

**THIS INDEPENDENT ADVICE CIRCULAR ("IAC") IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the course of action to take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this IAC, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this IAC.

# KRISASSETS HOLDINGS BERHAD<sup>24123-H</sup>

*(Incorporated in Malaysia)*

## **INDEPENDENT ADVICE CIRCULAR TO NON-INTERESTED SHAREHOLDERS OF KRISASSETS HOLDINGS BERHAD IN RELATION TO:**

- (I) PROPOSED DISPOSAL OF MID VALLEY MEGAMALL AND THE GARDENS MALL AND THE RELATED ASSETS (AS DEFINED HEREIN) BY THE SUBSIDIARIES OF KRISASSETS HOLDINGS BERHAD TO IGB REAL ESTATE INVESTMENT TRUST ("IGB REIT") FOR A TOTAL DISPOSAL CONSIDERATION OF RM4,612.6 MILLION TO BE SATISFIED BY THE PROPOSED ISSUANCE OF 3,400 MILLION NEW UNITS IN IGB REIT ("CONSIDERATION UNITS") AT AN ISSUE PRICE OF RM1.00 EACH AND THE BALANCE OF RM1,212.6 MILLION IN CASH ("PROPOSED DISPOSAL"); AND**
  
- (II) PROPOSED OFFER FOR SALE BY MID VALLEY CITY GARDENS SDN BHD OF 670 MILLION CONSIDERATION UNITS, IN AN INITIAL PUBLIC OFFERING PURSUANT TO THE PROPOSED LISTING (AS DEFINED HEREIN) ("PROPOSED OFFER FOR SALE")**

*Independent Adviser*



**M&A SECURITIES SDN BHD (15017-H)**  
(A Wholly-Owned Subsidiary of Insas Berhad)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

---

## DEFINITIONS

---

"Board"	: The Board of Directors of the Company
"Bursa Depository"	: Bursa Malaysia Depository Sdn Bhd (165570-W)
"Bursa Securities"	: Bursa Malaysia Securities Berhad (635998-W)
"Circular"	: Circular to shareholders of the Company in relation to the Proposals dated 5 June 2012
"CIMB"	: CIMB Investment Bank Berhad (18417-M), the Joint Principal Adviser for the Proposals
"Consideration Units"	: 3,400 million Units to be issued to the Vendors as part satisfaction of the disposal consideration for the Proposed Disposal at the issue price of RM1.00 per Unit which shall be deemed fully paid
"Distributable Income"	: The amount available for distribution to the Unitholders of IGB REIT
"Distribution Units"	: 2,730 million Units to be distributed pursuant to the Proposed Distribution-In-Specie
"EGM"	: Extraordinary general meeting
"Entitled Shareholders"	: Shareholders of the Company whose names appear in the Record of Depositors as at the Entitlement Date who will be entitled to participate in the Proposed Distribution-In-Specie, Proposed Special Dividend and Proposed Capital Reduction and Repayment (where relevant)
"Entitlement Date(s)"	: The respective date(s) on which shareholders of KrisAssets must be registered in the Record of Depositors in order to participate in the Proposed Offer for Sale, Proposed Distribution-In-Specie, Proposed Special Dividend and Proposed Capital Reduction and Repayment, which shall be determined by the Board and announced later
"EPS"	: Earnings per share
"Full Conversion of the Bonds"	: After full conversion of the Bonds, in which case the holders of the Bonds will become shareholders of KrisAssets and be entitled to receive the Distribution Units and cash pursuant to the Proposed Distribution
"FYE"	: Financial year ended / ending
"Henry Butcher" or "Independent Property Valuer"	: Henry Butcher Malaysia Sdn Bhd (160636-P), the independent property valuer for the Subject Properties
"HLIB"	: Hong Leong Investment Bank Berhad (43526-P), the Joint Principal Adviser for the Proposals
"IAC"	: This independent advice circular by the Independent Adviser to the non-interested shareholders of KrisAssets in relation to the Proposed Disposal and Proposed Offer for Sale dated 12 June 2012

---

**DEFINITIONS (Cont'd)**

---

"IGB"	: IGB Corporation Berhad (5745-A), the holding company of KrisAssets
"IGB REIT"	: A real estate investment trust to be established in Malaysia and constituted under the deed of trust to be entered into between the proposed management company for IGB REIT and trustee for the IGB REIT and to be registered with the SC for the constitution of IGB REIT.  IGB REIT is proposed to be listed on the Main Market of Bursa Securities
"KrisAssets" or "the Company" or "the Issuer"	: KrisAssets Holdings Berhad (24123-H), the holding company of the Vendors
"KrisAssets Group" or "Group"	: KrisAssets and its subsidiaries
"KrisAssets Share(s)" or "Share(s)"	: Ordinary share(s) of RM1.00 each in KrisAssets
"Listing Requirements"	: Main Market Listing Requirements of Bursa Securities and the practice notes therein, including any amendment made from time to time
"LPD"	: 25 May 2012, being the latest practicable date prior to the printing of this IAC
"M&A Securities" or "Independent Adviser"	: M&A Securities Sdn Bhd (15017-H), the Independent Adviser for the Proposed Disposal and Proposed Offer for Sale
"Mid Valley Megamall"	: A five (5) level retail mall with one mezzanine floor, two (2) levels of basement car park and four levels of elevated car park, bearing the postal address of Mid Valley Megamall, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia and constructed on part of the leasehold land of ninety-nine (99) years held under PN 37075, Lot 80 Seksyen 95A, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, being one of the Subject Properties to be acquired by the trustee on behalf of IGB REIT pursuant to the Proposed Disposal
"Mid Valley Megamall Related Assets"	: Assets such as motor vehicles, machineries, equipment (including software), fixtures and fittings utilised by MVC for the operation of, or in relation to, Mid Valley Megamall which will be disposed together with Mid Valley Megamall to the trustee on behalf of IGB REIT pursuant to the Mid Valley Megamall SPA
"Mid Valley Megamall SPA"	: Sale and purchase agreement to be entered into between MVC as the Vendor and the trustee on behalf of IGB REIT as the purchaser in relation to the proposed disposal of Mid Valley Megamall and Mid Valley Megamall Related Assets by MVC to IGB REIT, after the establishment of IGB REIT
"MVC"	: Mid Valley City Sdn Bhd (102986-K), a wholly-owned subsidiary of KrisAssets, the registered land proprietor of the master land on which Mid Valley Megamall is erected on, and the vendor of Mid Valley Megamall and Mid Valley Megamall Related Assets

---

**DEFINITIONS (Cont'd)**

---

"MVCD"	: Mid Valley City Developments Sdn Bhd (21593-H), a wholly-owned subsidiary of IGB and being the registered land proprietor of the master land on which The Gardens Mall is erected on
"MVCG" or "Offeror"	: Mid Valley City Gardens Sdn Bhd (186198-P), a wholly-owned subsidiary of KrisAssets, the vendor for The Gardens Mall and The Gardens Mall Related Assets, and the Offeror for the 670 million Offer Units pursuant to the Proposed Offer for Sale
"NA"	: Net assets
"NAV"	: Net asset value
"NLA" or "Net Lettable Area"	: Area in a property that is lettable for gross rental income but excludes space used for building and centre management operations, common areas, carts, storage, signages and automated teller machines
"Offer Units"	: 670 million Units to be offered pursuant to the Proposed Offer for Sale
"PBR"	: Price-to-book ratio
"PNAV"	: Price to NAV
"Proposals"	: Proposed Disposal, Proposed Offer for Sale, Proposed Distribution and Proposed Amendments, collectively
"Proposed Amendments"	: Proposed amendments to the Memorandum and Articles of Association of KrisAssets to facilitate the Proposed Capital Reduction and Repayment
"Proposed Capital Reduction and Repayment"	: Proposed capital repayment by way of a reduction in the share capital and share premium of KrisAssets via cancellation of RM0.98 of the par value of each existing KrisAssets Share and cancellation of the share premium account of KrisAssets in accordance with Sections 60 and 64 of the Companies Act, 1965 to the Entitled Shareholders as at the Entitlement Date
"Proposed Disposal"	: Proposed disposal of the Subject Properties and the Related Assets by the Vendors to IGB REIT for the Total Disposal Consideration to be satisfied via the proposed issuance of Consideration Units and the balance in cash
"Proposed Distribution"	: Proposed Distribution-In-Specie, Proposed Special Dividend and Proposed Capital Reduction and Repayment, collectively
"Proposed Distribution-In-Specie"	: Proposed distribution-in-specie of the Distribution Units by KrisAssets to the Entitled Shareholders as at the Entitlement Date
"Proposed Listing"	: Proposed admission of IGB REIT to the Official List and the listing of and quotation for 3,400 million Consideration Units on the Main Market of Bursa Securities
"Proposed Offer for Sale"	: Proposed offer for sale by MVCG of 670 million Offer Units, vja an initial public offering pursuant to the Proposed Listing

---

**DEFINITIONS (Cont'd)**

---

- "Proposed Special Dividend" : Proposed declaration and payment of part of the Remaining Cash Proceeds, at a quantum to be determined later, as an interim special dividend to the Entitled Shareholders as at the Entitlement Date
- "Real Estate-Related Assets" : Includes units of other REITs, listed securities of and issued by property companies, listed or unlisted debt securities of and issued by property companies and real estate-related asset-backed securities
- "Record of Depositors" : A record of securities holders provided by Bursa Depository under the rules of Bursa Depository
- "REIT" : Real estate investment trust
- "REIT Guidelines" : The Guidelines on REIT issued by the SC on 21 August 2008 (and updated on 13 July 2011), as amended from time to time
- "Related Assets" : Mid Valley Megamall Related Assets and The Gardens Mall Related Assets, collectively
- "Remaining Cash Proceeds" : The remaining cash proceeds from the Proposed Distribution and the Proposed Offer for Sale after settlement of all outstanding liabilities in KrisAssets Group which are due and payable after completion of the Proposed Disposal as well as to maintain sufficient cash for the settlement of estimated expenses for the Proposals
- "RM" and "sen" : Ringgit Malaysia and sen, respectively
- "SC" : Securities Commission of Malaysia
- "SPAs " : Mid Valley Megamall SPA and The Gardens Mall SPA, collectively
- "sq ft" : Square feet
- "Subject Properties" : Mid Valley Megamall and The Gardens Mall, collectively and "Subject Property" means any one of them individually
- "Substantial Shareholder" : A person who has an interest in one or more voting shares in the company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is not less than 5% of the aggregate of the nominal amounts of all the voting shares in the company, as defined under Section 69D (1) of the Companies Act, 1965
- "The Gardens Mall" : An eight (8) level retail mall together with four (4) levels of basement car park and four levels of elevated car park, bearing the postal address of The Gardens Mall, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia and constructed on part of the leasehold land of ninety-nine (99) years held under PN 37073, Lot 79 Seksyen 95A, Bandar Kuala Lumpur, Daerah Kuala Lumpur, Wilayah Persekutuan Kuala Lumpur, being one of the Subject Properties to be acquired by the trustee on behalf of IGB REIT pursuant to the Proposed Disposal

---

**DEFINITIONS (Cont'd)**

---

"The Gardens Mall Related Assets"	: Assets such as motor vehicles, machineries, equipment (including software), fixtures and fittings utilised by MVCG for the operation of, or in relation to, The Gardens Mall which will be disposed together with The Gardens Mall to the trustee on behalf of IGB REIT pursuant to The Gardens Mall SPA
"The Gardens Mall SPA"	: Sale and purchase agreement to be entered into by MVCD as the registered land proprietor, MVCG as the Vendor and the trustee on behalf of IGB REIT as the purchaser in relation to the proposed disposal of The Gardens Mall and The Gardens Mall Related Assets by MVCG to IGB REIT, after the establishment of IGB REIT
"Total Disposal Consideration"	: Total disposal consideration of RM4,612.6 million in respect of the Proposed Disposal
"Unitholders"	: Holders of the Units
"Units"	: Undivided interests in IGB REIT as provided for in the deed
"US"	: United States of America
"Valuation Report(s)"	: Valuation report(s) in respect of the Subject Properties issued by the Independent Property Valuer dated 10 April 2012
"Vendors"	: The vendors of the Subject Properties and the Related Assets, being:  (i) MVC for Mid Valley Megamall and Mid Valley Megamall Related Assets; and  (ii) MVCG for The Gardens Mall and The Gardens Mall Related Assets

---

**The remaining of this page is intentionally left blank**

---

---

**CONTENTS**

---

**INDEPENDENT ADVICE CIRCULAR BY M&A SECURITIES IN RELATION TO THE PROPOSED DISPOSAL AND PROPOSED OFFER FOR SALE**

1.	INTRODUCTION	1
2.	DETAILS OF THE PROPOSED DISPOSAL AND PROPOSED OFFER FOR SALE	2
3.	LIMITATIONS TO THE EVALUATION OF THE PROPOSED DISPOSAL AND THE PROPOSED OFFER FOR SALE	4
4.	EVALUATION OF THE PROPOSED DISPOSAL AND THE PROPOSED OFFER FOR SALE	5
5.	ADEQUACY OF FINANCIAL RESOURCES OF THE PURCHASER	28
6.	RISK FACTORS AND LISTING STATUS	28
7.	CONCLUSION AND RECOMMENDATION	30
<b>APPENDIX</b>		
I	FURTHER INFORMATION	33

---

**The remaining of this page is intentionally left blank**

---



# **M &A SECURITIES SDN BHD (15017-H)**

*(A Wholly-Owned Subsidiary of INSAS BHD)*

**A PARTICIPATING ORGANISATION OF BURSA MALAYSIA SECURITIES BERHAD**

**KUALA LUMPUR BRANCH**

Level 1 & 2, No. 45 & 47 and Level 3, No. 45, The Boulevard, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur  
Tel : +603-2282 1820 (General Line) +603-2284 2911 (CF) Fax : +603-22831019 (Admin) +603-2284 2718 (CF)

---

12 June 2012

**To: The Non-Interested Shareholders of KrisAssets Holdings Berhad**

Dear Sir/Madam,

## **KRISASSETS HOLDINGS BERHAD**

- **INDEPENDENT ADVICE CIRCULAR FROM M&A SECURITIES SDN BHD TO THE NON-INTERESTED SHAREHOLDERS OF KRISASSETS IN RELATION TO THE PROPOSED DISPOSAL AND PROPOSED OFFER FOR SALE**
- 

### **1. INTRODUCTION**

On 16 April 2012, CIMB and HLIB, the Joint Principal Advisers on behalf of the Board of Directors of IGB and KrisAssets, announced that IGB is proposing to establish and list IGB REIT on the Main Market of Bursa Securities and KrisAssets is proposing to dispose the Subject Properties through its wholly-owned subsidiaries to IGB REIT.

On 11 May 2012, CIMB and HLIB, on behalf of the Board, announced the details of the Proposed Disposal at a total disposal consideration of RM4,612.6 million, to facilitate the Proposed Listing. Upon the establishment of IGB REIT, the Vendors (together with MVCD, a wholly-owned subsidiary of IGB and the registered land proprietor in the case of The Gardens Mall and The Gardens Mall Related Assets) will enter into the respective SPAs with the trustee on behalf of IGB REIT as the purchaser in the Proposed Disposal.

In view that the Proposed Disposal is deemed a related party transaction and a major disposal pursuant to paragraphs 10.02(k) and 10.11A of the Listing Requirements respectively, and the Proposed Offer for Sale which is deemed a related party transaction pursuant to paragraph 10.02(k) of the Listing Requirements by virtue of the inter-conditional with the Proposed Disposal, M&A Securities has on 20 April 2012 been appointed by the Company as the Independent Adviser to advise the non-interested directors and non-interested shareholders of KrisAssets in relation to the Proposed Disposal and Proposed Offer for Sale.

---

**The remaining of this page is intentionally left blank**

---



This IAC is solely for the use of the non-interested shareholders of KrisAssets for the purpose of providing the non-interested shareholders with an independent evaluation of the Proposed Disposal and Proposed Offer for Sale, to form an opinion as to whether the Proposed Disposal and Proposed Offer for Sale are fair and reasonable in so far as the non-interested shareholders of KrisAssets are concerned and whether the Proposed Disposal and Proposed Offer for Sale are detrimental to the non-interested shareholders as well as to provide a recommendation on the voting of the resolutions pertaining to the Proposed Disposal and Proposed Offer for Sale. As such, this IAC should not be used or relied upon by any other party or for any other purpose.

**NON-INTERESTED SHAREHOLDERS ARE ADVISED TO READ AND FULLY UNDERSTAND BOTH THIS IAC AND THE CIRCULAR TO CONSIDER CAREFULLY OUR RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSED DISPOSAL AND PROPOSED OFFER FOR SALE TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY.**

**IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKERS, BANK MANAGERS, ACCOUNTANTS, SOLICITORS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

## **2. DETAILS OF THE PROPOSED DISPOSAL AND PROPOSED OFFER FOR SALE**

The details of the Proposed Disposal and Proposed Offer for Sale as extracted from the Circular are reproduced below:

*"On 16 April 2012, CIMB and HLIB, the Joint Principal Advisers on behalf of the Board of Directors of IGB and KrisAssets, announced that IGB is proposing to establish and list IGB REIT on the Main Market of Bursa Securities and KrisAssets is proposing to dispose the Subject Properties through its wholly-owned subsidiaries to IGB REIT.*

*On 11 May 2012, CIMB and HLIB, on behalf of the Board, announced the details of the Proposed Disposal at a total disposal consideration of RM4,612.6 million, to facilitate the Proposed Listing. Upon the establishment of IGB REIT, the Vendors (together with MVCD, a wholly-owned subsidiary of IGB and the registered land proprietor in the case of The Gardens Mall and The Gardens Mall Related Assets) will enter into the respective SPAs with the trustee on behalf of IGB REIT as the purchaser in the Proposed Disposal.*

*The Vendors (together with MVCD, a wholly-owned subsidiary of IGB and the registered land proprietor in the case of The Gardens Mall and The Gardens Mall Related Assets) will enter into the respective SPAs with the trustee (on behalf of IGB REIT) as the purchaser in relation to the Proposed Disposal, for a total disposal consideration of RM4,612.6 million to be satisfied as follows:*

- (i) issuance of 3,400 million Consideration Units at an issue price of RM1.00 per Unit, to be credited as fully paid-up; and*
- (ii) cash consideration of RM1,212.6 million to be funded from the drawdown of a portion of the syndicated financing facilities (further elaborated in Section 5 herein).*

---

**The remaining of this page is intentionally left blank**

---

Details of the Total Disposal Consideration for each of the Subject Properties and the Related Assets are set out below:

Subject	Vendors	Valuation RM'000	Disposal consideration RM'000	To be satisfied via	
				Consideration Units <sup>(3)</sup> RM'000	Cash consideration <sup>(4)</sup> RM'000
Mid Valley Megamall	MVC	3,440,000 <sup>(1)</sup>	3,440,000	2,730,000	710,000
Mid Valley Megamall Related Assets	MVC	1,582 <sup>(2)</sup>	1,582	-	1,582
<b>Subtotal</b>		<b>3,441,582</b>	<b>3,441,582</b>	<b>2,730,000</b>	<b>711,582</b>
The Gardens Mall	MVCG	1,160,000 <sup>(1)</sup>	1,160,000	670,000	490,000
The Gardens Mall Related Assets	MVCG	10,977 <sup>(2)</sup>	10,977	-	10,977
<b>Subtotal</b>		<b>1,170,977</b>	<b>1,170,977</b>	<b>670,000</b>	<b>500,977</b>
<b>Total Disposal Consideration</b>		<b>4,612,559</b>	<b>4,612,559</b>	<b>3,400,000</b>	<b>1,212,559</b>

Notes:

- (1) The market value of the Subject Properties as appraised by the Independent Property Valuer as at 10 April 2012.
- (2) Based on the audited net book value of each Related Assets as follows:

	Audited net book value as at 31 December 2011 RM'000
<b>Mid Valley Megamall Related Assets</b>	
- Motor vehicle	149
- Furniture and fittings	1,128
- Computer	106
- Equipment	199
<b>Subtotal</b>	<b>1,582</b>
<b>The Gardens Mall Related Assets</b>	
- Motor vehicle	319
- Furniture, fixtures and fittings	3,225
- Computer	28
- Equipment	7,405
<b>Subtotal</b>	<b>10,977</b>
<b>Total</b>	<b>12,559</b>

- (3) At an issue price of RM1.00 per Unit.
- (4) The cash consideration is to be raised through the drawdown of a portion of the syndicated financing facilities (as further elaborated in Section 5 herein).

Upon completion of the Proposed Disposal, IGB REIT will also assume certain assets, being the cash equivalent amount of tenant deposits and unamortised incentives, as well as certain liabilities, being the tenant deposits amount.

In conjunction with the Proposed Listing and following the Proposed Disposal, MVCG, the vendor of The Gardens Mall, shall undertake the Proposed Offer for Sale of 670 million Offer Units. At this juncture, the offer price for the Proposed Offer for Sale has not been determined. The offer price for the Proposed Offer for Sale will be determined later by way of a bookbuilding exercise. Thereafter, the Vendors will distribute the Distribution Units and remaining cash proceeds from the Proposed Disposal and the Proposed Offer for Sale to KrisAssets, following which KrisAssets shall then undertake the Proposed Distribution,

*comprising the Proposed Distribution-In-Specie, Proposed Special Dividend and Proposed Capital Reduction and Repayment, to reward the shareholders of KrisAssets with the disposal consideration from the Proposed Disposal (including proceeds from the Proposed Offer for Sale).*

*On 14 May 2012, CIMB and HLIB announced, on behalf of the Board of Directors of IGB, that they had on even date, submitted an application to the SC in relation to the Proposed Distribution-In-Specie. On 11 June 2012, CIMB and HLIB announced, on behalf of the Board that the SC had vide its letter dated 8 June 2012, approved the Proposed Distribution-In-Specie."*

The Proposed Disposal is a major disposal pursuant to paragraph 10.11A of the Listing Requirements. Following the completion of the Proposed Disposal, the KrisAssets Group will no longer have any business or operations. In the event the Proposed Distribution is not carried out after the Proposed Disposal, KrisAssets will not have any assets other than the Total Disposal Consideration which is in the form of Consideration Units and cash. In addition, the Proposed Disposal is deemed a related party transaction pursuant to paragraph 10.02(k) of the Listing Requirements and the Proposed Offer for Sale is deemed a related party transaction by virtue of the inter-conditionality of the said proposal with the Proposed Disposal. Premised on the above, M&A Securities has been appointed by the Company as the Independent Adviser to advise the non-interested directors and non-interested shareholders of KrisAssets for the Proposed Disposal and Proposed Offer for Sale.

### **3. LIMITATIONS TO THE EVALUATION OF THE PROPOSED DISPOSAL AND THE PROPOSED OFFER FOR SALE**

M&A Securities was not involved in the deliberations and negotiations pertaining to the terms and conditions of the Proposed Disposal and the Proposed Offer for Sale. M&A Securities' evaluation of the Proposed Disposal and the Proposed Offer for Sale are limited to expressing an opinion on the fairness and reasonableness of the Proposed Disposal and Proposed Offer for Sale and whether it is detrimental to the interests of the non-interested shareholders, based on the following sources of information and documents:

- (i) information contained in the Circular and the appendices enclosed therein;
- (ii) discussions with the Directors and management of the Company and other relevant documents and information furnished to us by the Directors and management;
- (iii) Valuation Reports;
- (iv) financial statements of the KrisAssets Group; and
- (v) other publicly available information.

We have relied on the Company, its Directors and management to take due care to ensure that all information, documents and representations provided to us to facilitate our evaluation are accurate, valid and complete in all material respects. Accordingly, we have not independently verified such information, whether written or verbal and shall not assume responsibility for its reasonableness, reliability, validity, accuracy and/or completeness of such information. We express no opinion on any such information and have not undertaken any independent investigation into the business and affairs of KrisAssets and all relevant parties involved in the Proposed Disposal and Proposed Offer for Sale.

The Board has individually and collectively accepted full responsibility for the accuracy, validity and completeness of information in relation to the KrisAssets Group provided and contained herein and confirmed that, after having made all reasonable enquiries and to the best of their knowledge and belief, all relevant facts and information in relation to the KrisAssets Group necessary for the evaluation of this IAC have been completely and accurately disclosed and there is no omission of any material fact, the omission of which would render any information provided herein to be false and misleading.

In rendering our advice, we have not taken into consideration any specific investment objectives, risk profiles, financial and tax situations and particular needs of any individual non-interested shareholder or specific group of non-interested shareholders. We recommend that such individual non-interested shareholder or specific group of non-interested shareholders who may require advice in relation to the Proposed Disposal and the Proposed Offer for Sale in the context of their individual investment objectives, risk profiles, financial and tax situations and particular needs to consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers immediately. We shall not be liable for any damage or loss of any kind sustained or suffered by an individual non-interested shareholder or any group of non-interested shareholders in reliance on the opinion stated herein for any purpose whatsoever that is particular to such individual non-interested shareholder or any group of non-interested shareholders.

#### **4. EVALUATION OF THE PROPOSED DISPOSAL AND THE PROPOSED OFFER FOR SALE**

In evaluating the Proposed Disposal and the Proposed Offer for Sale to arrive at our recommendation, we have considered the following which would be of relevance and general concern to the non-interested shareholders of KrisAssets:

- (a) Rationale for the Proposed Disposal and the Proposed Offer for Sale;
- (b) Disposal consideration for the Proposed Disposal;
- (c) Pricing of the Consideration Units;
- (d) Salient terms and conditions of the SPAs for the Proposed Disposal;
- (e) Financial effects of the Proposals;
- (f) Outlook and prospects of the property market in Malaysia and Malaysian REITs;
- (g) Adequacy of the financial resources of the purchaser; and
- (h) Risk factors and listing status.

##### **4.1 RATIONALE FOR THE PROPOSED DISPOSAL AND PROPOSED OFFER FOR SALE**

We note that the rationale for the Proposed Disposal as set out in Section 8.1 of the Circular wherein it is stated that *"the Proposed Disposal will enable KrisAssets to unlock value and realise its investment in the Subject Properties. The Proposed Disposal accords an avenue to KrisAssets Group to realign its assets in a more tax-efficient structure of a REIT and thereby providing more value to its shareholders through the Proposed Distribution"*.

We are of the opinion that the rationale for the Proposed Disposal is reasonable based on the justifications below which would allow the KrisAssets Group to achieve the following:

- (i) *Providing more value to its shareholders* ~ Essentially, the Proposals are to facilitate the establishment of IGB REIT which shall be listed on the Main Market of Bursa Securities and IGB REIT shall comprise Mid Valley Megamall and The Gardens Mall, which mirrors the two (2) core property assets currently owned by the wholly-owned subsidiaries of KrisAssets. The Subject Properties under the Proposed Listing are pegged to current market values as appraised by the Independent Property Valuer. IGB REIT shall be managed by IGB REIT Management Sdn Bhd i.e. the proposed management company for IGB REIT.

In conjunction with the Proposed Listing and following the Proposed Disposal, MVCG, being the vendor for The Gardens Mall and The Gardens Mall Related Assets, as well as the Offeror, who will receive Offer Units as part of the Total Disposal Consideration pursuant to the Proposed Disposal, shall undertake the Proposed Offer for Sale to raise cash proceeds to the KrisAssets Group which will form part of the Remaining Cash Proceeds for distribution to the Entitled Shareholders pursuant to the Proposed Distribution.

KrisAssets intends to undertake the Proposed Distribution, comprising the Proposed Distribution-In-Specie, Proposed Special Dividend and Proposed Capital Reduction and Repayment, to reward the shareholders of KrisAssets with the net disposal consideration from the Proposed Disposal of RM3,997 million (assuming an offer price of RM1.00 per Unit) (after settlement of all outstanding liabilities in the KrisAssets Group of approximately RM581.82 million\* as well as to maintain sufficient cash for the settlement of estimated expenses for the Proposals of approximately RM33.75 million). In addition, the Proposed Distribution-In-Specie provides an opportunity to shareholders of KrisAssets to participate in IGB REIT and continue to have beneficial interest in the Subject Properties through ownership of the Distribution Units, which shareholders of KrisAssets may benefit from the potential future upside and envisaged growth of IGB REIT. Non-interested shareholders are also entitled to the Proposed Distribution which is a form of reward and return of the disposal consideration pursuant to the Proposed Disposal to the shareholders of KrisAssets.

\* For illustration purposes, this amount is based on the audited financial statements of KrisAssets for the FYE 31 December 2011.

We further note from Section 9 of the Circular that it is not the intention of the Board to maintain the listing status of KrisAssets. Upon the completion of the Proposed Distribution-In-Specie, which shall be after the listing of IGB REIT, non-interested shareholders of KrisAssets are expected to own approximately 19.3% of the issued units of IGB REIT based on their collective shareholdings as at the LPD of 24.15% in KrisAssets and their respective share of the entitlement to part of the Distribution Units pursuant to the Proposed Distribution-in-Specie.

- (ii) *More tax-efficient structure of a REIT* ~ Non-interested shareholders should note that the tax ruling as stipulated under Section 61A(1) of the Income Tax Act 1965 stipulates that REITs **shall be exempted from tax** on all income for the year of assessment, provided that at least 90% of their total income is distributed to the unitholders in the basis period for the year of assessment. Accordingly, the tax savings from the REIT structure is expected to enhance the earnings of the Subject Properties which in turn will benefit holders of IGB REIT (which the non-interested shareholders of KrisAssets form part of). We note that under Appendix I of the Circular, "IGB REIT's distribution policy is to distribute up to 100% of its Distributable Income for the period from the date of establishment of IGB REIT to 31 December 2014 and thereafter, at least 90.0% of its Distributable Income on a half-yearly basis (or such other intervals as the Manager may determine at its absolute discretion)".

From the FYE 31 December 2007 to 31 December 2011, the summary of the dividend history of the Company is as below:

FYE	Total gross Dividend per share (sen)	Basic EPS (sen)	% of dividend over EPS
31 December 2011	15.0	126.9	11.8
31 December 2010	15.0	62.8	23.9
31 December 2009	15.5	40.8	38.0
31 December 2008	15.0	29.7	50.5
31 December 2007	15.0	37.2	40.3

(Source: Annual Reports 2007 to 2011 of KrisAssets)

As tabulated above, KrisAssets had declared aggregated dividends of RM0.755 per KrisAssets Share over the past five (5) financial years from 2007 to 2011. The dividend declared ranges from 11.8% to 50.5% of the earnings of the Company. Based on the proposed main features of the IGB REIT, shareholders of KrisAssets who will become unitholders of IGB REIT are expected to receive at least 90% of IGB REIT's Distributable Income. We note that for the period from the listing date to 31 December 2014, IGB REIT will distribute 100.0% of its Distributable Income and thereafter at least 90.0% of its Distributable Income.

- (iii) *Opportunity to unlock the value* ~ We note that the Proposed Disposal is expected to result in a net gain on disposal of approximately RM1,303.2 million at the KrisAssets Group level. Kindly refer to Section 4.3.2 for our evaluation of the Consideration Units and distribution to be held by the shareholders of KrisAssets upon completion of the Proposals.

We note that the rationale for the Proposed Offer for Sale as set out in Section 8.2 of the Circular wherein it is stated that *"the Proposed Offer for Sale will enable the KrisAssets Group to raise the cash proceeds which will form part of the Remaining Cash Proceeds for distribution to the Entitled Shareholders pursuant to the Proposed Distribution. The Proposed Offer for Sale is undertaken in conjunction with the Proposed Listing and to form part of the required public unitholding spread in the Proposed Listing."*

We are of the opinion that the rationale for the Proposed Offer for Sale is reasonable as the purpose of the Proposed Offer for Sale is to form part of the required public unitholding spread in the Proposed Listing. We note that the Proposed Offer for Sale is to facilitate the initial public offering structure of the IGB REIT where the offering of the Offer Units are made to certain categories of investors such as institutional investors, Malaysian public, eligible directors and employees of the manager of IGB REIT, IGB and IGB's eligible subsidiaries. A full distribution of the entire 3,400 million Consideration Units back to the Entitled Shareholders may not result in the said objective being met. Furthermore, the cash proceeds from the Proposed Offer for Sale (save for approximately an aggregate of RM615.57 million which comprises the settlement of all outstanding liabilities in the KrisAssets Group of RM581.82 million\* as well as to maintain sufficient cash for the settlement of estimated expenses for the Proposals of RM33.75 million) will eventually be distributed to the Entitled Shareholders (inclusive of the non-interested shareholders) under the Proposed Distribution.

\* *For illustration purposes, this amount is based on the audited financial statements of KrisAssets for the FYE 31 December 2011.*

#### **4.2 DISPOSAL CONSIDERATION FOR THE PROPOSED DISPOSAL**

We noted from Section 2.4 of the Circular that the disposal consideration for the Subject Properties was arrived at on a willing-buyer willing-seller basis after taking into consideration the appraised market values of Mid Valley Megamall and The Gardens Mall of RM3.44 billion and RM1.16 billion, respectively as appraised by the Independent Property Valuer as at 10 April 2012.

---

**The remaining of this page is intentionally left blank**

---

The details of the disposal consideration for each of the Subject Properties are set out below:

Properties	Vendors	Valuation <sup>(1)</sup>	Disposal consideration	To be satisfied via Consideration Units <sup>(2)</sup>		Cash Consideration <sup>(3)</sup>
				Distribution Units	Offer Units	
Mid Valley Megamall	MVC	RM'000 3,440,000	RM'000 3,440,000	RM'000 2,730,000	RM'000 -	RM'000 710,000
The Gardens Mall	MVCG	1,160,000	1,160,000	-	670,000	490,000
<b>Total disposal consideration</b>		<b>4,600,000</b>	<b>4,600,000</b>	<b>2,730,000</b>	<b>670,000</b>	<b>1,200,000</b>

Notes:

- (1) The market values of the Subject Properties as appraised by the Independent Property Valuer as at 10 April 2012.
- (2) At an issue price of RM1.00 per Unit.
- (3) The cash consideration is to be raised through the drawdown of a portion of the syndicated financing facilities as further elaborated in Section 5 herein.

In assessing the reasonableness of the disposal consideration for the Proposed Disposal, we have considered the following:-

- (i) The valuation of the Subject Properties by the Independent Property Valuer;
- (ii) Precedent transactions of the Subject Properties;
- (iii) PBR of other public listed companies with retail malls; and
- (iv) Basis of arriving at the disposal consideration for the Related Assets.

#### 4.2.1 Independent Valuation

In determining the market values of the Subject Properties, we note that the Independent Property Valuer had adopted the Investment Method as the main method of valuation and cross-checked with the Comparison Method of valuation to arrive at the current market values of Mid Valley Megamall and The Gardens Mall. The Investment Method was adopted as the main method of valuation as the Subject Properties are income generating commercial properties and as such, would be a more reliable and appropriate method of valuation.

The Investment Method considers income and expense data relating to the Subject Properties being valued and estimates value through a capitalisation process. Capitalisation relates income (usually net income) and a defined value, by converting an income amount into a value estimate. In the investment Method, the annual rental income presently received or expected over a period of time for the lease of the property is estimated and deducted therefrom the expenses or outgoings incidental to the property to obtain the net annual rental value. The net annual income is then capitalised at an appropriate capitalisation rate, i.e. *yield or discount rates* (reflecting measures of return on investment) to arrive at the indicative capital value for the property.

In determining the capitalisation rate, comparisons with returns on the similar properties as well as the investment rate of return to be expected from the type of property concerned, taking into consideration such factors as risk, security of income and management of the Subject Property.

The Comparison Method entails comparing the Subject Properties with sales of other similar properties in the vicinity which have been transacted in the open market. Under the Comparison Method, adjustments are made by the Independent Property Valuer to reflect the differences such as location, size, building differences, improvements and amenities, time element, quantum discount for en-bloc sale and other relevant factors to arrive at their opinion of value of the Subject Properties. We note that qualitative and quantitative adjustments are more difficult to compute or gauge to reflect the differences of comparable retail malls under the Comparison Method.

We note that the Independent Property Valuer has substantiated the valuation derived from the Investment Method with the Comparison Method to assess the reasonableness of the results and values generated by the Investment Method as well as to provide a good benchmark on the possible market values that the Subject Properties would realise, having taken into account recently completed transactions of retail malls around Malaysia.

Notwithstanding that both the Investment Method and the Comparison Method of valuations employed by the Independent Property Valuer are reasonable and are generally accepted methods of valuation, such valuations are subject to market conditions, consumer spending pattern, disposable income and future expansion plan which may affect rental income.

We set out in the ensuing section, the yield (or discount rate) that was employed by the Independent Property Valuer in assessing the value of the Subject Properties.

---

**The remaining of this page is intentionally left blank**

---



(a) **Investment Method of valuation based on yield/discount rate**

We note the latest transactions of Pavilion Mall, Sungei Wang Plaza, Starhill Gallery, Lot 10 Shopping Centre and Sunway Pyramid as the most appropriate comparables employed by the Independent Property Valuer which are analysed as follows:

Property	Mid Valley Megamall	The Gardens Mall	Pavilion Mall	Sg. Wang Plaza	Starhill Gallery	Lot 10 Shopping Centre	Sunway Pyramid
Location	Mid Valley City	Mid Valley City	Jalan Bukit Bintang	Jalan Bukit Bintang	Jalan Bukit Bintang	Jalan Sultan Ismail	Bandar Sunway
NLA (sq ft)	1,729,108 <sup>~</sup>	814,860 <sup>@</sup>	1,135,119	450,470	297,354	256,811	1,685,568
Net Property Income (includes car park & other income) (RM)	182,973,000	70,854,000	203,326,000	54,419,000	42,800,000	27,250,000	146,000,000
Disposal Consideration (RM)	3,440,000,000	1,160,000,000	3,190,300,000	724,000,000	629,000,000	401,000,000	2,132,025,000
Year of Transaction	2012	2012	2011	2010	2010	2010	2010
Analysed yield (%)	<b>5.32</b>	<b>6.11</b>	<b>6.37</b>	<b>6.90</b>	<b>6.80</b>	<b>6.80</b>	<b>6.85</b>
Transacted price per sq ft (RM)	1,989	1,424	2,390	1,607	2,115	1,561	1,265
Adjustments*	-	-	Downward: Location, Income Upward: Accessibility	Downward: Location, Tenure, Size Upward: Time, Condition, Accessibility	Downward: Location, Tenure, Size, Master Lease Agreement Upward: Time, Accessibility	Downward: Location, Size, Master Lease Agreement Upward: Time, Tenure Accessibility	n/a
Final Adjusted Value (RM per sq ft)*	-	-	1,912 <sup>^</sup> /1,792 <sup>#</sup>	1,527	1,798	1,640	n/a

(Source: Valuation Reports and valuation certificates issued by the Independent Property Valuer for the Subject Properties)

Notes:

\* Based on the Comparison Method. Adjustments were made by the Independent Property Valuer to reflect the differences such as location, size, building differences, improvements and amenities, time element, quantum discount for en-bloc sale and other relevant factors to arrive at their opinion of value for the Subject Properties.

<sup>^</sup> The Independent Property Valuer's final adjusted value for Pavilion Mall as compared to Mid Valley Megamall based on the Comparison Method is RM1,912 per sq ft.

<sup>#</sup> The Independent Property Valuer's final adjusted value for Pavilion Mall as compared to The Gardens Mall based on the Comparison Method is RM1,792 per sq ft.

<sup>~</sup> Based on rental roll as at 26 March 2012.

<sup>@</sup> Based on rental roll as at 31 December 2011.

n/a Not available.

In addition to the comparables employed by the Independent Property Valuer as disclosed in the table above, we have also considered other recently acquired retail malls, namely, Gurney Plaza, due to the similarity in terms of size and tenant profile.

Property	Gurney Plaza	Gurney Plaza Extension
<b>Location</b>	George Town, Penang	George Town, Penang
<b>NLA (sq ft)</b>	707,503	139,964
<b>Net Property Income (includes car park &amp; other income) (RM)</b>	54,666,000*	15,181,000^
<b>Disposal Consideration (RM)</b>	800,000,000	215,000,000
<b>Year of Transaction</b>	2010	2011
<b>Analysed yield (%)</b>	<b>6.83</b>	<b>7.06</b>
<b>Transacted price per sq ft (RM)</b>	1,131	1,536

Notes:

\* Annualised based on the projected eight (8) months financial period ending 31 December 2010 as extracted from CapitaMalls Malaysia Trust ("CMMT")'s prospectus dated 28 June 2010.

^ Based on the projection for the FYE 31 December 2011 as extracted from CMMT's circular dated 23 February 2011.

The yields of individual retail malls are dependent on many factors including location, tenant mix, catchment population, occupancy rate and size of the retail malls. From the yield analysis, we take note that the analysed yields of retail malls transacted over the last two (2) years are between 6.37% and 7.06%.

We note that the analysed yield of Mid Valley Megamall based on the disposal consideration of RM3,440.0 million is 5.32% with the average yield of retail malls (excluding the Subject Properties) at 6.80%. This represents **discounts of 16.5% and 21.8%** from the lowest yield of Pavilion Mall and average yield comparisons, respectively. In relation to The Gardens Mall, we further note that the analysed yield of The Gardens Mall based on the disposal consideration of RM1,160.0 million is 6.11% with the average yield of retail malls (excluding the Subject Properties) at 6.80%. This represents **discounts of 4.1% and 10.1%** from the lowest yield of Pavilion Mall and average yield comparisons, respectively.

We also note that based on the Valuation Reports, the Independent Property Valuer had categorised the tenants into three (3) categories with the corresponding respective category of tenancy period yield^ and reversionary period yield.

Note:

^ As expressed in the Valuation certificates, gross rental is categorised into two (2) categories. Term rental is the expected rental that the Subject Property is expected to achieve and is derived from the current rental tenancy. The reversionary rental is the expected rental that the Subject Property is expected to achieve upon expiry of term rental.

---

**The remaining of this page is intentionally left blank**

---

## Mid Valley Megamall

	Yield (%)	
	Tenancy period	Reversionary period <sup>^</sup>
Key Tenants (i.e. Carrefour, AEON, Metrojaya, Uniqlo, Toys 'R' Us, Kamdar, Oasis Food Court, Golden Screen Cinema)	5.00	5.25*
Normal Tenants (tenants other than Key Tenants)	6.00	6.25*
Kiosks	5.75	6.00*

Notes:

<sup>^</sup> Upon tenancy expiry.

\* The higher rate reflects the risk due to uncertainty.

## The Gardens Mall

	Yield (%)	
	Tenancy period	Reversionary period <sup>^</sup>
Key Tenants (i.e. Isetan, Robinson and GSC Signature)	5.00	5.25*
Normal Tenants (tenants other than Key Tenants)	6.00	6.25*
Kiosks	5.75	6.00*

Notes:

<sup>^</sup> Upon tenancy expiry.

\* The higher rate reflects the risk due to uncertainty.

The various categories of tenancy period and reversionary period yields based on the Valuation Reports are also significantly lower than the analysed yields of retail malls of between 6.37% and 7.06%.

The Independent Property Valuer is of the opinion that it adopted "Pavilion as the best comparable to Mid Valley Megamall due to its similarity of large NLA space and also its date of transaction which is close to the date of the Proposed Disposal. Based on the analysed yield of Pavilion Kuala Lumpur Mall of 6.37%, we have further made downward adjustments on the following factors:-

- 1) Average net income per sq ft for Pavilion Kuala Lumpur Mall is RM12.69 per sq ft whereas the Subject Property (i.e. Mid Valley Megamall's) average net income per sq ft is RM8.95 per sq ft for year 2011. As the average net income per sq ft of the Subject Property is lower than Pavilion Kuala Lumpur Mall, the risk also should be lower, therefore a lower yield was adopted.
- 2) Average occupancy rate for Pavilion Kuala Lumpur Mall and the Subject Property for the past 3 years are as follows:-

Year	2011	2010	2009
Pavilion Kuala Lumpur Mall	98.50% (@ 30 June 2011)	96.50%	98.70%
Subject Property	100.00%	99.86%	100.00%

It can be seen that the occupancy rate for the Subject Property is higher, this shows the risk is lower, therefore a lower yield adopted."

Based on the above factors, we find that the 6% yield adopted for Normal Tenants is fair. As for Key Tenants, the tenancy periods are longer and the rental rates are lower and therefore we have adopted a lower yield of 5% due to its stability. As for Kiosks, we have adopted a yield of 5.75%, which is slightly lower than Normal Tenant[s] as it is generally easier to rent out and has a high demand.

*We have adopted 6% yield for carpark and leasing and advertising and promotion income as it is considered to be stable whilst 8% was for turnover rent income is to reflect its more fluctuating nature.*

*The overall analysed average yield of the Subject Property is 5.32%, taking into consideration the lower rental as compared to the comparables and the fact that the Key Tenants make up approximately 48.30% of total NLA."*

Similar for the analysis for The Gardens Mall, the Independent Property Valuer has opined that the adoption of *"Pavilion Kuala Lumpur Mall as the best comparable to The Gardens Mall due to its similarity of large NLA space and also its date of transaction which is close to the date of the Proposed Disposal. Based on the analysed yield of Pavilion Kuala Lumpur Mall of 6.37%, we have further made downward adjustments on the following factors:-*

- 1) *Average net income per sq ft for Pavilion Kuala Lumpur Mall is RM12.69 per sq ft whereas the Subject Property (i.e. The Gardens Mall's) average net income per sq ft is RM7.03 per sq ft for year 2011. As the average net income per sq ft of the Subject Property is lower than Pavilion Kuala Lumpur Mall, the risk also should be lower, therefore a lower yield was adopted.*
- 2) *Average occupancy rate for Pavilion Kuala Lumpur Mall and the Subject Property for the past 3 years are as follows:-*

<b>Year</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<i>Pavilion Kuala Lumpur Mall</i>	<i>98.50% (@ 30 June 2011)</i>	<i>96.50%</i>	<i>98.70%</i>
<i>Subject Property</i>	<i>99.64%</i>	<i>98.17%</i>	<i>96.70%</i>

*It can be seen that the occupancy rate for the Subject Property is higher for year 2010 and 2011, this shows the risk is lower, therefore a lower yield adopted."*

*Based on the above factors, we find that the 6% yield adopted for Normal Tenants is fair. As for Key Tenants, the tenancy periods are longer and the rental rates are lower and therefore we have adopted a lower yield of 5% due to its stability. As for Kiosks, we have adopted a yield of 5.75%, which is slightly lower than Normal Tenant[s] as it is generally easier to rent out and has a high demand.*

*We have adopted 6% yield for carpark and leasing and advertising and promotion income as it is considered to be stable whilst 8% was for turnover rent income is to reflect its more fluctuating nature.*

*The overall analysed average yield of the Subject Property is 6.11%, taking into consideration the lower rentals as compared to the comparables."*

Based on the above, the yield/discount rate used by the Independent Property Valuer is low as compared to the analysed yields of retail malls transacted over the last two (2) years of between 6.37% and 7.06%. Non-interested shareholders should note that a **comparatively lower yield or discount rate** for a property would indicate a **higher valuation or capitalised value** for the property as the net annual income is capitalised at a lower rate of return on investment.

**(b) Transacted price per sq ft**

We also note the disposal consideration per sq ft as detailed out in table (a) above. The Independent Property Valuer has employed the Comparison Method to ensure that the indicative capital value is in line with transactions of similar properties with diligent adjustments made to reflect differences.

### Mid Valley Megamall

Mid Valley Megamall's valuation of RM3,440.0 million, translates into a valuation of RM1,989 per sq ft. The valuation of RM1,989 per sq ft is:

- within the range of the transacted price per sq ft of comparable retail malls of between RM1,131 per sq ft and RM2,390 per sq ft; and
- above the adjusted value per sq ft of comparable retail malls of between RM1,527 per sq ft and RM1,912 per sq ft (excluding Sunway Pyramid) by the Independent Property Valuer.

We take note that the market value for Mid Valley Megamall derived from the Investment Method is RM3,440.0 million and from the Comparison Method is RM3,306.0 million, respectively.

### The Gardens Mall

The Gardens Mall's valuation of RM1,160.0 million, translates into a valuation of RM1,424 per sq ft. The valuation of RM1,424 per sq ft is:

- within the range of the transacted price per sq ft of comparable retail malls of between RM1,131 per sq ft and RM2,390 per sq ft; and
- below the adjusted value per sq ft of comparable retail malls of between RM1,527 per sq ft and RM1,792 per sq ft (excluding Sunway Pyramid) by the Independent Property Valuer.

We take note that the market value for The Gardens Mall derived from the Investment Method is RM1,160.0 million and from the Comparison Method is RM1,460.0 million, respectively.

We take cognisance that as the Subject Properties are income-generating assets, the Independent Property Valuer has adopted the Investment Method as the more appropriate method of valuation.

## **4.2.2 Precedent transactions of the Subject Properties**

We set out below previous transactions involving the Subject Properties acquired by KrisAssets, as follows:-

<b>Year of Transaction</b>	<b>Property</b>	<b>Name of Acquirer/Vendor</b>	<b>NLA (sq ft)</b>	<b>Transaction Price (RM'000)</b>	<b>Transaction Price (RM psf)</b>
2004	Mid Valley Megamall	KrisAssets	1,672,204	1,480,000	885
<b>The Proposed Disposal (2012)</b>	<b>Mid Valley Megamall</b>	<b>IGB REIT</b>	<b>1,729,108<sup>~</sup></b>	<b>3,440,000</b>	<b>1,989</b>
2011	The Gardens Mall	KrisAssets	821,887	820,000	998
<b>The Proposed Disposal (2012)</b>	<b>The Gardens Mall</b>	<b>IGB REIT</b>	<b>814,860<sup>@</sup></b>	<b>1,160,000</b>	<b>1,424</b>

*Notes:*

<sup>~</sup> Based on rental roll as at 26 March 2012.

<sup>@</sup> Based on rental roll as at 31 December 2011.

The above transactions were entered into by KrisAssets and the basis of the purchase consideration of Mid Valley Megamall in 2004 and The Gardens Mall in 2011 was arrived at after taking into consideration independent valuations undertaken for the Subject Properties at the material time. In addition, KrisAssets also appointed independent advisers to advise the non-interested shareholders on the said transactions and they are of the opinion that the abovesaid transactions were fair and reasonable. Further, non-interested shareholders should also note that the valuation methodologies adopted for the above acquisitions by KrisAssets at that material time is similar to the valuation methodologies of the Proposed Disposal.

We take cognisance that the previous transactions were completed in 2004 and 2011. However, we do note that as at 31 December 2011, the book value of Mid Valley Megamall was RM2,360.0 million (as compared to the previous acquisition price of RM1,480.0 million in 2004) and The Gardens Mall is RM930.0 million (as compared to the previous acquisition price of RM820.0 million in 2011). The current book value represents additional capital expenditure invested by KrisAssets into the Subject Properties since their acquisition. Based on the above, we further note that the transaction price had increased significantly as compared to the previous transactions and the KrisAssets Group will enjoy a one-off net gain of RM1,303.2 million pursuant to the Proposed Disposal, thus unlocking the value of the Subject Properties.

#### 4.2.3 The PBR of other public listed companies with retail malls

The PBR values a company based on the value of its assets, net of all liabilities at a specific point in time and does not take into consideration the future income stream of a company. The NA basis of valuation is appropriate where the subject company is an asset based company.

We set out below the PBR of other public listed companies with retail malls in Malaysia:-

<b>Company</b>	<b>Price* (RM)</b>	<b>NA per share/ NAV per unit<sup>^</sup> (RM)</b>	<b>PBR (times)</b>
Hektar REIT	1.40	1.03	1.36
KLCC Property Holdings Bhd	3.37	4.95	0.68
CapitaMalls Malaysia Trust	1.47	1.11	1.32
Sunway REIT	1.28	0.97	1.32
Pavillion REIT	1.23	0.94	1.31
<b>Average PBR</b>			<b>1.20</b>
<b>Range of PBR</b>			<b>0.68 – 1.36</b>
<b>Median PBR</b>			<b>1.32</b>
KrisAssets			1.39 <sup>@</sup>

Notes:

\* Closing price as at LPD as extracted from Bloomberg.

<sup>^</sup> Extracted from latest annual reports/prospectuses of respective companies.

<sup>@</sup> Calculated based on the disposal consideration of the Proposed Disposal of RM4.6 billion as compared with the adjusted audited NA of KrisAssets as at 31 December 2011 of RM3.30 billion (after taking into account the revaluation surplus for the Subject Properties).

Based on the above, the PBR of 1.39 times for the Proposed Disposal is reasonable, given that it is higher than the average PBR of 1.20 times and median PBR of 1.32 times of comparable public listed companies. The PBR of 1.39 times for the Proposed Disposal is also higher than the range of PBR values of comparable public listed companies which is between 0.68 times and 1.36 times. A higher PBR to a seller indicates a higher amount paid above the book value of the assets.

#### 4.2.4 Basis of arriving at the disposal consideration for the Related Assets

We noted from Section 2.1 of the Circular that the disposal consideration for the Related Assets was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited net book value of the Related Assets as at 31 December 2011.

We noted that the disposal of the Related Assets to IGB REIT is to enable IGB REIT to undertake daily maintenance and operations of the Subject Properties.

The details of the disposal consideration for the Related Assets are set out below:

<b>Subject</b>	<b>Vendors</b>	<b>Indicative valuation<sup>(1)</sup> RM'000</b>	<b>Indicative disposal consideration RM'000</b>	<b>Satisfied via cash consideration RM'000</b>
Mid Valley Megamall Related Assets	MVC	1,582	1,582	1,582
The Gardens Mall Related Assets	MVCG	10,977	10,977	10,977
<b>Total disposal consideration</b>		<b>12,559</b>	<b>12,559</b>	<b>12,559</b>

*Note:*

(1) Based on the audited net book value of the Related Assets as at FYE 31 December 2011.

Non-interested shareholders should note that the disposal of the Related Assets is based on their **actual book values** and these assets comprise motor vehicles, machineries, equipment (including software), fixtures and fittings utilised for the operation of Mid Valley Megamall and The Gardens Mall. Subsequent to the disposal of the Subject Properties, these Related Assets would not be earnings accretive to KrisAssets and is to be disposed off as part of the Proposed Disposal which will facilitate the Proposed Listing.

**Based on the above, we are of the view that the disposal consideration of the Subject Properties and the Related Assets pursuant to the Proposed Disposal are fair and reasonable. The summary on the basis of our views are as follows:**

- (a) **the yield/discount rate used by the Independent Property Valuer is low as compared to the analysed yields of retail malls transacted over the last two (2) years of between 6.37% and 7.06%. A comparatively lower yield or discount rate for a property indicates a higher valuation or capitalised value for the property as the net annual income is capitalised at a lower rate of return on investment;**
- (b) **The valuation per sq ft of Mid Valley Megamall and The Gardens Mall are within the range of the transacted price per sq ft of comparable retail malls of between RM1,131 per sq ft and RM2,390 per sq ft;**
- (c) **The transaction price of the Proposed Disposal is significantly higher than previous transactions involving the Subject Properties;**
- (d) **The PBR for the Proposed Disposal is higher than the range of PBR values of comparable public listed companies; and**
- (e) **The disposal of the Related Assets is based on their actual book value.**

### 4.3 PRICING OF THE CONSIDERATION UNITS

#### 4.3.1 Issue price of the Consideration Units

As stated in Section 2.5 of the Circular, the basis and justification for determining the issue price of the Consideration Units is as follows:

*"The issue price of the Consideration Units of RM1.00 per Unit is determined after taking into consideration the proforma NAV of IGB REIT upon its establishment of approximately RM1.00 per Unit based on the enlarged fund size of 3,400 million Units."*

We noted that the issue price of RM1.00 per Consideration Unit represents a PNAV of 1.00 time.

In evaluating the pricing of the Consideration Units, we have considered the PNAV of the Consideration Units against the PNAV of listed REITs on Bursa Securities during their initial public offerings as set out below:

REIT	Listing Date	Indicative Retail Price during IPO (RM)	Proforma NAV per Unit at Listing Date <sup>^</sup> (RM)	PNAV (times)
Axis REIT	03.08.2005	1.25	1.27	0.98
Starhill REIT	16.12.2005	0.98	0.99	0.99
UOA REIT	30.12.2005	1.15	0.99	1.16
Tower REIT	12.04.2006	1.07	1.04	1.03
Al-Aqar KPJ REIT	10.08.2006	0.95	0.98	0.97
Hektar REIT	04.12.2006	1.05	1.03	1.02
AmFirst REIT	21.12.2006	*1.00	0.99	1.01
Quill Capita REIT	08.01.2007	0.84	0.78	1.08
Al-Hadharah Boustead REIT	08.02.2007	0.99	1.00	0.99
Amanahraya REIT	26.02.2007	0.895	0.95	0.94
Atrium REIT	02.04.2007	1.05	0.98	1.07
Sunway REIT	08.07.2010	0.97	0.97	1.00
CapitaMalls Malaysia Trust	16.07.2010	1.08	1.03	1.05
Pavilion REIT	07.12.2011	0.88	0.94	0.94
			<b>High</b>	<b>1.16</b>
			<b>Low</b>	<b>0.94</b>
			<b>Average</b>	<b>1.02</b>
			<b>Median</b>	<b>1.00</b>

Notes:

<sup>^</sup> Extracted from the respective REITs' prospectuses. The PNAV is calculated based on the indicative retail price during IPO over the NAV per Unit extracted from the respective REITs' prospectuses.

\* Indicative institutional price.

The PNAV of the Consideration Units of 1.00 time is within the PNAV of the listed REITs on Bursa Securities upon their listing of between 0.94 times to 1.16 times. The PNAV of the Consideration Units is also the same as the median PNAV at 1.00 time, and marginally lower than the average PNAV of 1.02 times of the aforesaid listed REITs.



The PNAV of the Consideration Units was also compared against the PNAV of listed REITs on Bursa Securities based on the closing market price as at the LPD and the latest available NAV per Unit of the listed REITs on Bursa Securities:

<b>REIT</b>	<b>Closing Trading Price# RM</b>	<b>NAV per Unit@ 31.03.2012^ RM</b>	<b>PNAV times</b>
Axis REIT	2.68	2.11	1.27
Starhill REIT	0.945	1.14	0.83
UOA REIT	1.33	1.42	0.94
Tower REIT	1.39	1.66	0.84
Al-Aqar KPJ REIT	1.36	1.12*	1.21
Hektar REIT	1.40	1.48*	0.95
AmFirst REIT	1.16	1.41	0.82
Quill Capita REIT	1.13	1.32	0.86
Al-Hadharah Boustead REIT	1.77	1.81*	0.98
Amanahraya REIT	0.925	1.07	0.86
Atrium REIT	1.16	1.13	1.03
Sunway REIT	1.28	1.03	1.24
CapitaMalls Malaysia Trust	1.47	1.12	1.31
Pavilion REIT	1.23	0.96*	1.28
		<b>High</b>	<b>1.31</b>
		<b>Low</b>	<b>0.82</b>
		<b>Average</b>	<b>1.03</b>
		<b>Median</b>	<b>0.96</b>

*Notes:*

# *As at the LPD.*

^ *Extracted from Bursa Securities.*

\* *NAV per Unit as at 31 December 2011, extracted from Bursa Securities.*

The PNAV of the Consideration Units is within the current trading PNAV of the listed REITs on Bursa Securities of 0.82 times to 1.31 times. The PNAV of the Consideration Units is marginally lower than the average current trading PNAV of the aforesaid listed REITs of 1.03 times and marginally higher than the median PNAV of the aforesaid listed REITs of 0.96 times.

**The issue price of RM1.00 per Consideration Unit represents a PNAV of 1.00 time and in view that the PNAV of the Consideration Units is within the current trading PNAV of listed REITS as well as the PNAV of listed REITS upon their listing, we are of the view that the issue price of the Consideration Units is fair and reasonable.**

---

**The remaining of this page is intentionally left blank**

---

#### 4.3.2 Consideration Units held by an existing shareholder holding 1,000 KrisAssets Shares

Extracted below from Section 4.3 of the Circular is an illustration of an existing shareholder holding 1,000 KrisAssets Shares after the cancellation of the treasury shares and Full Conversion of the Bonds:-

	<b>As at the LPD</b>	<b>After Proposed Distribution-In-Specie</b>	<b>After Proposed Special Dividend</b>	<b>After Proposed Capital Reduction and Repayment</b>
Number of KrisAssets Shares held	1,000	1,000	1,000	1,000
Par value (RM)	1.00	1.00	1.00	0.02
Proposed Distribution-In-Specie* (RM)	-	5,240.00	5,240.00	5,240.00
Proposed Special Dividend (RM)	-	-	29.20	29.20
Proposed Capital Reduction and Repayment (RM)	-	-	-	2,402.74
<b>Total value received (RM)</b>	<b>-</b>	<b>5,240.00</b>	<b>5,269.20</b>	<b>7,671.94</b>
Number of Distribution Units	-	5,240	5,240	5,240
Cash (RM)	-	-	29.20	2,431.94

*Note:*

\* Assuming the offer price is at RM1.00 per Unit.

Assuming an offer price of RM1.00 per Unit, the said shareholder will receive a cash distribution from the Proposed Special Dividend and Proposed Capital Reduction and Repayment (which includes the cash proceeds from the Proposed Offer for Sale which forms part of the cash distribution to the Entitled Shareholders) of RM2,431.94 for every 1,000 KrisAssets Shares held ("Cash Distribution").

Based on an issue price of RM1.00 for each Distribution Unit, shareholders of 1,000 KrisAssets Shares are expected to receive an aggregate Cash Distribution and Distribution Units worth RM7,671.94 per KrisAssets Share ("Distribution Value") upon the completion of the Proposals.

However, non-interested shareholders of KrisAssets should take note that as the price of the Offer Units pursuant to the Proposed Offer for Sale will be determined by way of book building, in the event the **offer price is less than RM1.00 per Unit**, the cash distribution to be received will be less than the illustrated Cash Distribution. In addition, shareholders should also note that the Distribution Units to be received as consideration **may decline** after the Proposed Listing, a further elaboration of which is set out under Section 6.3 herein.

---

**The remaining of this page is intentionally left blank**

---

Notwithstanding the above, the historical share price chart of KrisAssets Shares for the past year up to and including 11 May 2012, being the date of the announcement of the Proposed Disposal is depicted below:



For illustrative purpose, the comparison of the Distribution Value against the historical market prices and relevant Volume Weighted Average Market Price ("VWAMP") of KrisAssets Shares are set out below:

	Premium/(Discount) of Distribution Value over Market Price		
	Market Price (RM)	RM	%
Closing market price as 11 May 2012*	7.01	0.66	9.4
Five (5)-day VWAMP up to 11 May 2012	7.03	0.64	9.1
Three (3)-month VWAMP up to 11 May 2012	6.72	0.95	14.1
Six (6)-month VWAMP up to 11 May 2012	5.77	1.90	32.9

\* Up to 11 May 2012, being the date of the announcement of the Proposal Disposal.

(Source: Bloomberg as at 11 May 2012)

Based on the historical share price of KrisAssets as illustrated in the above chart and table, we observed the following:

- the historical market prices of KrisAssets Shares have consistently been trading below the Distribution Value of RM7.67 per KrisAssets Share for the past one (1) year prior to the announcement date of 11 May 2012. The highest transacted market price of KrisAssets Shares over the past one (1) year was RM7.10 traded on 14 March 2012 whilst the lowest was RM3.83, traded on 9 August 2011; and
- the Distribution Value represents a premium of 66 sen or 9.4% to the closing market price up to the trading day prior to the date of announcement i.e., 11 May 2012. Further, the Distribution Value represents the range of premiums of 9.1% to 32.9% or RM0.64 to RM1.90 over the five (5)-day VWAMP, three (3)-month VWAMP and six (6)-month VWAMP up to 11 May 2012.

**Based on the comparison of the Distribution Value against the historical market prices, the distribution to be received by the shareholders of KrisAssets pursuant to the Proposals (for which the Proposed Offer for Sale forms an integral part) is fair and reasonable.**

#### **4.4 SALIENT TERMS OF THE DRAFT SPAs FOR THE PROPOSED DISPOSAL**

We noted the salient terms of the draft SPAs for the Proposed Disposal as extracted from Section 2.3 of the Circular are as follows:

##### **"2.3 Salient terms of the draft SPAs**

###### **2.3.1 Overview of the draft SPAs**

*Pursuant to the SPAs, the Trustee will acquire the Subject Properties and the Related Assets from the Vendors free from encumbrances but subject to, among others, the following:*

- (i) all conditions of title and all restrictions-in-interest whether express or implied in the master titles to the lands where the Subject Properties have been constructed upon and the strata titles to the Subject Properties when issued; and*
- (ii) all the leases, tenancies and licences in respect of any part or parts of the Subject Properties together with all the rights, benefits and obligations thereunder.*

*The SPAs are interdependent and the Trustee is not obliged to complete the purchase of either Subject Property unless the purchases of the Subject Properties are completed concurrently under the SPAs.*

###### **2.3.2 Total disposal consideration**

*The total disposal consideration for the Subject Properties and the Related Assets amounting to RM4,612.6 million shall be satisfied by the Trustee in the following manner:*

- (i) the issuance and allotment of Consideration Units to be credited into the CDS Account as may be notified by the Vendors, on the completion date of the SPAs or such other date as the parties thereto may agree in writing; and*
- (ii) the balance of the disposal consideration of approximately RM1,212.6 million for the Subject Properties and Related Assets shall be satisfied by way of cash which shall, on the completion date of the SPAs, be paid firstly towards settlement of the redemption sum required to redeem the Subject Properties from the lenders of KrisAssets Group and the balance (if any) shall be paid to the Vendors in their respective proportions.*

*Based on the latest audited financial statements of KrisAssets for FYE 31 December 2011, the total redemption sum required to redeem the Subject Properties is approximately RM432.8 million and the major lenders are Public Bank Berhad, Great Eastern Life Assurance (Malaysia) Berhad, and Employees Provident Fund.*

### **2.3.3 Conditions precedent**

*The sale, purchase and transfer of the Subject Properties are conditional upon, among others:*

- (i) the consents of the lenders of KrisAssets Group to the sale of the Subject Properties and Related Assets by the Vendors being obtained, if required, by the respective Vendors;*
- (ii) the consents of the holders of the Bonds to the sale of the Subject Properties and Related Assets by the Vendors having been obtained by the Vendors;*
- (iii) the consent of the State Authority for the transfer of the Subject Properties in favour of the Trustee having been obtained by the Vendors;*
- (iv) the approval of Bursa Securities for the Proposed Listing having been obtained by the Manager;*
- (v) the Prospectus having been issued; and*
- (vi) the receipt by the Trustee's solicitors of the written confirmation from the Manager addressed to the Trustee's solicitors confirming that all the conditions, variations or revisions imposed by the SC and Bursa Securities in respect of the acquisition of the Subject Properties which are capable of being satisfied up to the date of such written confirmation have been satisfied and that MVCG is satisfied with the results of the bookbuilding exercise under the Proposed Institutional Offering.*

*As at the LPD, the consents and approval for (i) to (iv) above have not been obtained. The consents and approval for (i) to (iv) above are expected to be obtained by the third quarter of 2012.*

### **2.3.4 Strata titles and State Authority's consents to transfer the Subject Properties**

- (i) Pursuant to the Mid Valley Megamall SPA, MVC undertakes and covenants, among others, to:*
  - (a) apply for the subdivision of title for the master land on which Mid Valley Megamall is constructed and for the issuance of the strata titles to Mid Valley Megamall; and*
  - (b) ensure that the consent of the State Authority to transfer Mid Valley Megamall from MVC in favour of the Trustee on behalf of IGB REIT shall remain valid and subsisting pending the issuance of the strata titles to Mid Valley Megamall and the transfer and registration of the same in favour of the Trustee on behalf of IGB REIT.*
- (ii) Pursuant to The Gardens Mall SPA:*
  - (a) MVCD had, among others, undertaken and covenanted to apply for the subdivision of title for the master land on which The Gardens Mall is constructed and for the issuance of the strata titles to The Gardens Mall; and*

- (b) *MVCD and MVCG had, among others, undertaken and covenanted to ensure that the consents of the State Authority to transfer The Gardens Mall from MVCD to MVCG and to transfer The Gardens Mall in favour of IGB REIT shall remain valid and subsisting pending the issuance of the strata titles to The Gardens Mall and the transfer and registration of the same in favour of the Trustee on behalf of IGB REIT.*

*As at the LPD, the issuance of the strata titles of the Subject Properties is still outstanding. The application for the strata titles can only be submitted upon, among others, amalgamation of the master land titles for Mid Valley Megamall and issuance of permanent Certificate of Fitness for Occupation of The Gardens Mall.*

### **2.3.5 Completion**

*Subject to the fulfillment of the conditions precedent set out in Section 2.3.3 above, on the completion date of the SPAs, among others:*

- (i) *all the rights, title, interests, benefits or claims in and to the Subject Properties shall pass from the Vendors to the Trustee subject to the aforesaid consents of the State Authority remaining valid and subsisting;*
- (ii) *all the rights, benefits and interests in all the tenancies in respect of the Subject Properties which are subsisting on the completion date of the SPAs will be assigned by the Vendors to the Trustee;*
- (iii) *all outgoing in respect of the Subject Properties shall be apportioned on the completion date of the SPAs and the Vendors shall bear and settle the outgoing due and payable up to the date immediately preceding the completion date of the SPAs and the Trustee shall bear and settle the outgoing due and payable on and from the completion date of the SPAs;*
- (iv) *all income in respect of the Subject Properties shall be apportioned on the completion date of the SPAs and the Vendors shall be entitled to all income received by the Vendors and/or the Trustee for the period immediately preceding the completion date of the SPAs and the Trustee shall be entitled to all income received by the Trustee and/or the Vendors for the period on and from the completion date of the SPAs; and*
- (v) *all security deposits, rental and other payments paid by the tenants to the Vendors, on and after the completion date of the SPAs, will be held on trust for the Trustee and the Vendors will pay the same to the Trustee in accordance with the terms of the SPAs.*

### **2.3.6 Representations and warranties**

*The Vendors have given specific representations and warranties relating to, among others, the Subject Properties and the tenancies and have agreed to indemnify the Trustee against all losses, damages, costs, expenses and outgoing for a breach of such representations and warranties."*

**We are of the opinion that the salient terms of the draft SPAs are not to the detriment of the non-interested shareholders as the terms are generally in accordance with standard practices for property transactions.**

## **4.5 FINANCIAL EFFECTS OF THE PROPOSALS**

### **4.5.1 Share Capital and Substantial shareholders' shareholdings**

We noted from Sections 11.1 and 11.3 of the Circular, the Proposed Disposal and Proposed Offer for Sale will not have any effect on KrisAssets' issued and paid-up share capital and substantial shareholders' shareholdings.

### **4.5.2 NA and gearing**

We noted from Section 11.2 of the Circular, the NA per share of the KrisAssets Group will decrease from RM4.53 (audited as at FYE 31 December 2011) to RM4.09 after the Proposed Disposal, Proposed Offer for Sale, Full Conversion of the Bonds and settlement of all outstanding liabilities at the KrisAssets Group.

The gearing ratio will increase from 0.37 times (as at FYE 31 December 2011) to 0.57 times after the completion of the Proposed Disposal, Proposed Offer for Sale, Full Conversion of the Bonds and settlement of all liabilities at the KrisAssets Group as borrowings is increased due to the consolidation of the borrowings of IGB REIT of approximately RM1,205.6 million (net of estimated transaction costs of RM7.0 million) which is offset by the settlement of the existing borrowings of the KrisAssets Group.

### **4.5.3 Earnings and EPS**

We noted from Section 11.4 of the Circular, the KrisAssets Group is expected to realise a net gain arising from the Proposed Disposal of approximately RM1,303.2 million in the FYE 31 December 2012 upon the completion of the Proposed Distribution. This translates to an improvement in EPS from RM1.07 based on net profit for the FYE 31 December 2011 to RM3.57 after incorporating the abovementioned net gain.

However, upon completion of the Proposed Disposal and Proposed Distribution, KrisAssets will not have any business operations and will be voluntarily wound-up and de-listed from the Main Market of Bursa Securities.

## **4.6. OUTLOOK AND PROSPECTS OF THE PROPERTY MARKET IN MALAYSIA AND MALAYSIAN REIT**

### **4.6.1 Outlook of the Malaysian Economy in 2012**

Amid the more challenging external environment, Malaysia's economy is projected to experience a steady pace of growth of 4-5% in 2012. Domestic demand is expected to remain resilient and will continue to be the anchor for growth. Following the strong expansion in 2011, the growth of both private consumption and investment is projected to soften in 2012, as both income and capital expenditure in the external-related sectors of the economy are affected by the slower global growth. Nevertheless, some measures announced in the 2012 Budget are expected to provide support to private consumption. These include the one-off financial assistance to low- and middle- income groups and the higher increment of public sector wages. Private investment will be supported by continued investment by domestic-oriented industries and the on-going implementation of projects under the Economic Transformation Programme (ETP). The public sector will remain supportive of growth in 2012, with higher capital expenditure by both the Federal Government and the non-financial public enterprises (NFPEs). The implementation of the Special Stimulus Package amounting to RM6.00 billion through Private Financing Initiative that was announced in the 2012 Budget would also provide further impetus to real activity during the year. The package will focus at five main areas which will be executed under the 10<sup>th</sup> Malaysian Plan.

On the supply side, most sectors will continue to expand in 2012. Nevertheless, the slower growth in global demand may adversely affect export-oriented industries in the manufacturing sector as well as trade-related industries in the services sector. The performance of domestic-oriented industries, on the other hand, is expected to remain firm, benefiting from resilient domestic demand conditions.

Despite the moderation in economic growth in 2012, the underlying fundamentals of the economy are expected to continue to remain strong, with the unemployment rate projected to remain low at 3.2% of the labour force. Financial stability is expected to remain intact, underpinned by well-capitalised financial institutions which will continue to provide support for financial intermediation in the economy. Given the comfortable level of reserves and relatively low external debt, Malaysia is well positioned to manage volatile capital flows under the current environment of continued volatility in the international financial markets.

The GDP growth projection of between 4-5% in 2012 is premised upon the expectation of a moderation in global growth and the timely and full implementation of measures announced in the 2012 Budget. Several risks, however, remain. These risks include deterioration in the Eurozone sovereign debt crisis, and much slower growth in our major trading partners. Should growth in the advanced economies turn out to be stronger than expected, there is some upside potential to domestic growth in 2012.

Domestic demand will continue to be the main driver of growth in 2012, with the rate of expansion remaining resilient at 6.6%. The weaker global growth outlook is likely to affect both income and capital expenditure in the external-related sectors of the economy, thus constraining the overall momentum in private consumption and investment. The public sector is expected to remain supportive of growth, driven by higher capital expenditure by both the Federal Government and the NFPEs.

*(Source: Bank Negara Malaysia, Annual Report 2011; Press Release of Malaysian Property Market 2011, Valuation and Property Services Department, 26 March 2012)*

#### **4.6.2 Prospects of the Property Market in Malaysia**

The Malaysian property market continued to strengthen in 2011. There were 430,403 transactions worth RM137.83 billion registered in 2011 against 376,583 transactions worth RM107.44 billion in 2010. Both the volume and value recorded double-digit growths of 14.3% (2010: 11.4%) and 28.3% (2010: 32.6%) respectively.

*(Source: Press Release of Malaysian Property Market 2011, Valuation and Property Services Department, 26 March 2012)*

##### Shopping Complex

Performance of shopping complexes (comprising of shopping centres, arcades and hypermarkets) moderated in the review period. The national occupancy rate reduced marginally to 79.5% (2010: 80.6%). On the supply side, Selangor remained the biggest retail space provider with 23.1% (2,599,819 square metres) of the nation's total space. The state continued to record commendable performance at 86.1% (2010: 88.0%) despite the entry of four new completions with a total space of 67,147 square metres. Kuala Lumpur, the second largest retail space provider with 20.7% (2,336,194 square metres) share, saw its occupancy rate eased to 79.5% (2010: 87.8%) due to five new completions (211,539 square metres). Federal Territory of Labuan and Perlis enjoyed the highest and second highest occupancy rate at 98.3% and 97.8% respectively.



As at the year-end 2011, there were 35 newly completed shopping complexes nationwide, injecting 600,400 square metres of space into the market accounting for the country's total existing space to 11.26 million square metres. The future supply comprised of 89 complexes (1.68 million square metres) in the incoming supply. Kuala Lumpur reigned as the nation's highest contributor in incoming supply with 28.9% (486,438 square metres) share of the nation's total.

*(Source: Press Release of Malaysian Property Market 2011, Valuation and Property Services Department, 26 March 2012)*

### Retail Malls

The prospects of retail malls in the Klang Valley remained positive in the coming years with take-up rates expected to remain stable. The expected launch of the mass railway transit (MRT) line between Sungai Buloh-Kajang and the extension of Ampang and Kelana Jaya LRT line are expected to boost the retail subsector particularly in areas which the MRT runs across and where MRT stations will be located, due to generation of pedestrian traffic and ease of accessibility and connectivity factors.

Seven (7) retail malls in the Klang Valley were transacted during the year 2010 at prices ranging between RM378 per sq ft (Selayang Mall) and RM1,561 per sq ft to RM2,115 per sq ft for retail malls within Kuala Lumpur city centre. Sunway Pyramid was transacted at RM1,265 per sq ft in year 2010 whilst Pavilion Mall was acquired by Pavilion REIT in year 2011 at RM2,390 per sq ft.

Building	Location	NLA sq ft	Transacted Price	
			RM'million	RM per sq ft
<b>2010</b>				
Selayang Mall	Selayang	338,515	128.0	378
Sunway Pyramid	Bandar Sunway	1,685,568	2,132.0	1,265
Part of Sg Wang Plaza	Bukit Bintang	450,470	724.0	1,607
Starhill Gallery	Bukit Bintang	297,354	629.0	2,115
Lot 10	Bukit Bintang	256,811	401.0	1,561
1 Mont Kiara*	Mont Kiara	225,920	333.0	-
<b>2011</b>				
Pavilion Mall	Jalan Raja Chulan	1,135,119	3,190.3	2,390
The Gardens Mall	Mid Valley City	821,887	820.0	998

\* 1 Mont Kiara consists of a 20 storey office tower block and a 5 storey retail mall.

Rentals of retail space in shopping complexes were generally stable with minimal movement recorded in a few retail malls. Suria KLCC registered premium rentals at RM55 per sq ft to RM70 per sq ft for lower ground floor units whilst retail units in Pavilion Mall recorded more than RM93 per sq ft. Rentals of The Curve Mall in Petaling Jaya fetched between RM7 per sq ft to RM11 per sq ft., with some of the prime lots fetching more than RM15 per sq ft.

*(Sources: Valuation Report, Annual reports of respective companies, respective companies' prospectus)*

To promote Malaysia as a shopping haven in Asia by providing branded goods at competitive prices, the Government proposed that import duty on approximately 300 goods preferred by tourists and locals, at 5% to 30% be abolished.

*(Source: The 2011 Budget Speech by YAB Dato' Sri Mohd Najib Tun Abdul Razak, Prime Minister and Minister of Finance, 15 October 2010)*

Following this project, 328 products have been identified and the implementation of the policy in removing import duty to these selected finished products was effective beginning 1 January 2011, which include jewellery, cosmetics, perfumes, garments and clothing accessories as well as footwear. From January to October 2011, the removal of import duty showed a 64% increment on the value of cost, insurance and freight into Malaysia for the 328 products as compared to the same period in 2010. Therefore, Malaysians saw more of these duty free goods coming into the country in comparison with previous years.

*(Source: Economic Transformation Programme 2011 Annual Report)*

Malaysia ranked 16<sup>th</sup> in terms of global inbound tourism receipts, capturing approximately 2% of global market share in 2008. During the Plan period, the target is to improve Malaysia's position to be within the top 10 in terms of global tourism receipts and increase the sector's contribution by 2.1 times, contributing RM115 billion in receipts and providing 2 million jobs in the industry in 2015. To achieve the 2015 target, the focus will be on attracting a larger share of high spend travellers and capturing a higher share of high growth segments, particularly from Russia, India, China and Middle East, in addition to increasing the number of tourist arrivals.

*(Source: Tenth Malaysian Plan 2011-2015)*

Based on the resilient domestic demand of the Malaysian economy underpinned by strong fundamentals of the economy, expected support in public sector growth and implementation of projects under the ETP in a challenging external environment, the prospects of the Malaysian economy is expected to moderate in 2012 as compared to year 2011.

Whilst we note that projected retail sales growth is expected to moderate to 6% this year, the slowest since the 8.4% jump in 2010, in view of the many downside risks to the global economic prospects, in particular the potential deepening of the Eurozone sovereign debt crisis, the very anaemic US growth, China's "soft-landing" and waning recovery momentum in Japan post-Fukushima tragedy, *(Source: Malaysia retail sales report December 2011, the Retail Group Malaysia on behalf of Malaysian Retailers Association)*, we note that government initiatives such as the improvement of public transportation and MRT linkages from Malaysia's ETP are set to improve the connectivity to retail malls. Furthermore, the abolishment of import duties for certain goods is expected to further boost the tourism industry, and contribute to the growth of the retail industry.

#### **4.6.3 Prospects on the Malaysian REITs**

In a move to promote the growth of REITs or Property Trusts in Malaysia, the Government had announced attractive tax incentives and various measures which include the following:

- The current withholding tax rate on dividends received by foreign institutional investors, particularly pension funds and collective investment funds, as well as non-corporate investors, including individual residents and non-residents and other local entities, from REITs listed on Bursa Securities is 10%;
- The gains from the disposal of properties by individuals or companies to REITs is exempted from real property gains tax;
- Sales of properties from individuals or companies to REITs is exempted from stamp duty on the deeds of assignment relating to the sales of properties;
- REITs shall exempted from tax on all income for the year of assessment provided that at least 90% of their total income is distributed to the unitholders; and
- Expenses for consultancy, legal and valuation fees for the establishment of REITs shall be tax deductible.

Further, the SC had on 13 July 2011 issued the revised REIT Guidelines to promote a vibrant and competitive REIT industry. Some of the provisions of the aforesaid guidelines promoting the REIT industry are as follows:

- Foreign shareholdings in REIT management companies is now at 70% foreign shareholdings, an increase from 49%;
- The REIT Guidelines provide flexibilities on borrowing limit beyond the threshold of 50% of the total asset value with the sanction of the unit holders by way of an ordinary resolution; and
- The REIT Guidelines allow REIT managers to seek a general mandate from unit holders for issuance of units up to 20% of its fund size as a means of accelerating fund raising exercises for acquisitions or capital expenditure purposes.

Premised on the above, the aforesaid measures and guidelines are expected to promote a vibrant and competitive Malaysian REIT sector and also enhance the attractiveness of REIT listings on Bursa Securities.

We also noted that in the Budget 2012, to further promote the development of REITs as well as to invigorate the capital and property market, the tax incentives in the paragraphs above have been extended for a further five (5) years until 31 December 2016.

## **5. ADEQUACY OF FINANCIAL RESOURCES OF THE PURCHASER**

As stated in Section 2.1 of the Circular, the cash consideration of RM1,212.6 million for the Total Disposal Consideration for the Subject Properties and the Related Assets will be funded via the drawdown of a portion of the syndicated financing facilities of up to RM1,300.0 million comprising:

- (a) Fixed rate term loan facility of up to RM1,200.0 million; and
- (b) Standby revolving credit facility of up to RM100.0 million,

to be procured by IGB REIT through the trustee for IGB REIT from a syndicate of lenders to part finance the acquisition of the Subject Properties and the Related Assets from the Vendors

## **6. RISK FACTORS AND LISTING STATUS**

In addition to the risks as set out in Section 10 of the Circular, non-interested shareholders should also consider the following risk factors:

### **6.1 Risk of non-completion of the Proposals**

The Proposals are still subject to approval from the relevant authorities e.g. the SC and State Authority for the consent to transfer the Subject Properties. The relevant authorities may impose condition(s) in relation to the Proposed Listing or the State Authority may withhold the consent to transfer the Subject Properties in favour of IGB REIT. In the occasion of such an event occurring, this would have a material impact on the terms and financial effects of the Proposals and wherein the consent of the State Authority for the transfer of the Subject Properties in favour of the trustee on behalf of IGB REIT cannot be obtained, the conditional precedent for the transfer of the Subject Properties cannot be met and as such, the SPAs cannot be completed. Having said that, in the event that the SPAs cannot be completed or the purchaser may not be able to fund the acquisition of the Subject Properties (i.e IGB REIT is not able to procure the syndicated financing facilities as

mentioned in Section 5 herein), the Subject Properties will be retained in the KrisAssets Group.

## 6.2 Risk of non-availability of reinvestment assets

Following the completion of the Proposed Disposal, KrisAssets will be a company without any business or operations. As disclosed in Section 4.3.2 herein, upon completion of the Proposed Distribution, the holder of 1,000 KrisAssets Shares would expect to receive 5,240 Consideration Units and approximately RM2,432 in cash. In addition, the Board intends to voluntarily wind-up the Company upon completion of the Proposed Distribution. As such, the Proposed Disposal and Proposed Distribution represents the partial exchange of each KrisAssets Share into Consideration Units and cash exit of the balance investment at the following proportion:-

	<b>% value of each KrisAssets Share</b>
Exchange of each KrisAssets Share into Consideration Units	68.3%
Cash exit	31.7%
	<b>100.0%</b>

We note that the Company has the following historical dividend yields for the past five (5) years:

<b>FYE 31 December</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Dividend per share (sen)	15.0	15.0	15.5	15.0	15.0
Closing price as at the financial year end (RM)	3.10	2.60	3.30	3.37	6.25
Dividend yield (%)	4.8	5.8	4.7	4.5	2.4

As the proposed Distribution represents a cash exit of 31.7% (in value) of the KrisAssets Shares, shareholders would be required to reinvest these cash proceeds in order to generate a return above the risk-free rate. The prevailing one (1)-year bank fixed deposit rate (as quoted by Malayan Banking Berhad on its website as at 11 May 2012) is 3.15% per annum which is below the abovesaid historical dividend yield of KrisAssets (save for the FYE 31 December 2011). There can be no assurance that shareholders may be able to reinvest these cash proceeds into alternate investments that can generate similar or better returns (after taking into account its risk profile) than their existing KrisAssets Shares.

## 6.3 Risk of the price of the Units may decline after the Proposed Listing

The trading price of the Units will depend on many factors, including, but not limited to:

- (i) the perceived prospects of IGB REIT's business and investments and the market for retail properties or Real Estate-Related Assets;
- (ii) differences between IGB REIT's actual financial and operating results and those expected by investors and analysts;
- (iii) changes in analysts' recommendations or projections, if any;
- (iv) changes in general economic or market conditions;
- (v) the market value of IGB REIT's assets;

- (vi) the perceived attractiveness of the Units against those of other equity or debt securities, including those not in the real estate sector;
- (vii) the balance of buyers and sellers of the Units;
- (viii) the size and liquidity of the Malaysian REIT market;
- (ix) any changes to the regulatory system, including the tax system, both generally and specifically in relation to Malaysian REITs;
- (x) the ability on the Manager's part to implement successfully its investment and growth strategies; and
- (xi) broad market fluctuations, including increases in interest rates and weakness of the equity and debt markets.

Based on an issue price of RM1.00 per Distribution Unit and assuming an offer price of RM1.00 per Unit, shareholders of 1,000 KrisAssets Shares are expected to receive an aggregate Cash Distribution and Distribution Units worth RM7,671.94 per KrisAssets Share ("Distribution Value") upon the completion of the Proposals. However, as the price of the Offer Units pursuant to the Proposed Offer for Sale will be determined by way of book building, in the event the offer price is less than RM1.00 per Unit, the cash distribution to be received will be less than the cash distribution of RM2,431.94 for every 1,000 KrisAssets Shares held. In addition, Distribution Units to be received as consideration may trade at prices that are lower than the NAV per Unit after the Proposed Listing.

#### **6.4 Listing Status**

Non-interested shareholders should also bear in mind that the Board does not intend to maintain the listing status of KrisAssets and that the Board intends to wind-up the Company upon completion of the Proposed Distribution (i.e. subsequent to the completion of all the Proposals). Accordingly, the Company will be de-listed by Bursa Securities and the shareholders of KrisAssets will then hold unlisted shares in the Company up until the completion of the liquidation process and be entitled to cash distribution resulting from the recoverability of the remaining assets (net of liabilities), if any, on a pro-rata basis.

### **7. CONCLUSION AND RECOMMENDATION**

We have assessed and evaluated the Proposed Disposal and Proposed Offer for Sale, taking into consideration the various factors as discussed in Sections 4.0 to 6.4 of this IAC. The key factors are summarised as follows:-

#### **(a) Rationale**

The Proposed Disposal is intended to facilitate the establishment of IGB REIT which is more tax-efficient. The IGB REIT will mirror the two (2) core property assets currently owned by the wholly-owned subsidiaries of KrisAssets. REITs are exempted from tax on all income where at least 90% of income is distributed to the unitholders. IGB REIT intends to distribute at least 90.0% of its Distributable Income. In addition, the shareholders of KrisAssets shall be able to participate in IGB REIT via the Proposed Distribution-in-Specie. The Proposed Disposal is also expected to result in a net gain on disposal of approximately RM1,303.3 million at the KrisAssets Group level.

The Proposed Offer for Sale is to facilitate the initial public offering structure of the IGB REIT where the offering of the Offer Units are made to certain categories of investors such as institutional investors, Malaysian public, eligible directors and employees of the manager of IGB REIT, IGB and IGB's eligible subsidiaries. A full distribution of the entire 3,400 million Consideration Units back to the Entitled Shareholders may not result in the said objective being met. Furthermore, the cash proceeds from the Proposed Offer for Sale (save for approximately an aggregate of RM615.57 million which comprises the settlement of all outstanding liabilities in the KrisAssets Group of RM581.82 million as well as to maintain sufficient cash for the settlement of estimated expenses for the Proposals of RM33.75 million) will eventually be distributed to the Entitled Shareholders (inclusive of the non-interested shareholders) under the Proposed Distribution.

**(b) Total Disposal Consideration**

The disposal consideration for the Subject Properties is based on valuation as assessed by the Independent Property Valuer. The yield/discount rate adopted by the Independent Property Valuer is lower as compared to other comparable retail malls, thus a higher valuation or capitalised value for the Subject Properties. The disposal consideration for the Subject Properties is also within the range of transaction prices of the said comparable retail malls.

In addition, the disposal consideration for the Subject Properties is significantly higher as compared to the previous transactions involving the Subject Properties. The PBR of 1.39 times for the disposal consideration of the Subject Properties is reasonable, given that it is higher than the range of comparable public listed companies of between 0.68 times and 1.36 times.

The Related Assets are disposed based on actual book value and it is disposed off as part of the Proposed Disposal which will facilitate the Proposed Listing.

**(c) Pricing of Consideration Units**

The PNAV of the Consideration Units is within the current trading PAV of the listed REITs on Bursa Securities of 0.82 to 1.31 times and is marginally lower than the average current trading PNAV of 1.03 times and marginally higher than the median PNAV of 0.96 times. In addition, the Distribution Value represents the range of premiums of 9.1% to 32.9% or RM0.64 to RM1.90 over the market values of KrisAssets Shares for the past one (1) year since 11 May 2012.

**(d) Salient Terms and Conditions of the draft SPAs**

The terms of the draft SPAs are generally fair and reasonable and not detrimental to the non-interested shareholders of KrisAssets as the terms are principally in accordance with standard practices for property transactions.

**(e) Financial Effects**

The Proposed Disposal is expected to realise a net gain arising from the Proposed Disposal of approximately RM1,303.2 million in the FYE 31 December 2012 upon the completion of the Proposed Disposal.

**(f) Industry Outlook**

Although the economic and retail industry prospects for 2012 is considerably moderate, the outlook and prospects of the REIT industry should augur well for the growth for the Subject Properties.

**Based on our evaluation, we are of the opinion that the Proposed Disposal and Proposed Offer for Sale are not detrimental to the non-interested shareholders of KrisAssets and are fair and reasonable.**

**Accordingly, we recommend that you vote in favour of the ordinary resolutions pertaining to the Proposed Disposal and Proposed Offer for Sale to be tabled at the forthcoming EGM of KrisAssets.**

Yours faithfully  
*for and on behalf of*  
**M&A SECURITIES SDN BHD**

**GARY TING**  
Head  
Corporate Finance

**DANNY WONG**  
Deputy Head  
Corporate Finance

---

**FURTHER INFORMATION**

---

**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This IAC has been seen and approved by the Board and they collectively and individually accept full responsibility for the accuracy of the information given in this IAC and confirm that, after making all reasonable enquiries, and to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this herein false and misleading.

**2. CONSENTS AND DECLARATIONS****2.1 CIMB**

CIMB has given and has not subsequently withdrawn its written consent to the inclusion in this IAC of its name and all references thereto in the form and context in which it appears in this IAC.

CIMB acts as the Joint Principal Adviser to KrisAssets for the Proposals. As at the LPD, CIMB confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the Joint Principal Adviser in respect of the Proposals.

**2.2 HLIB**

HLIB has given and has not subsequently withdrawn its written consent to the inclusion in this IAC of its name and all references thereto in the form and context in which it appears in this IAC.

HLIB acts as the Joint Principal Adviser to KrisAssets for the Proposals. As at the LPD, HLIB confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the Joint Principal Adviser in respect of the Proposals.

**2.3 Henry Butcher**

Henry Butcher has given and has not subsequently withdrawn its written consent to the inclusion in this IAC, of its name and all references thereto in the form and context in which it appears in this IAC.

As at the LPD, Henry Butcher confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the Independent Property Valuer for the Subject Properties.

**2.4 M&A Securities**

M&A Securities is the Independent Adviser to KrisAssets for the Proposed Disposal and Proposed Offer for Sale. As at the LPD, M&A Securities confirms that there is no situation of conflict of interest or potential conflict of interest in its capacity as the Independent Adviser in respect of the Proposed Disposal and Proposed Offer for Sale.



---

**FURTHER INFORMATION (Cont'd)**

---

**3. OTHER MATTERS**

Shareholders of KrisAssets should also refer to the Circular for, among others, the following information:

- (i) Material contracts;
- (ii) Documents available for inspection;
- (iii) Notice of EGM together with the Proxy Form; and
- (iv) All other information relating the Proposed Disposal and Proposed Offer for Sale that is contained in the Circular which the shareholders might need to make an assessment prior to the voting on the resolutions pertaining to the Proposed Disposal and Proposed Offer for Sale.

---

**The remaining of this page is intentionally left blank**

---