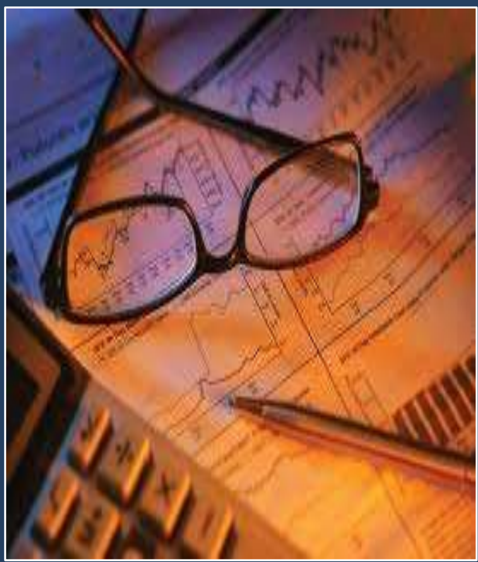
ASEAN Investment Flash

Malaysia

April 2013



Chairman's Message

Dear Readers,

With current mandates from companies based in Southeast Asia, Europe, Middle East and the United States for projects in facilitating market research and intercontinental transactions, Reciprocus is now truly living up to its tagline as a 'Global M&A Advisor'. The next twelve months, however, will be a crucial test in determining whether we can translate our successful case studies and references into building a global brand which attracts clients outside of our direct networks and allows us to scale-up. We believe we are now well poised to take advantage of an increasingly favourable M&A climate both in Singapore, the region's hottest deal market, and abroad where cross-border deals are on the rise world-wide. We appreciate your interest and encouragement as you follow our journey and hope you enjoy our latest flash on Singapore's neighbour to the north - Malaysia.

David Emery
Founder and Chairman
Reciprocus International Pte Ltd

Ranked as UNCTAD's

Top Host Country for FDI

in 2011-2012

Letter from the Editor

As Southeast Asia' third largest economy, Malaysia is a newly industrialized market economy which not only has one of the region's best economic track records, but boasts all the right ingredients needed to emerge as a fully developed country by the end of this decade. With the Strait of Malacca to its West, Malaysia straddles the world's most important shipping channel linking trade between China, Japan, South Korea, Singapore and India through which one-quarter of the world's traded goods pass between the Pacific and Indian Oceans. Taking advantage of this high-level of global integration, Malaysia has positioned itself as a player fully entrenched in international trade and has very successfully leveraged its access to young, inexpensive labor and abudance of natural resources to emerge as a key exporter of manufactured and processed goods such as semiconductor components, eletrical goods, ICT products, palm oil, and rubber.

In an effort to reduce exposure from a dependency on exported goods, particularly in respect to commodity price fluctuations, Malaysia is aggressively purusing a transition into a more robust, multi-sectored economy. Recent successes are reflected by their UNCTAD rank as top host country for FDI in 2011-2012 and by healthy growth in the oil and gas, tourism and Islamic banking industries. Private equity firms are taking note with the number of investment deals on the rise. While this private equity landscape is still in nascent stages, investors are clearly drawn to certain attirbutes such as a transparent regulatory environment, low barriers to entry and tamed inflation rates.

The government has historically played a very active role in influencing and encouraging economic activity through a series of comprehensive economic blueprints aimed at stimulating long-term growth. These plans have not always been excuted to great success, however, and at times have fallen far short of the original aspirations. Such is the case with The Eighth Malaysian Plan which by the fifth and final year of rollout in 2005 still had not disbursed 80% of allocated funds. Nevertheless, the New Economic Model unveiled in 2010, submits an ambitious but realistic goal of doubling the per capita income by 2020 and is an opportunity to restore confidence in the government's ability to drive eocnomic progress if key objectives can be met such as improved worker productivity based on more effective affirmative action systems and improved sustainability strategies. With Malaysians going to the polls on May 5 to decide one of the country's closest Presidential elections, we hope that whichever candidate wins will continue pushing these economic development agendas as a top priority.

Reciprocus is seeing most interest to explore expansion opportunities from Western and Middle Eastern clients, such as halal F&Bs and marketing firms, who are first establishing a presence in Sinapore and considering Malaysia as the natural next strategic move.

Robert MacPherson
Vice President and Editor
Reciprocus International Pte Ltd

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MALAYSIA

Country Profile

Map

Located in South Eastern Asia, peninsula bordering Thailand and northern one-third of the island of Borneo, bordering Indonesia, Brunei, and the South China Sea, south of Vietnam

Figure: 1

About Malaysia

Languages

Bahasa Malaysia (official), English, Chinese (Cantonese, Mandarin, Hokkien, Hakka, Hainan, Foochow), Tamil, Telugu, Malayalam, Panjabi, Thai. In East Malaysia, there are several indigenous languages. Most widely spoken are Iban and Kadazan

Capital City

Kuala Lumpur

Major Cities – Population

Kuala Lumpur 1.493 million; Klang 1.071 million; Johor Bahru 958,000 (2009 census)

Administrative Divisions

13 states (negeri-negeri, singular - negeri) Johor, Kedah, Kelantan, Melaka, Negeri Sembilan, Pahang, Perak, Perlis, Pulau Pinang, Sabah, Sarawak, Selangor, Terengganu; and 1 federal territory (Wilayah Persekutuan) with three components, city of Kuala Lumpur, Labuan, and Putrajaya

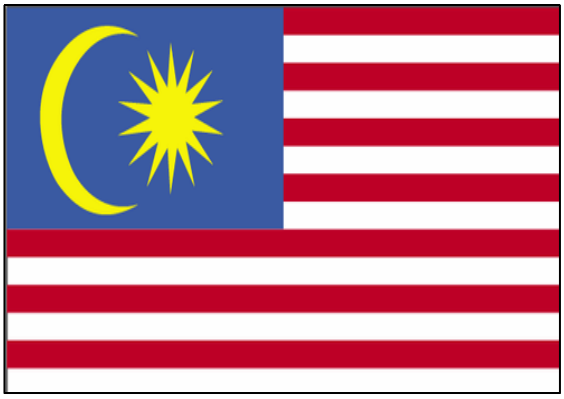

Figure: 2

14 equal horizontal stripes of red (top) alternating with white (bottom); there is a blue rectangle in the upper hoist-side corner bearing a yellow crescent and a yellow 14-pointed star; the flag is often referred to as Jalur Gemilang (Stripes of Glory); the 14 stripes stand for the equal status in the federation of the 13 member states and the federal government; the 14 points on the star represent the unity between these entities; the crescent is a traditional symbol of Islam; blue symbolizes the unity of the Malay people and yellow is the royal color of Malay rulers

Currency

Malaysian Ringgit (RM)

Population

Figure: 3

0-14 years: 29.4% (male 4,404,957/ female 4,160,051)

15-64 years: 65.5% (male 9,701,856/ female 9,419,806)

65 years and over: 5.1% (male 704,898/ female 788,384) (2012 estimates)

Economy

Figure: 4

FY 2013 Budget Estimates

- An amount of RM 201.9 bn has been allocated for operating expenditure and RM 49.7 bn for development expenditure
- The Federal Government is expected to generate RM 208.6 bn
- Fiscal deficit to 2013 to improve to 4% of GDP compared with 4.5% in 2012
- Other focus area of the budget includes boosting investment activity, strengthening education and training, inculcating innovation, increasing productivity, fiscal consolidation and enhancing the public service delivery and enhancing the well-being of the local people

World Rankings

ADB, APEC, ARF, ASEAN, BIS, C, CICA (observer), CP, D-8, EAS, FAO, G-15, G-77, IAEA, IBRD, ICAO, ICC (with national committees), ICRM, IDA, IDB, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IPU, ISO, ITSO, ITU, ITUC, MIGA, MINURSO, MONUSCO, NAM, OIC, OPCW, PCA, PIF (partner), UN, UNAMID, UNCTAD, UNESCO, UNIDO, UNIFIL, UNMIL, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO

Ease of Doing Business in 2013 (World Bank): 12

WEF Global Competitiveness Report 2012-2013: 25

Enabling Trade Index 2012 (World Economic Forum): Rank 24

Government Effectiveness Indicator 2011 (World Bank): Percentile Rank 81

Control of Corruption 2011 (World Bank): Percentile Rank 58

Transparency International's 2012 Corruption Perception Index

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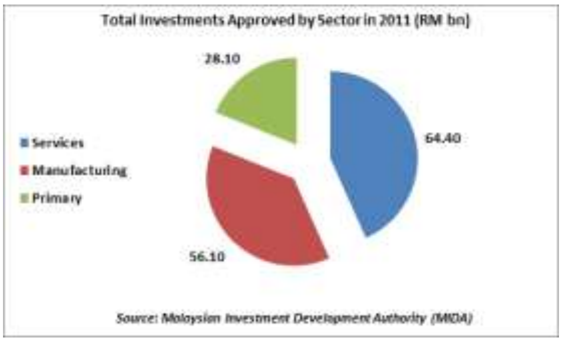
INVESTING IN MALAYSIA

Figure: 5



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- UNCTAD ranked Malaysia as the top host country for FDI in 2011-2012

- FDI Inflows and Total Approved Investments (in the Manufacturing, Services and Primary Sectors) surge to new levels in 2011

- FDI Inflows to Malaysia surged by 12.3% in 2011

- 72% of the FDI's originate from Asian countries

- The year 2011 marked the implementation of several key initiatives such as the Economic Transformation Programme (ETP) and the 10th Malaysia Plan (10MP) by the Government, which laid the foundation for the country's transformation into a high income economy as envisioned in the New Economic Model (NEM)

- Malaysia continues to be a cost competitive location and has been able to attract projects with significant levels of investments

- In 2011, total investments approved in the Malaysian economy amounted to RM 148.6 bn. This constitutes investments approved in the manufacturing, services and primary sectors

- Growth in approved investments in the services sector underpins economic growth

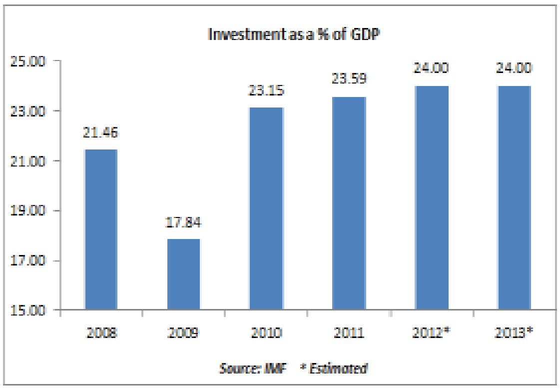
- Approved investments in the manufacturing sector continue to grow with RM 56.1 bn in approved investments, 846 projects and the generation of 100,533 jobs

- Real estate and transport remains the major sectors for investments in the services sector

- In 2011, realised private investments (Gross Fixed Capital Formation) crosses the target of RM 83 bn to approximately RM 94 bn

<u>**Factors Driving Investments in Malaysia:**</u>

- Increasing GDP over the years
- Reducing unemployment rate
- Tamed inflation levels
- Market oriented economy
- Economy transforming from an agro based to a manufacturing dependent one
- High level of global integration
- Availability of young productive workforce
- A high level of foreign reserves; a strong account surplus
- The New Economic Model (NEM) to be achieved through an Economic Transformation Programme (ETP) constitutes a key foundation which will propel Malaysia to being an advanced nation with inclusiveness and sustainability in line with goals set forth in Vision 2020



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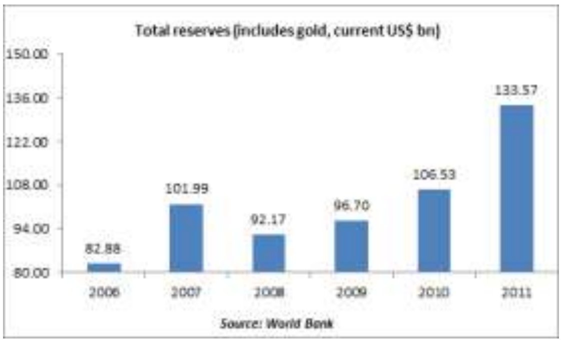

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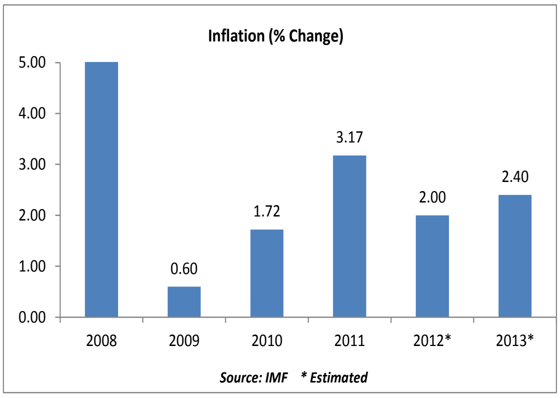

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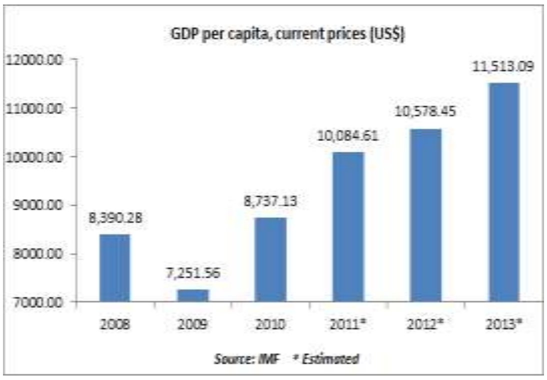

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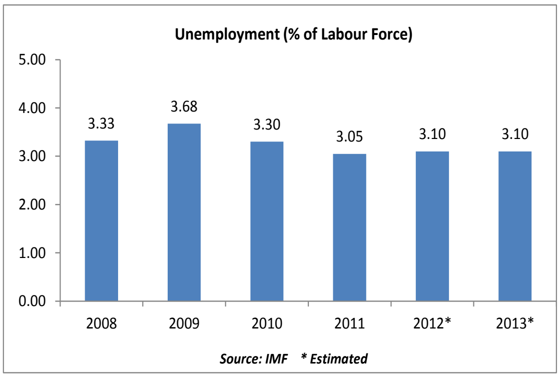

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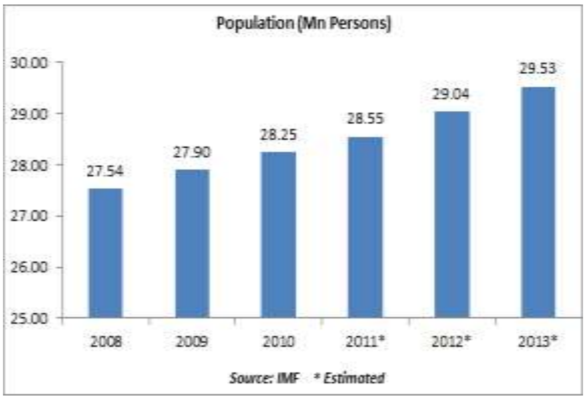

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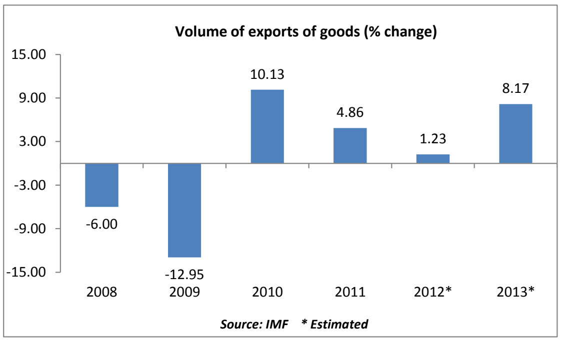

Figure: 13

- **Well-developed infrastructure:**

Network of well-maintained highways and railways, well-equipped seaports and airports, developed industrial parks, including free industrial zones, technology parks and Multimedia Super Corridor (MSC), advanced MSC Malaysia Cybercities and Cybercentres

Major Exports Products (Jan-Dec 2012)

- Electrical and electronic products
- Refined petroleum products
- Palm oil
- Liquefied natural gas
- Chemicals and chemical products
- Crude petroleum

Investment Climate:

- The Ministry of International Trade & Industry (MITI) leads the development of industrial activities in the country to enhance Malaysia's economic growth. As an agency under MITI, the Malaysian Investment Development Authority (MIDA) is in charge of the promotion and coordination of industrial development in the country

- Supportive government policies for investments. Attractive tax and other incentives coupled with liberal investment policies and liberal exchange control regime

Manufacturing Sector:

- Malaysia offers a wide range of tax incentives for manufacturing projects under the Promotion of Investments Act 1986 and the Income Tax Act 1967

- The main incentives are the Pioneer Status and Investment Tax Allowance.

- A company granted Pioneer Status enjoys a five year partial exemption from the payment of income tax. It pays tax on 30% of its statutory income, with the exemption period commencing from its Production Day (defined as the day its production level reaches 30% of its capacity)

- As an alternative to Pioneer Status, a company may apply for Investment Tax Allowance (ITA). A company granted ITA is entitled to an allowance of 60% on its qualifying capital expenditure (factory, plant, machinery or other equipment used for the approved project) incurred within five years from the date the first qualifying capital expenditure is incurred

- Other incentives include Reinvestment Allowance, Accelerated Capital Allowance, and Tax Exemption on the Value Increased Exports among others

- No restriction on foreign equity ownership for manufacturing companies in Malaysia

Services Sector:

- The Malaysian government has identified the services sector as an area that offers numerous opportunities for growth and the sector is being actively promoted.

- Regional establishments, which include Operational Headquarters (OHQs), International Procurement Centres (IPCs), Regional Distribution Centres (RDCs), Regional Offices (ROs) and Representative Offices (REs) are among those activities promoted in the services sector.

- Under the 10th Malaysia Plan (2011 - 2015), the services sector is expected to grow at 7.2% annually until 2015, raising its contribution to GDP to 61% by the end of the Plan period.

- The estimated new investment of RM 44.6 bn is required for the services sector to reach the targeted GDP contribution, with an increasing portion from foreign direct investment

- Accordingly, MIDA has chalked out the various incentives and tax allowances and incentives for various service based sectors such as the tourism, hospitality, healthcare, education and allied sectors.

Industries Restricted:

Generally, there are no restricted sectors except those that produce supporting parts and components. These include plastic packaging material; plastic compound/master batch; plastic injection moulded components and parts for the electrical, electronics and telecommunications industry; paper packaging products; metal fabrication; and foundry products.

Key trends and recent market developments:

- The Malaysian government's strategy is to shift from import substitution to export-oriented industries.

- The NEM is focused to move the economy "up the value chain" by promoting investments in higher value added manufacturing and service sectors.

- Efforts to be intensified to target and attract industries in which Malaysia has a strong base and in new growth areas to achieve the target of RM 115 bn per annum.

FINANCIAL MARKETS IN MALAYSIA

Origin and Development:

- In January 1959, the Central Bank of Malaysia (Bank Negara Malaysia - BNM) was established under the Central Bank of Malaya Ordinance (CBO) 1958. The Banking Ordinance enabled the central bank to monitor the licensing and regulation of the banking sector in the Federation of Malaya. In 1994, the Ordinance was revised into the Central Bank of Malaysia Act 1958 (CBA), which was repealed by the enactment of the Central Bank of Malaysia Act 2009.
- The Banking and Financial Institutions Act 1989 (BAFIA) was introduced in 1989 and provided an extension to BNM's powers to also regulate and supervise financial and deposit-taking institutions which are engaged in the business of providing finance and credit. **(Refer Figure 14)**
- The commercial banking institutions are the foremost providers of funds within the banking system.
- After the commercial banks feature the finance institutions, which are governed by the BAFIA. In 1989, the BAFIA replaced the earlier regulating law viz. the Finance Companies Act 1969.
- Investment and merchant banking entities came in to existence on the Malaysian financial scenario in 1970's. These entities engage in business in the short-term money market and in long-term fund raising activities and are regulated by BNM and the Securities Commission.
- Malaysia also has an active Islamic banking system which co-exists with the conventional banking system. Islamic banks are regulated by the BNM under the Islamic Banking Act (IBA), which came in effect on 07 April 1983.
- Discount houses first started operations in 1963; they focus on short-term money market operations and mobilise call money, overnight money and short term deposits from financial institutions and other entities. Finances thus mobilised are invested in Malaysian T-bills and Government Securities, Cagamas (Malaysia's National Mortgage Corporation) bonds, negotiable certificates of deposit (NCDs), banker acceptances (BAs) and Floating Rate Negotiable Certificates of Deposit (FRNCDs). This has also led to the creation of an active secondary market for these securities.
- Foreign banks have established representative offices in Malaysia which only offer liaison services and do not provide direct banking services in the Malaysian financial system.
- In addition to the above, the Malaysian financial system comprises of non-bank financial intermediaries. These intermediaries are mainly insurance companies, provident & pension funds and development finance institutions.

- Provident & pension funds (PPFs) provide schemes for individual subscription that focus on retirement, medical, death and disability benefits.
- Government established Development Financial Institutions (DFIs) provide finance for promoting the development of priority sectors and sub-sectors of the economy. Main DFIs include - Bank Pertanian Malaysia (est. 1969), Bank Industri & Technologi Malaysia, Bank Pembangunan & Infrastruktur Malaysia Berhad, EXIM Bank (est. 1995) and Malaysian Industrial Development Finance (est. 1960).
- Operations of the insurance companies are regulated by the Insurance Act, 1996.
- Insurance companies were allowed to participate in the investment-linked business in the year 2000.
- The first re-insurance company, Malaysian Life Reinsurance Group Berhad was setup in 1997.
- In addition to the insurance and re-insurance companies, other insurance intermediaries such as the insurance brokers and adjusters are governed by BNM.
- Takaful services providers fall under the purview of the Takaful Act 1984.

Governing regulations and guidelines:

- Apart from the Central Bank of Malaysia Act 2009, the Malaysian financial system is mainly governed and regulated by the following laws and regulations:
  - ***Banking and Financial Institutions Act, 1989 (BAFIA)***: The BAFIA replaced the Banking Act 1973 and the Finance Companies Act 1969. The BAFIA provides BNM with a comprehensive platform to directly supervise and regulate a broad spectrum of financial institutions.
  - ***Insurance Act, 1996:*** The Act enables BNM to exercise a high degree of control over the licensed insurance companies and critical aspects of their operations.
  - ***Anti-Money Laundering Act, 2001:*** The Act lays down broad based laws and regulations to prevent, detect and prosecute money laundering activities.

- Foreign Exchange management: Post the 1997 Asian financial crisis, the Malaysian government implemented measures to protect the economy from external economic risks and bring in a stable exchange rate regime. The measures in the form of Exchange Control Notices have effectively insulated the Ringgit from external shocks.
- In addition to this the government established Pengurusan Danaharta Nasional Berhad (Danaharta), Danamodal Nasional Berhad (Danamodal) and Corporate Debt Restructuring Committee (CDRC) in 1998 during the Asian Financial Crisis
  - Danaharta (est. June 1998) is a special purpose limited liability company which provides financing and other services related to the transfer and liquidation of non-performing assets of commercial banks.

- Danamodal (est. August 1998) was established with a view to re-capitalize and underpin the banking sector.
- CDRC (est. July 1998) was formed by BNM and it successfully resolved 57 cases with a total debt outstanding of RM 45.8 bn. The CDRC was again formed in July 2009 for new cases.

- The financial markets in Malaysia comprise of the Money and Foreign Exchange markets and the capital and derivatives markets. The institutions operating in these markets are governed by the Malaysian Code of Conduct for Principals and Brokers in the Wholesale Money and Foreign Exchange Markets.
- The Securities Commission is entrusted with the responsibility of monitoring and supervising institutions conducting business in Malaysia's capital markets under the Securities Industry Act, 1983 and Futures Industry Act, 1993. The Securities Commission oversees the functioning of the Kuala Lumpur Stock Exchange, Kuala Lumpur Options and Financial Futures Exchanges (KLOFFE) and the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ). Also under its purview is the Malaysian Bond Market, which deals in government and private bonds.
- In addition to the traditional segments, the capital market in Malaysia also features an Islamic Capital Market segment.
- Another vital component of the Malaysian financial system is the Labuan financial centre, which has evolved into an International Business and Financial Centre (IBFC). Over the last decade, the Labuan IBFC has witnessed steady expansion and at the end of 2010, it has more than 8,000 companies and 400 international financial institutions from more than 100 countries. Operating under the purview of the Labuan Financial Services Authority Act 1996, the regulatory and supervisory framework has evolved since its inception in 1996.

Financial Sector Master Plan (FSMP)

The Malaysian government embarked on a major transformation of the domestic financial sector with the formulation of the Financial Sector Master Plan (FSMP), introduced for the 2001-2011 decade. Before the introduction of the FSMP, the Malaysian financial system was characterised by:

- Fragmented banking system comprising 77 domestic banks
- Less developed bond market
- Financing requirement over-reliance only on banking sector
- More rigid and prescriptive rules-based regulation and supervision
- Limited prominence of Islamic finance
- Rigid price mechanisms
- Gaps in access to financing

The FSMP's implementation led to:

- Consolidation and rationalization of the banking industry
- Financial sector diversification with a deep and liquid debt securities market

- Robust corporate governance and risk management practices
- Strategic alliances with foreign institutions
- Efficient delivery channels for financial products and services
- Strengthened surveillance, regulatory and supervisory framework
- Broad consumer protection framework
- Malaysia as an international Islamic financial hub
- Enhanced access to financing especially for SMEs and micro corporations
- Strengthened financial and economic linkages. **(Refer Figure 15)**
- The intermediation function of the financial system has developed robustly due to the setting-up of vital financial market infrastructure under the FSMP. This includes the development of the domestic debt securities market and comprehensive payment and settlement systems.
- Over the course of the implementation of FSMP from 2001 to 2011, the sector expanded by an annual growth of 7.3%.
- The debt securities market has witnessed sharp expansion from RM 306.8 bn in 2001 to RM 867 bn or 105% of GDP in 2011. This has resulted in Malaysia's debt securities market to be ranked as the largest in Southeast Asia.
- Other institutions established as part of the FSMP include the Malaysia Deposit Insurance Corporation (PIDM) and the Cooperative Commission Malaysia which have added to the strength of the financial system.
- The BNM has augmented its financial stability framework and governance arrangements over the 10-year period. The regulation and supervision of financial institutions has become more risk-focused and pre-emptive to reflect the nature, size and complexity of the various institutions. In addition, BNM has internally added clear accountability and decision-making structures, including the Financial Stability Committee which was established in 2004.
- The Islamic banking industry's proportion to the overall banking sector has grown from 6% to 22%, while the Sukuk market accounts for 55% of the debt securities market. Over the decade, Malaysia has emerged as a leading international centre for Islamic finance.
- The Islamic finance segment has been strengthened with the passing of the Labuan Islamic Services and Securities Act 2010 which has led to the development of retakaful and Islamic structured finance segments.
- In 2011, the BNM released the Financial Sector Blueprint 2011-2020 which lays down the strategic path for the future direction of the financial system. The plan aims to strengthen the domestic financial system so that it efficiently handles the Malaysian economy's transition into a high value-added and high-income economy. **(Refer Figure 16 & 17)**

PRIVATE EQUITY IN MALAYSIA

Malaysia is fast becoming an upcoming country for investments especially in terms of private equity deals. Currently in its nascent stages, this once upon a time untapped segment was earlier a minor blip on the radar screens of private equity investors. However, this trend is slowly reversing and the country is now becoming a lucrative region for PE investments backed by the government's effort to boost this sector to make it more prominent and competitive for investors.

The region stands out from the rest of Southeast Asia as a prime destination for private capital primarily attributed due to:

- A transparent regulatory environment
- Low barriers to entry for investors

PE Players in Malaysia:

Active private equity investors in Malaysia are a mix of domestic and international funds.

- Navis Capital Partners was founded in 1998, and stands today as one of the region's most experienced PE firm with an excellent track record of investments in growth oriented buyouts in Malaysia, Southeast Asia, India and Australia. Navis Capital manages approximately U$$ 3 bn in capital commitments. The company also targets other Asian countries including Thailand and Singapore.

  The firm secured capital commitments worth RM 230 mn for a Malaysia Growth Opportunities Fund I in 2011. In recent news, Navis Capital said it had purchased a 54.8% equity interest in data services company Strateq Sdn Bhd from Kencana Capital Assets Sdn Bhd for an undisclosed amount.

- CIBM Private Equity is the PE and venture arm of CIMB Group, currently managing third party funds worth approximately RM 1 bn across sectors including manufacturing, retail, education, services, agriculture and technology. With a focus on medium to long term investments in Malaysia and the Southeast Asian region, it currently has over 40 active companies in its investment portfolio.

- Government-controlled Khazanah Nasional is a significant player, with funds targeting smaller deals and other government-linked investors like Ekuiti Nasional Bhd (Ekuinas) and the Employees Provident Fund (EPF).

Ekuiti Nasional Bhd (Ekuinas):

- Unique Government linked private equity fund announced by the government on 30 June 2009.

- Ekuinas conceptualised as an alternative approach to achieve objectives under the New Economic Policy.

- Capital is endowed by the government and managed by Ekuinas as the Private

Equity Fund Management Company. The government has allocated an initial fund of RM 500 mn to be enlarged to RM 10 bn in due course of time.

- Ekuinas intends to leverage on private capital through co-investments and through its private equity outsourcing programme.

- Ekuinas manages investments through:

    - Directly investing in companies
    - Outsourcing a part of its funds to third party private equity firms

- Key focus sectors include
    - Oil & Gas
    - Education
    - FMCG
    - Retail & Leisure
    - Healthcare
    - Services

- For the next five years, Ekuinas has allocated a budget of an estimated RM 3.5 bn for direct investments and RM 1 bn for its Outsourced Programme.

Malaysia's PE Highlights 2012

- Top on the list in 2012 was the buyout of KFC Holdings Bhd by Johor Corp (JCorp) who teamed up with UK-based PE player, CVC Capital Partners and Malaysia's Employees Provident Fund. Although the deal was first announced in 2011, it took the whole of 2012 for it to be completed. Its deal size of US$ 1.65 bn stands out as one of the biggest deals in the region in recent times.

  In recent news, EPF is due to review its asset allocation in private equity and is looking at more investments in ASEAN and China. According to reports, there is no pre-conceived target for the review but the EPF will continue to give due importance to PE investments both inside and outside Malaysia. Currently, EPF has about 2% of its total assets, which is about RM 10 bn, invested in PE both in Malaysia and overseas.

- Another notable deal last year was by Navis Capital Investment Ltd. Navis launched a cash takeover for SEG International Bhd together with the company's major shareholder in a deal valued at RM 1.14 bn. 2012 also saw Navis buying companies and own BIG Cinemas and MBO Cinemas.

- Mitsui of Japan took up a 30% stake in IHH Healthcare for US$1 bn (RM 3.02 bn). Khazanah Nasional Bhd owns the remaining 70%.

Malaysia's PE Highlights 2011

- In 2011, Malaysia overtook Singapore and became South-East Asia's top investment destination

- Private equity funds invested US$ 3.6 bn (RM 11.16 bn) across 14 deals, a level that represented 50% of South-East Asia's total deal value. Total invested funds in PE are only 1.6% out of a fund size of about RM 400 bn in Malaysia.

Government Initiatives:

- One such initiative stemming from the Government is the establishment of the Malaysian Venture Capital Development Council through the Securities Commission which looks into specific issues of developing a more vibrant industry for investments.

- In recent news, the Malaysian government is also encouraging Developmental Financial Institutions (DFIs), to drive the venture capital and private equity sector.

- Further, the growth of the PE industry has been fuelled by a supportive government in the form of government-linked investors like Ekuiti Nasional Bhd, Khazanah Nasional Bhd and the Employees Provident Fund.

- At present, most of the initiatives are focussed on attracting companies in certain growth sectors such as information and communication, multimedia, bio technology and renewable energy. Other buoyant sectors include food, consumer, education and manufacturing which attract regional interests.

Looking ahead

- According to industry players, PE investments will continue to have a presence in the Malaysian landscape, with the number of deals to be struck to grow.

- Although challenges remain, such as asset owners not keen in letting go of their struggling assets and the delay in the government's promise of divesting its business interests, an encouraging landscape for PE deals has been laid, driven by a significant number of PE deals closed over the years.

- The Malaysian economy will continue to prove buoyant and sectors like food, consumer, education and manufacturing will continue to attract regional interest.

- The Malaysian government is building up this sector to make it more prominent and lucrative for both domestic and international investors.

- Malaysia's New Economic Model which is being established by the Government of Malaysia will turn fuel private equity investments in the country with an aim to make it the next engine of economic growth that will prop up Malaysia into the level of high income nations.

SWOT Analysis:

Strengths:

- Malaysia's high GDP, educated workforce, a government which encourages foreign investments and an open and stable political environment supports PE investments in the country.

- Given that in the year 2011, Malaysia overtook Singapore and became South-East Asia's top investment destination. This serves as evidence that the investment appetitive in the country is growing. Malaysia's PE business is on the rise following several high-profile deals especially seen in the country in 2012.

Weakness:

- In a PE model, the funds used for investments normally come from high net-worth individuals and institutions. The problem in Malaysia is that institutional funds do not invest much in PE.

- Active institutions are still relatively small and their asset allocation is still low compared to other institutional investors in developer markets.

- Regulatory challenges will remain a hindrance to a certain extent for PE players anticipating to do deals in Malaysia.

Opportunities:

- The food, consumer, education and manufacturing sectors are geared to attract investments in the form of private equity.

Threats:

- Investors are keen on South-East Asia's more populous countries such as Singapore, China, Indonesia and Vietnam. Another market that is witnessing increasing PE interest is Myanmar.

APPENDIX

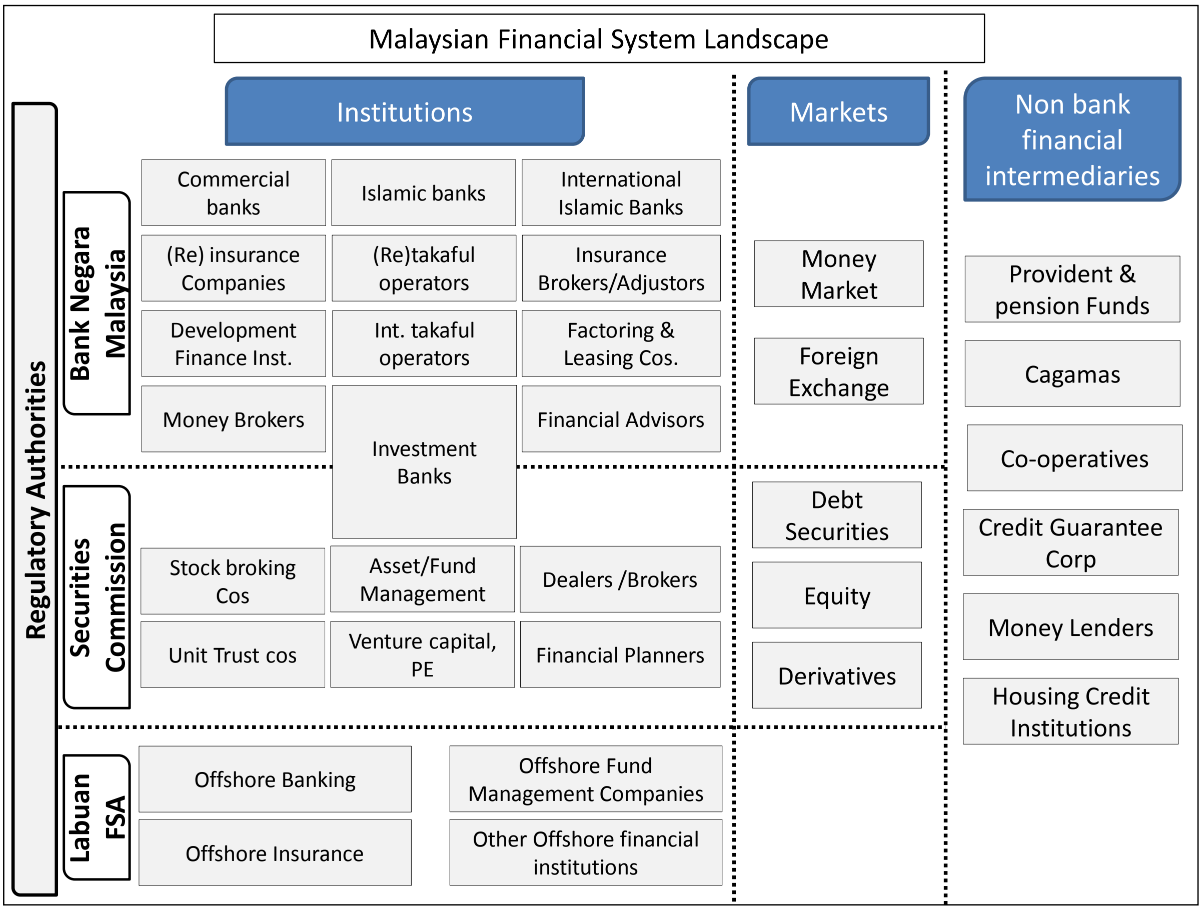

Figure: 14 Source: Bank Negara Malaysia

Commercial Banks	Domestic		Foreign	
	2000	2010	2000	2010
Capitalisation: RWCR (%)	11.7	14.2	14.0	14.6
Asset Quality: Net NPL Ratio (%)	9.2	2.6	5.7	1.2
Profitability: ROA (%) ROE (%)	1.1 13.3	1.6 16.7	2.1 26.4	1.6 19.6

Figure 15: Improved performance indicators; Source: Bank Negara Malaysia, Financial Sector Blueprint 2011-2020

Loans disbursed by banking system	2007	2008	2009	2010	2011	2012
Manufacturing sector Annual change (%)	13.5	12.4	-15.2	12.0	21.9	17.5
Construction sector Annual change (%)	6.9	6.8	16.6	5.5	5.4	20.7
Private debt Securities	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total funds raised (RM bn)	67.6	49.7	58.6	52.1	69.6	121.1

Figure 16: Financial Sector Performance Indicators; Source: Bank Negara Malaysia, 2012 Annual report

Financing Type/institution	Businesses	Households	Government	Total Financing
Net Change in Financing (2012 Provisional)	RM million			
Financial Intermediaries				
Banking Institutions	38,995	63,840	1,666	104,501
Development Fin. Inst.	2,791	7,424	-	10,215
Other intermediaries	(12,479)	2,227	-	(10,253)
Capital market				
Bond Market	60,079	-	47937	108,015
Equity Market	27,405	-	-	27,405
External Financing				
Foreign Direct Investment	29,061	-	-	29,061
External Loan	12,072	-	(4,870)	7,202

Figure: 17: Financing of the economy; Source: Bank Negara Malaysia, 2012 Annual report

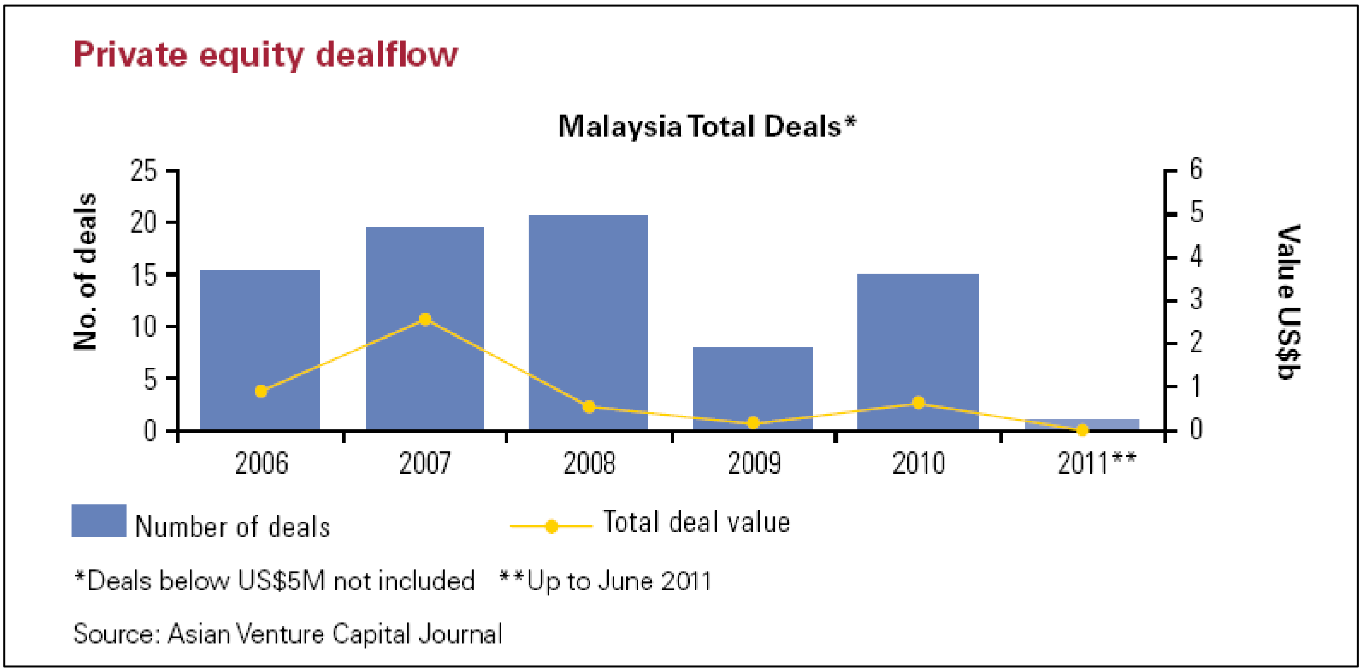

Figure: 18

For More Information Contact:

Robert MacPherson

Vice President

Reciprocus International Pte Ltd

10 Anson Road, #10-22, International Plaza, Singapore 079903

Mobile: +65 9887 3768 Tel: + 65-6225-9986 Fax: +65 6225 8223

Website: http://www.reciprocusinternational.com/