,000 for the principal and RM2,500 per dependant for the MM2H passes. Any increase in the minimum fixed deposit amount, value of liquid assets or processing fee for the MM2H pass may reduce the attractiveness of the MM2H programme, and may eventually affect the demand for residential properties in Sabah among foreign investors.

1.4 COMPETITIVE LANDSCAPE**Overview**

The property development market in Sabah comprises various types of developers such as government-owned corporations, public-listed companies, and privately-owned property developers. These industry players may be involved in the development of various types of buildings/developments such as residential, commercial, industrial and mixed property developments.

Industry players compete in terms of quality of product and service offerings, ability to deliver in a timely manner, project track record and pricing. It is also essential for industry players to build and maintain strong track records and business relationships with contractors and sub-contractors to ensure the timely completion and delivery of properties.

KTI Landmark Group competes with industry players who are involved in the development of residential and commercial properties in Sabah, which is the Group's current area of focus.

Key Industry Players

As KTI Landmark Group is principally involved in the provision of design and build construction services (i.e. property development activities with focus on of residential and commercial property (i.e. shops) in Sabah) and the Group's own property development activities (i.e. residential, commercial (shops) and mixed development comprising a combined development of high-rise condominiums/serviced apartments, retail space and hotel) in Sabah, the basis for selection of the closest competitors to KTI Landmark Group is as follows:

- Companies with on-going and/or up-coming residential and/or commercial property development projects in Sabah; and
- Companies which recorded more than RM20 million in revenue based on their respective latest available financial years.

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Premised on the above, the following sets out the closest competitors to KTI Landmark Group

| Company name | Types of development | Examples of ongoing/up-coming property development projects in Sabah | Latest available financial year | Revenue (RM million) | Segmental revenue (RM million) ⁽¹⁾ | Gross profit (RM million) | Gross profit margin (%) ⁽²⁾ | Profit before tax (RM million) | Profit before tax margin (%) ⁽³⁾ |
|--|---|--|---------------------------------|----------------------|---|---------------------------|--|--------------------------------|---|
| Asian Pac Holdings Berhad | <ul style="list-style-type: none"> Residential Commercial Industrial | <ul style="list-style-type: none"> Rimbias Hillis, Kota Kinabalu LikasVue, Kota Kinabalu | 31 March 2022 | 138.67 | 80.61 | 53.77 | 38.78 | (4.31) | (3.11) |
| Hap Seng Consolidated Berhad | <ul style="list-style-type: none"> Residential Commercial Mixed | <ul style="list-style-type: none"> Kingfisher Condominium, Putatan Bandar Sri Indah, Tawau | 31 December 2022 | 7,110.50 | 381.31 | 1,659.94 | 23.34 | 1,330.46 | 18.71 |
| Hao Yun Business Alliance Sdn Bhd ⁽⁴⁾ | Residential | <ul style="list-style-type: none"> Taman Eko Tropika 2, Papar Taman Vila Palma 2, Keningau | 31 December 2021 | 31.78 | 28.83 | 10.94 | 34.42 | 7.39 | 23.25 |
| HoHup Group Berhad | <ul style="list-style-type: none"> Residential Commercial Mixed | <ul style="list-style-type: none"> The Crown, Kota Kinabalu | 31 December 2022 | 213.04 | 141.21 | 50.18 | 23.55 | (25.85) | (12.13) |
| IJM Land Berhad | <ul style="list-style-type: none"> Residential Mixed | <ul style="list-style-type: none"> Rimbayu Indah, Sandakan Bandar Utama, Sandakan | 31 March 2022 | 5,245.45 | 1,218.43 | 762.09 | 14.53 | 317.87 | 6.06 |
| KTI Landmark Group | <ul style="list-style-type: none"> Residential Commercial Mixed | <ul style="list-style-type: none"> Residensi Seri Akasia, Tuaran Taman Bukit Alamanda, Papar The Logg Luyang, Kota Kinabalu | 31 December 2022 | 112.88 | 112.88 | 30.80 | 27.29 | 13.99 | 12.39 |
| Legacy Group Development Sdn Bhd | <ul style="list-style-type: none"> Residential Mixed | <ul style="list-style-type: none"> Eco Peak Residences, Penampang Taman Padi Ria, Tuaran | 31 March 2022 | 64.99 | 49.52 | 18.73 | 28.82 | 10.05 | 15.46 |
| SBC Corporation Berhad | <ul style="list-style-type: none"> Residential Mixed | <ul style="list-style-type: none"> Jesselton Quay, Kota Kinabalu | 31 March 2022 | 116.07 | 113.84 | 41.87 | 36.07 | 21.93 | 18.89 |
| SCP (Balakong) Sdn Bhd | <ul style="list-style-type: none"> Residential Commercial Mixed | <ul style="list-style-type: none"> Taman Bukit Damaisari, Kota Kinabalu Residensi Acacia, Kota Kinabalu | 31 December 2021 | 93.07 | 93.07 | 48.81 | 52.44 | 49.23 | 52.90 |
| WMG Holdings Berhad | <ul style="list-style-type: none"> Residential Commercial Mixed | <ul style="list-style-type: none"> Parklane, Kota Kinabalu Taman Indah Jaya, Sandakan | 31 December 2022 | 78.03 | 61.99 | 25.25 | 32.36 | (0.82) | (1.05) |
| WSG Properties Sdn Bhd | <ul style="list-style-type: none"> Residential Commercial | <ul style="list-style-type: none"> Benoni Gardens, Papar Parklane Villa Benoni, Papar | 31 December 2020 | 42.82 | 42.82 | 15.70 | 36.67 | 5.50 | 12.84 |

Notes:

(1) Segmental revenue is defined as revenue generated from the property development segment.

(2) Gross profit margin is defined as the ratio between gross profit and revenue.

(3) Profit before tax margin is defined as the ratio between profit before tax and revenue.

(4) The revenue, segmental revenue and gross profit shown are the combined figures of property developers HBA Land Sdn Bhd, HBA Venture Partners Sdn Bhd, HBA Invictus Sdn Bhd, and HBA Property Ventures Sdn Bhd which are subsidiaries of Hao Yun Business Alliance Sdn Bhd.

8. IMR REPORT (Cont'd)

SMITH ZANDER

- The identified closest competitors to KTI Landmark Group in Malaysia include all closest competitors that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that have no online and/or published media presence or are operating with minimal public advertisement. Hence, SMITH ZANDER is unable to state conclusively that the list of closest competitors is exhaustive. In instances where the closest competitors are exempt private companies for the latest available financial year, or the closest competitors have no publicly available financial reports, the closest competitors are not included in the table as the audited financial statements of the companies are not publicly available.

Sources: Various company websites, KTI Group, Companies Commission of Malaysia, SMITH ZANDER

Market Share

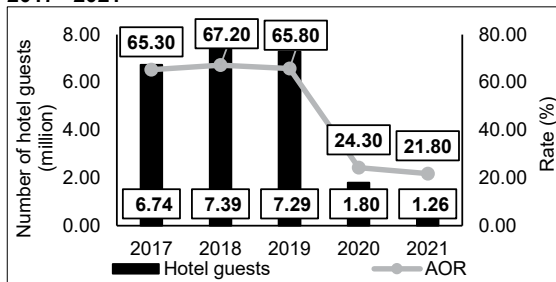
In 2022, total residential property transactions by value and volume in Sabah was recorded at RM2,285.15 million and 5,806 units respectively. KTI Landmark Group captured a market share of 4.69% by value of residential property transactions, based on their revenue of RM107.17 million derived from the sale of their residential properties and 9.97% by volume for residential property transactions, based on their number of residential units sold of 579 units.

On the other hand, total commercial property transactions by value and volume in Sabah was recorded at RM796.44 million and 1,250 units respectively. KTI Landmark Group captured a market share of 0.72% by value of commercial property transactions, based on their revenue of RM5.71 million derived from the sale of commercial properties and 0.40% by volume for commercial property transactions, based on their number of commercial units sold of 5 units.

2 THE HOTEL INDUSTRY IN SABAH

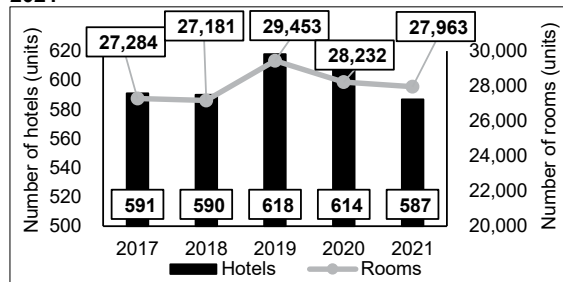
The hotel industry in Sabah thrives on the travel and tourism industry as tourists visit Sabah to enjoy its natural attractions such as the KNP, islands, beaches and diving sites. Prior to the outbreak of the COVID-19 pandemic, the number of hotel guests in Sabah (comprising domestic and foreign guests) increased from 6.74 million in 2017 to 7.29 million in 2019 at a CAGR of 4.00%. Over the same period, the average occupancy rates (“AOR”) of hotels in Sabah averaged 66.10%.

Number of hotel guests and AOR of hotels in Sabah, 2017– 2021⁷



Sources: Tourism Malaysia, SMITH ZANDER

Number of hotels and hotel rooms in Sabah, 2017 - 2021⁷



Sources: Tourism Malaysia, SMITH ZANDER

The outbreak of the COVID-19 pandemic in 2020 had adversely impacted the tourism industry globally as the closure of country borders, nationwide lockdowns and travel restrictions were implemented to curb the spread of COVID-19. This had adversely affected the hotel industry in 2020 and 2021. The number of hotel guests in Sabah fell from 7.29 million in 2019 to 1.80 million and 1.26 million in 2020 and 2021 respectively, with AOR declining to 24.30% and 21.80% in 2020 and 2021 respectively.⁷ In terms of supply, the number of hotels in Sabah recorded a YOY decline of 0.65% and 4.40% in 2020 and 2021 respectively. Further, the number of hotel rooms recorded a YOY decline of 4.15% and 0.95% in 2020 and 2021 respectively.⁷

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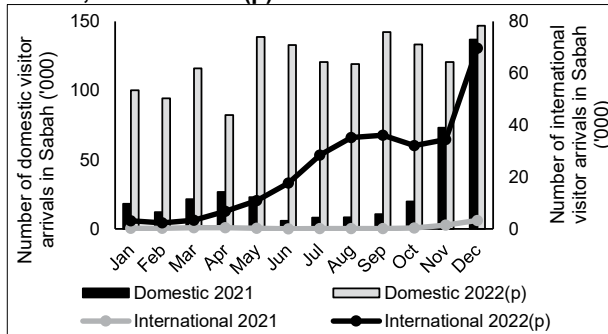
⁷ Source: Latest available information as at the date of research completion.

8. IMR REPORT (Cont'd)

SMITH ZANDER

With the rollout of COVID-19 vaccinations and the subsiding impact of the COVID-19 pandemic, restrictions on domestic travelling were uplifted in October 2021. Following the ease of restrictions on domestic travel, the number of monthly domestic visitor arrivals in Sabah began to gradually increase. In 2022, the total number of domestic visitor arrivals was recorded at 1,447,639, a 297.81% increase from 363,901 in 2021. In April 2022, the country's borders were reopened as Malaysia entered the "Transition of Endemic" phase of COVID-19 allowing the resumption of international travel. Meanwhile, the total number of international visitor arrivals was recorded at 280,101 in 2022, a 3,744.37% increase from 7,286 in 2021. The increase in visitor arrivals in Sabah indicates a recovery of the tourism industry in Sabah.

Monthly domestic and international visitor arrivals in Sabah, 2021 vs 2022(p)



Sources: Tourism Malaysia, SMITH ZANDER

The growth in the tourism industry being the key driver to the demand for hotels, is expected to be further driven by the following factors:

► **People's general desire to travel**

Travelling has become an integral part of modern lifestyle for many people as it brings various benefits in enriching a person's life experience. Travelling to places outside of the usual environment and undertaking novel activities can be often a form of rejuvenation and recuperation. It enables a person to indulge in various experiences such as nature, foreign histories and cultures, and unusual culinary delights that would otherwise be unavailable in a person's everyday environment. Further, travel is also a tradition, especially for those who conduct annual vacations. Following the upliftment of domestic travel restrictions in October 2021 and the reopening of country borders in April 2022, travel and tourism activities have increased due to the desire to travel after prolonged confinement due to the lockdown, thus driving the demand for hotels. In 2022, the number of international tourist arrivals in Malaysia stood at 10.07 million⁸, exceeding its target of 9.20 million international tourist arrivals⁹. It is anticipated that people's general desire to travel will continue to drive travel and tourism activities and subsequently support the demand for hotels.

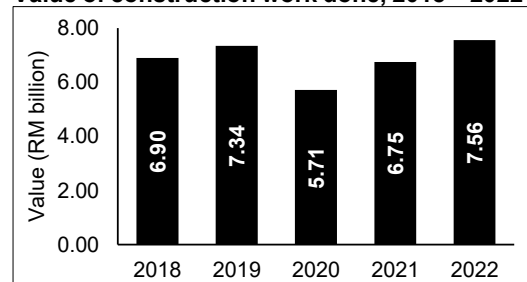
► **Government initiatives to encourage tourism activities**

To boost the travel and tourism industry, the Government introduced initiatives to encourage travel and tourism activities to revive the tourism industry and support the country's economy. Under the PEMERKASA stimulus package, a personal income tax relief of up to RM1,000 was given to Malaysian citizens who incur expenses for domestic tourism between 1 March 2020 and 31 December 2021 and this tax relief was further extended to 31 December 2022 under Budget 2022. Further, effective 1 May 2022, vaccinated international travellers are allowed to enter Malaysia without having to perform COVID-19 screening test prior to arrival. Furthermore, under Budget 2023, the Government has allocated RM250 million to boost the tourism sector, of which RM115 million will be allocated as matching grants to collaborate with the tourism and culture industry. As such, travel and tourism activities are expected to increase in Malaysia including in Sabah. The increase in travel and tourism activities as well as the implementation of these initiatives are expected to drive the demand for hotels in the long term.

3 THE CONSTRUCTION INDUSTRY IN SABAH

The construction industry is largely influenced by the country's economic development as well as the growth of the property market. Growth in the property market generally results in increased demand for construction activities as more properties are built to cater to market needs. The performance of the construction industry in Sabah, measured by the value of construction work done, increased from RM6.90 billion in 2018 to RM7.56 billion in 2022 at a CAGR of 2.31%, demonstrating growing demand for construction activities. The value of construction work done decreased by 22.21% in 2020 due to the disruptions in construction activities

Value of construction work done, 2018 – 2022



Sources: DOSM, SMITH ZANDER

⁸ Source: Tourism Malaysia.

⁹ Source: The Malay Mail.

8. IMR REPORT (Cont'd)**SMITH ZANDER**

arising from the COVID-19 pandemic. The value of construction work done recovered by 18.21% YOY to RM6.75 billion in 2021. In 2022, the value of construction work done further increased by 12.00% YOY to reach RM7.56 billion, surpassing the pre-COVID value of RM7.34 billion in 2019. As construction activities resume with improved economic conditions and eased COVID-10 restrictions, it is likely that there will be growth in the property market and construction activities, full particulars of which is discussed in *Chapter 1 – The Residential Property and Shop Market in Sabah*.

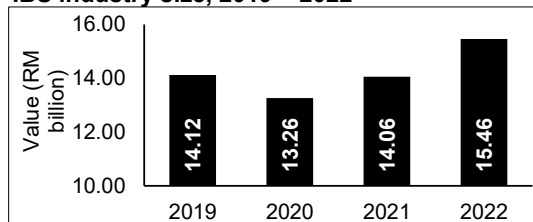
The construction industry is dependent on foreign workers due to the limited supply of local workers. Should the Government amend their policies and impose any restrictions and/or limits on the number of foreign workers to be employed (such as the hiring freeze during the COVID-19 pandemic), the construction industry may be adversely affected. This is because a shortage of workers will likely affect construction progress and project delivery schedules. Such employment risk is also extended to the home countries of the foreign workers should there be changes in their employment policies.

In addition, the construction industry is exposed to fluctuations in prices and shortages of construction materials. Certain construction materials such as steel materials are commodities and their prices are subject to global supply and demand conditions. Any increase in the prices of construction materials will increase the overall construction cost and affect the construction budget and profit margin of industry players. Further, shortages in construction materials may also affect the timely completion of construction works, resulting in increased cost due to prolonged construction period.

IBS Industry

IBS is a construction method that utilises techniques, products, components and/or building systems which involve off-site prefabrication of components and onsite installation. With IBS construction techniques, a building is constructed by positioning and assembling the prefabricated IBS components. According to the Construction Industry Development Board, IBS construction techniques are generally categorised into precast concrete system, metal framing system, formwork system, timber framing system, blockwork system and other IBS systems. The adoption of IBS is aimed at increasing productivity through speeding up construction processes to shorten project completion durations, improving quality with the use of prefabricated components manufactured in a controlled environment off-site, and to lower construction costs.

The performance of the IBS industry in Malaysia (i.e. measured by the manufacturing sales value of precast concrete, cement or artificial stone articles for use in construction; prefabricated structural components for building or civil engineering of cement, concrete or artificial stone; and other articles of concrete, cement and plaster) declined by 6.09% YOY from RM14.12 billion in 2019 to RM13.26 billion in 2020 due to the adverse economic impact arising from the COVID-19 pandemic. Nevertheless, the IBS industry recorded

IBS industry size, 2019 – 2022

Sources: DOSM, SMITH ZANDER

a positive recovery of 6.03% to RM14.06 billion in 2021, and had further expanded by 9.96% YOY to RM15.46 billion in 2022, illustrating growth at a CAGR of 3.07% between 2019 and 2022. The growth of the IBS industry is primarily driven by the growth of the construction industry and increased adoption IBS in construction activities. In 2020, the adoption of IBS in government projects had achieved 85.30%, while the adoption of IBS for private projects above RM50 million had achieved 41.00%.¹⁰

To further drive the adoption of IBS, the Government continues to provide various incentives such as tax allowances and funding to encourage companies that produce IBS components. Under Budget 2021, companies which produce at least 3 basic components of IBS are eligible to apply with MIDA for the Investment Tax Allowance (i.e. a tax allowance of 60.00% is given on qualifying capital expenditure incurred within 5 years in which this allowance can be set off against 70.00% of statutory income for each year of assessment), effective 1 January 2021 to 31 December 2025.¹¹ Furthermore, under Budget 2022 and 2023, the Government had introduced the IBS Promotion Fund (2.0) worth RM200 million and RM165 million respectively, through SME Bank to fund SMEs in the industry of up to RM10 million each for a tenure of up to 15 years each.¹² The increased adoption of IBS in construction activities to shorten construction duration and to reduce construction costs, coupled with Government-driven initiatives to promote the use of IBS, are expected to further drive the continuous growth of the IBS Industry.

¹⁰ Source: Construction Industry Development Board. Latest available information as at the date of research completion.

¹¹ Source: Budget 2021 - Ministry of Finance Malaysia.

¹² Sources: Budget 2022 and Budget 2023 – Ministry of Finance Malaysia.