

A nighttime photograph of the Kuala Lumpur skyline, featuring the Petronas Twin Towers as the central focus. The towers are illuminated with warm yellow lights, and their reflection is visible in the water below. Other skyscrapers and city lights are visible in the background, creating a vibrant urban scene. The sky is a mix of purple and blue hues.

KL calling

Investor's guide

4th edition

Kuala Lumpur,
Asia's regional headquarters hub



Building a better
working world



About this investor's guide

Many global businesses are beginning to adopt a city and regional hub perspective in their growth and expansion strategies. Kuala Lumpur (KL), Malaysia's capital city is rapidly transforming to be Asia's leading regional services hub and is calling out investors to be part of its growth ambition.

This guide has been crafted to serve as a reference for multinational companies considering KL as the choice location for their regional headquarters (HQ) operations.

In this publication, we provide research insights on KL's economy, industry sectors, demographics and infrastructure which can guide companies on Malaysia's unique investment opportunities.



“

KL's continued economic and urban transformation and her world-class infrastructure are catapulting her progression to become a global city and a major regional hub.

”

Dato' Abdul Rauf Rashid
Malaysia Managing Partner
Asean Assurance Leader
EY



As Malaysia's capital city, KL is fast evolving to become Asia's upcoming high value, high impact regional hub for multinationals (MNCs) to conduct and oversee their regional and global businesses.

As is, KL has a vibrant ecosystem of multi-ethnic, multi-lingual people, a balanced mix of economic activities, aside from a host of recreation, arts and cultural activities.

KL's continued economic and urban transformation and her world-class infrastructure are catapulting her progression to become a global city and a major regional hub. The significant transport infrastructure investments committed will transform KL's urbanscape and raise KL's connectivity with market centres, locally and regionally.

Accelerating KL's growth and global competitiveness include Malaysia's investor-friendly policies. Among them are the Principal Hub tax incentive and Malaysia's strategic regional economic partnerships and bilateral trade agreements with key regional and global markets.

In fact, KL's aspiration to be the preferred regional services hub in the new sharing economy sectors such as Knowledge Process Outsourcing is synergistic to Malaysia's industry capabilities in financial services, (including Islamic finance), aerospace, engineering construction, halal food, healthcare, education, oil and gas and a wide range of business services.

Moving forward, I am confident that with the continued transformation of KL by both the private and public sectors, including facilitating industry institutions, KL will become a city that regional and global businesses will utilise as their prime Asian base to grow their business across the region.

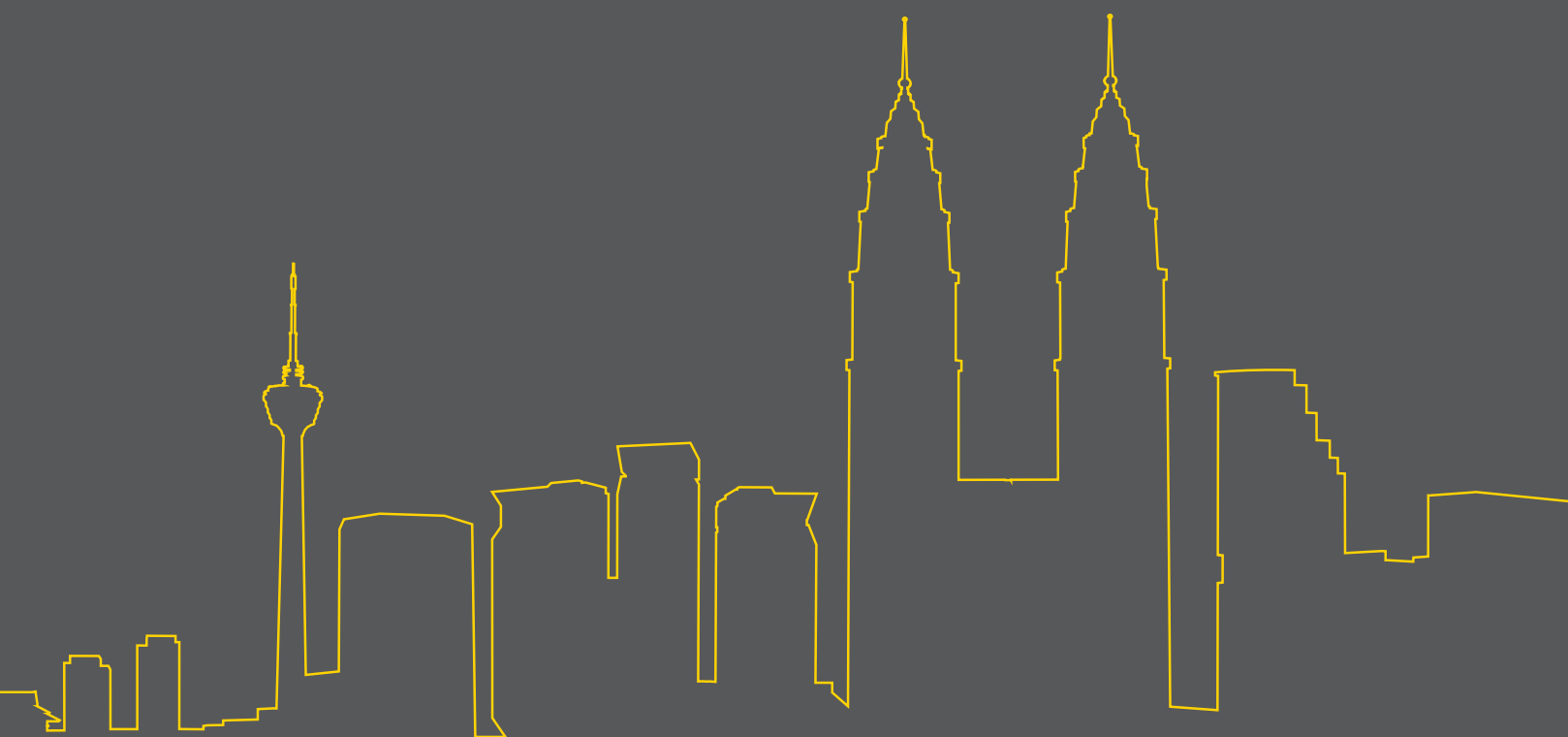
We hope *KL calling 2016* will refresh your insights on KL's ecosystem, from her economy, people and infrastructure to her strategic growth industries and regulatory initiatives and incentives.

We look forward to a conversation with you on KL as a strategic location for your regional investment plans. Finally, do revisit KL via our capture of the latest scenic views in the "KL Gallery" section.

"Selamat datang"

Dato' Abdul Rauf Rashid
Malaysia Managing Partner
Asean Assurance Leader
EY

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Executive summary

Being the capital city of Malaysia and a leading city in the region, KL has been on a progressive transformation track, supporting Malaysia's aspiration to be a fully-developed nation by the year 2020.

With Malaysia's highly trade-oriented economy, KL has evolved to be a dynamic hub serving both her domestic market and even the region's needs. KL is already a pivot point and a HQ address for global and regional businesses with over 3,600 MNCs having their global and regional representatives offices in Malaysia.

KL's conducive ecosystem includes:

- ▶ a balanced populace of experienced and young talent who are multi-racial and multi-lingual
- ▶ a broad-based economy driven by dynamic businesses linked to the global supply chain, from manufacturing, to diverse service industries
- ▶ a better integrated public transport system, linking commercial retail and business hubs to residential areas, public amenities and facilities
- ▶ a wide range of quality educational and healthcare services
- ▶ easy accessibility of sports and recreational activities in green open spaces/parks to purpose-built complexes.

Malaysia's economic diversity and resilient track record, including strong economic trade partnerships with regional and world markets, have driven KL to be a major regional hub with strong linkages to the global supply chain.

Among KL's strategic high-growth investment sectors, which are on the radar of investors, both local and international players, include:

- ▶ Global business services (including Knowledge Process Outsourcing)
- ▶ Engineering construction services
- ▶ Aerospace (aviation, avionics, MRO*)
- ▶ Halal products/services
- ▶ Financial services (including Islamic finance)
- ▶ Oil and gas activities (including downstream activities).

Today's rapid integration of the global economy, fuelled by digital technologies and the continued global outsourcing of production and services, provides significant opportunities for KL to be a key regional player in servicing the new global sharing economy demands.

With KL accelerating to be a leading regional city with its world-class infrastructure and dynamic pool of diverse-skilled young and experienced talent, her aspirations to be the next major regional HQ hub is a reality.

The optimisation of KL's growth potential is subject to Malaysia's ability to grow her economy, her generations of talent, to transform and adapt to new technologies, to develop flexible and accommodative business policies and to provide a stable and responsive government.

By 2030, as KL right-transforms her economy-talent-infrastructure, she can evolve to become the leading central hub of Asia and be the true "Golden Chersonese".

Note:

- ▶ MRO refers to maintenance, repair and overhaul/operations

Malaysia 2016

ASEAN's regional hub

Malaysia 2020 - 2030

Asia's regional HQ hub

Global rankings

- ▶ 3rd most preferred global offshore destination
- ▶ 5th most attractive global investment destination
- ▶ 10th global position on business efficiency
- ▶ 16th global rank on infrastructure
- ▶ 18th global position on ease of doing business

Diversified and vibrant economy

Young and multi-lingual talent
World class infrastructure
Highly cost competitive
Pro-business environment

Industry standings

- ▶ Regional oil and gas hub
- ▶ Regional Islamic finance hub
- ▶ Regional aerospace hub
- ▶ Global business services (KPO, BPO, SSO)
- ▶ Global halal hub

Services:
54% of GDP

**KL as
principal hub**

Services:
58% of GDP

5.3% GDP growth
CAGR 2010 - 2015

5.0% GDP growth
CAGR 2016 - 2020

Strategic growth directions

Financial services blueprint

National transformation programme

Capital market masterplan

Construction industry
transformation programme

Services sector
blueprint

Halal industry
development masterplan

Logistics and trade
facilitation masterplan

Notes:

- ▶ KPO refers to knowledge process outsourcing;
- ▶ BPO refers to business process outsourcing;
- ▶ SSO refers to shared services outsourcing

Review

Kuala Lumpur

- Malaysia: conducive ecosystem

Focus

- KL, a balanced urban metropolis
- Malaysia's global trade participation
- Principal Hub incentive





Review: Kuala Lumpur

KL transforming to be a well-connected city and major regional hub

Among Asian cities, KL is well-regarded as an affordable city with world-class infrastructure.

Over the last two decades, KL city development activities has expanded from the city centre to the periphery areas across the state of Selangor. This larger area is known as Klang Valley or Greater KL.

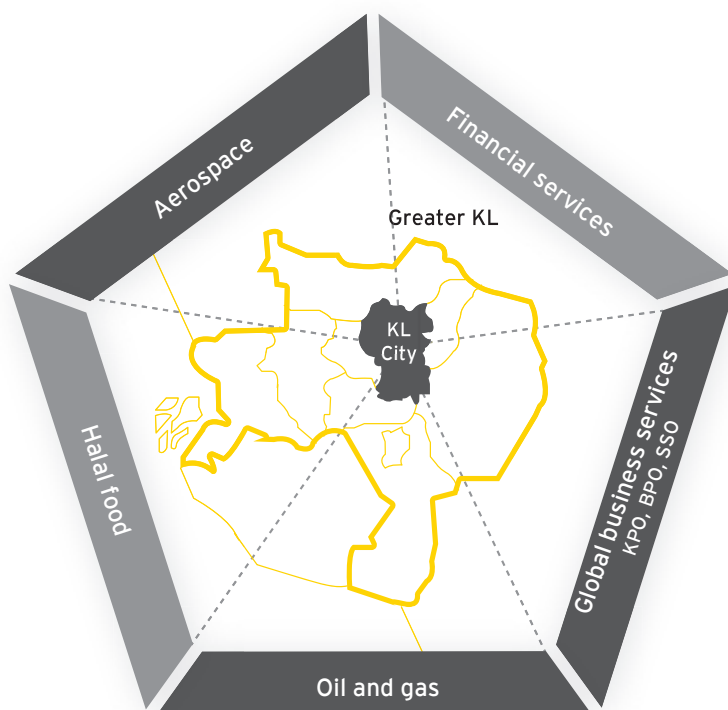
KL is already a pivot point and a HQ address for global and regional businesses with over 3,600 MNCs having their global and regional representative offices in Malaysia.

Recent years saw the resurgence of MNCs interests in considering KL to be their regional HQ hub.

Key consideration drivers to make KL the Principal Hub include:

- ▶ Malaysia's economic resilience, people dynamism and robust regulatory policies (e.g., Economic Transformation Programme and the recently introduced, Principal Hub incentive); and
- ▶ when compared to regional cities, KL's cost-competitiveness with its conducive and balanced ecosystem of world class infrastructure, facilities and amenities - healthcare, education and recreation.

Chart 1: Greater KL and strategic growth sectors



Greater KL at a glance

10 municipalities include KL city

10 million population by 2020

2,793 km² land size

US\$184b (RM650b)
estimated contribution of Greater KL to Malaysia's Gross National Income (GNI) by 2020

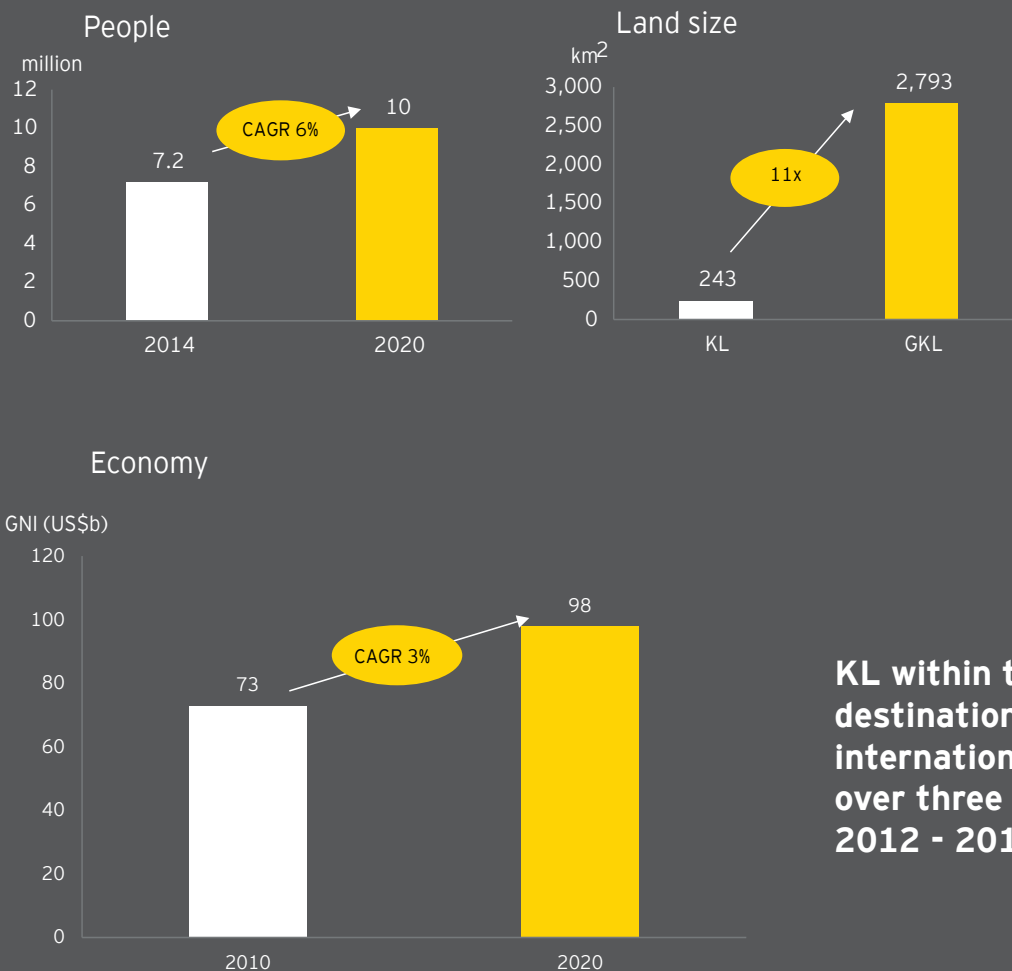
Notes:

- ▶ HSR refers to High Speed Rail
- ▶ MRT 1, 2 refers to Mass Rapid Transit Line 1 and Line 2

KL is a growth story

KL is the most developed city in Malaysia, which is well-known as a leading commercial and financial centre in the region. KL's significant progression is reflected in its development activities across Klang Valley, rising population and steady economic growth. The growth dynamics of KL as follows:

- ▶ Greater KL now encompasses an area, 11 times larger than KL city covered by 10 municipalities, each covered by local authorities, located around Klang Valley.
- ▶ Greater KL's population of 7.2 million is anticipated to expand 6% CAGR to reach 10 million by 2020.
- ▶ The size of Greater KL economy reflected by Gross National Income (GNI) is expected to grow from US\$75b to US\$98b at 3% CAGR in view of global economic conditions.



KL within top 15 city destinations ranking for international tourist arrivals over three consecutive years, 2012 - 2014.

Sources:

- ▶ Greater KL: Malaysia's Transformation 2014, Invest KL;
- ▶ National Transformation Programme Annual Report 2015, Performance Management & Delivery Unit (PEMANDU);
- ▶ Performance report 2014, InvestKL;
- ▶ Top 100 City Destinations Ranking, 2016, Euromonitor International

Focus:

KL, a balanced
urban
metropolis





“

As Malaysia continues on its journey to be a developed country by 2020, there are significant investments being made in KL city and her surrounds. In fact, KL is fast gaining the global repute to be the “rail projects capital of the world” with more projects here than anywhere else in the world including MRT, LRT and High Speed Rail projects.

CH2M have been active in Malaysia for 50 years, and find it a great place to grow our team for both domestic and regional opportunities as there is a strong talent pool and pipeline of capable engineers.

”

Mark Loader

International Rail Director, CH2M Hill



KL transforming to be a global metropolis

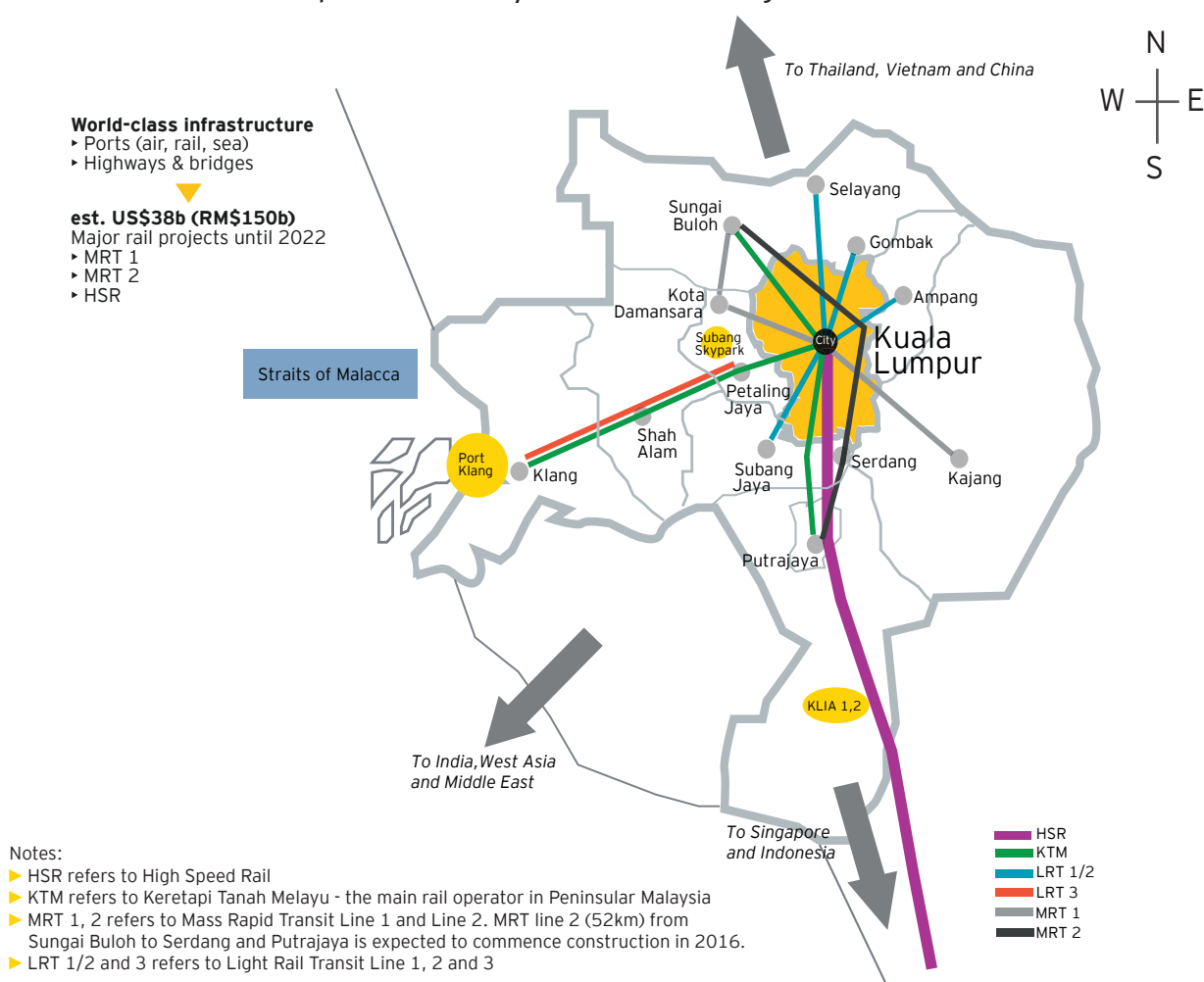
The ongoing transformation of KL was part of Malaysia's Economic Transformation Programme (ETP), 2010 to 2020. By 2020, KL aspires to be among the top 20 global metropolises.

KL, as Malaysia's capital city, epitomises the quality and connectivity of the country's transport infrastructure. As is, KL city centre is already well-connected with a multi-network of city and suburban roads/highways, rail and air transport networks which connect intra-city, inter-state and to regional and international cities. KLIA, Malaysia's main international airport, located at the periphery of KL, is well-connected to key regional and international routes.

Under the infrastructure pillar, Malaysia is well-ranked at 24th position among 140 countries in the World Economic Forum's Global Competitiveness Report 2015-16. Malaysia is also highly ranked at 15th position for the quality of roads and 13th for the quality of railroad infrastructure.

With the implementation of significant road and rail infrastructure upgrades in key urban and regional transportation networks over 2015 to 2022, KL as Malaysia's central logistic hub, is set for significant transformation of its infrastructure connectivity.

Chart 2: Greater KL transport connectivity to domestic and regional markets



Malaysia, an international pivot to the regional and global supply chain

Malaysia, as one of Asia's most open economy, is highly connected to the global supply chain. With its established air-land-sea logistics, Malaysia has a significant base of multinational companies who have regional offices and manufacturing plants located in Malaysia and headquarters in KL. Among the MNCs are Western Digital, Dell, Schlumberger, Seagate, IBM, Siemens, Toyota and BMW who are key participants of the global supply chain.

Malaysia, the preferred logistics gateway to Asia

In anticipation of higher flows of trade of goods with the ratifications of bilateral and regional FTAs and economic trade partnerships, Malaysia has developed a comprehensive Logistics and Trade Facilitation Masterplan (2015 - 2020). The Masterplan outlined

three phases and five thrusts to elevate Malaysia's logistics industry competitiveness to be the preferred logistics gateway to Asia.

Broad details of the Masterplan are as follows:

Chart 3: Malaysia's Logistics and Trade Facilitation Masterplan, 2015 - 2020

Phase I: 2015 - 2016

- 1** Strengthening the institutional and regulatory framework
- 2** Developing infrastructure and freight demand

Phase II: 2016 - 2019

- 3** Enhancing trade facilitation mechanism
- 4** Strengthening technology and human capital

Phase III: 2020 and beyond

Malaysia - the preferred logistics gateway to Asia

5 Internationalising logistic services

- ▶ Promote efficient urban logistics
- ▶ Undertake R&D on supply chain innovation
- ▶ Provide green initiatives support
- ▶ Enhance convergence of global supply chain and liberalisation of logistics sector

Source:

▶ *Logistics and Trade Facilitation Masterplan (2015 - 2020)*, Economic Planning Unit (EPU)

Focus:

KL, a balanced urban metropolis

KL city's continued development to be a prime international business hub

Upcoming major business hubs include Bandar Malaysia which will serve as KL's central transport hub when completed will enhance the city's rail connectivity. Among the key transport investments include the Mass Rapid Transit (MRT1 and MRT2), Light Rail Transit (LRT) and the High Speed Rail (HSR) project linking KL to Singapore.

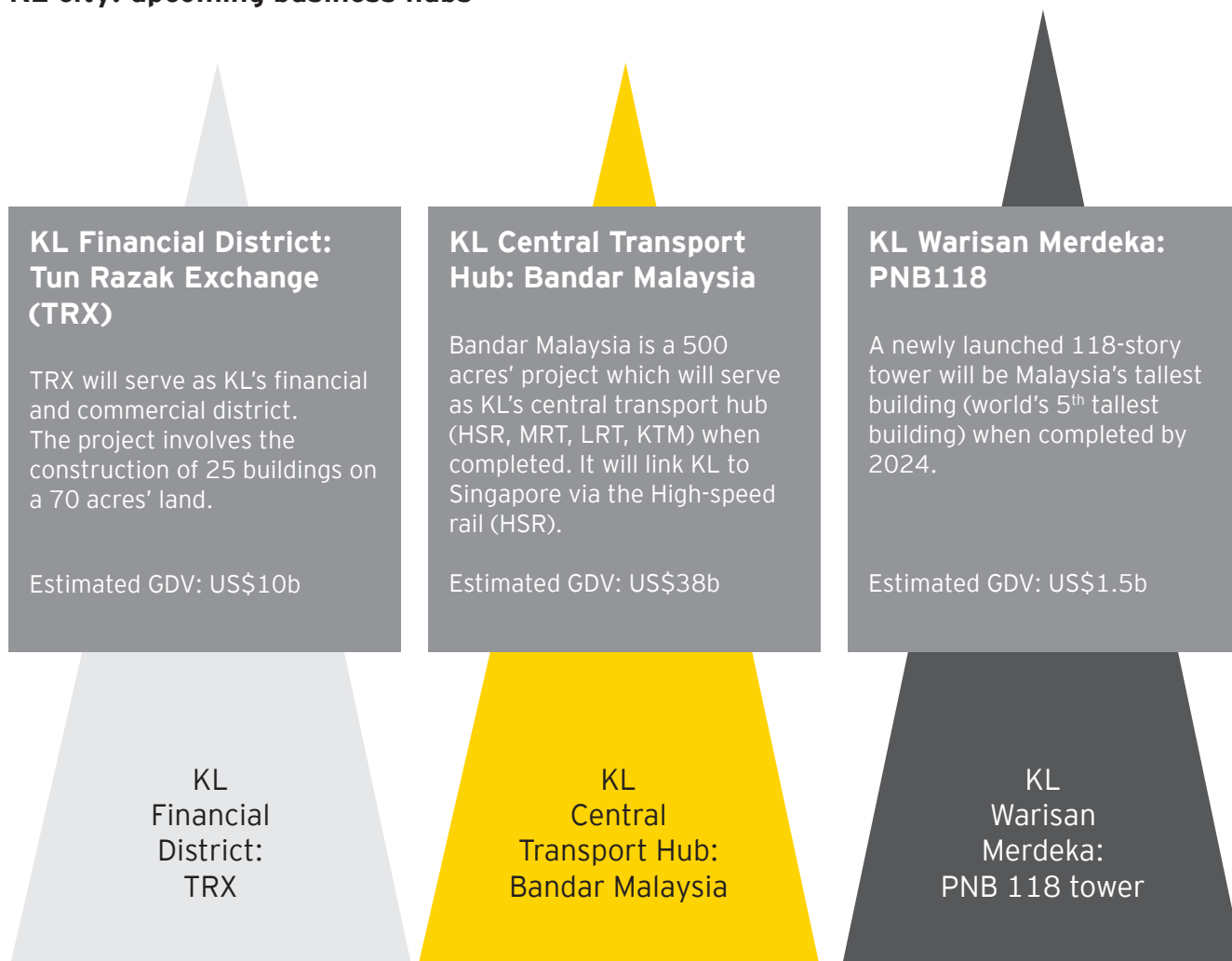


KL is fast transforming to be one of the world's most connected cities, from the implementation of world-class rail transport links to the deployment of ICT infrastructure.



YB Datuk Seri Utama Tengku Adnan bin Tengku Mansor
Minister of Federal Territories

KL city: upcoming business hubs



Note:

► GDV refers to gross development value

Source:

► Tengku Adnan: DBKL to transform KL into one of world's most connected cities in three years, 28 April 2016, Malay Mail Online

KL city's easy access to quality education, healthcare facilities and amenities

KL city and Greater KL is host to a wide range of international schools and quality healthcare facilities which is of much convenience to expatriates living and working in KL with their family.

4 foreign full-campus universities

10 major private hospitals

20 local full-campus universities

10 specialist private hospitals

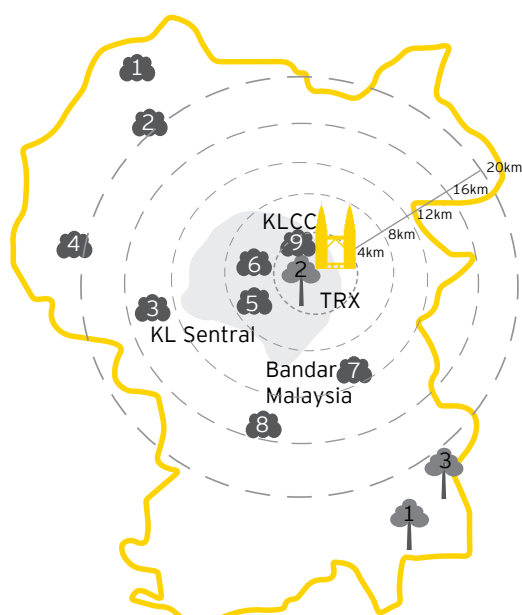
29 international schools offering 13 diverse curriculums

14 public hospitals

KL city's balanced ecosystem of green spaces

Despite, the rapid urbanisation of KL city, there are vast green belt areas, including nine major recreational parks and three forest reserves. Within inner city areas or 4km driving distance from KLCC, there are pockets of green parks and reserves such as KLCC Park, Taman Tasik Titiwangsa and Bukit Nanas Forest Reserve.

Chart 4: KL city green spaces



Sources:

- ▶ Association of Private Hospitals of Malaysia (APHM);
- ▶ Kuala Lumpur Structure Plan 2020, City Hall Kuala Lumpur;
- ▶ List of government hospitals, Ministry of Health Malaysia;
- ▶ Malaysian Association of Private Colleges and Universities (MAPCU)

Table 1: KL city recreational parks

| | Name | Area (ha) |
|---|----------------------------|-----------|
| 1 | Templer Park | 1,214 |
| 2 | FRIM Kepong | 600 |
| 3 | Lembah Kiara Park | 190 |
| 4 | Kepong Metropolitan Park | 117 |
| 5 | Perdana Botanical Garden | 91 |
| 6 | Taman Tasik Titiwangsa | 44 |
| 7 | Taman Tasik Permaisuri | 40 |
| 8 | Taman Rekreasi Bukit Jalil | 33 |
| 9 | KLCC Park | 18 |

Table 2: KL city forest reserves

| | Name | Area (ha) |
|---|-----------------------------------|-----------|
| 1 | Bukit Sungai Besi Forest Reserve | 42 |
| 2 | Bukit Nanas Forest Reserve | 11 |
| 3 | Bukit Sungai Putih Forest Reserve | 7 |

Review

Kuala Lumpur

Malaysia: conducive ecosystem

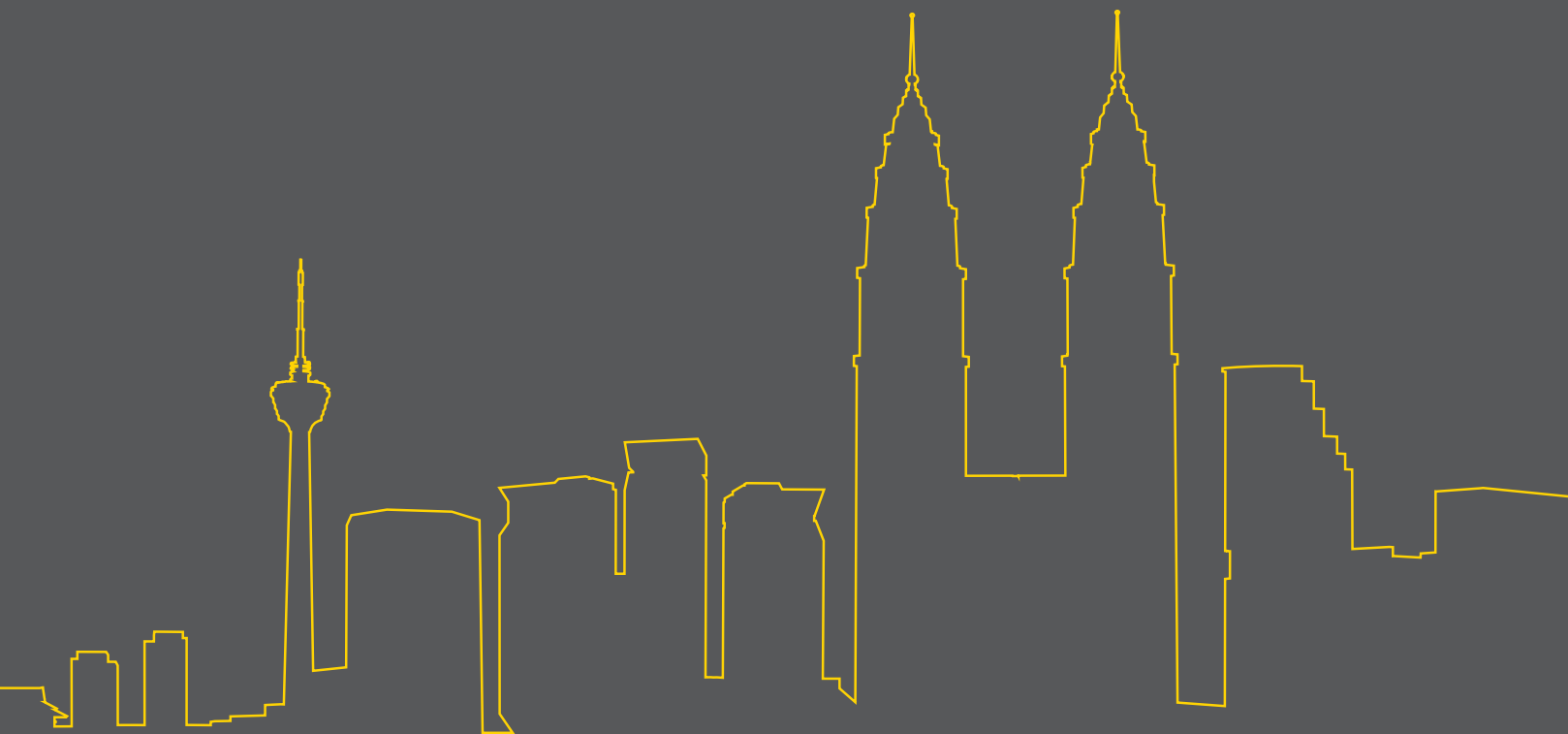


Ramesh Kana
Group CEO, Emery Oleochemicals

“

Having lived and worked in regions as diverse as North East Asia, Europe, Australia and Latin America, we can safely say that we have in no way compromised the quality of education that our children have enjoyed in Malaysia.

”



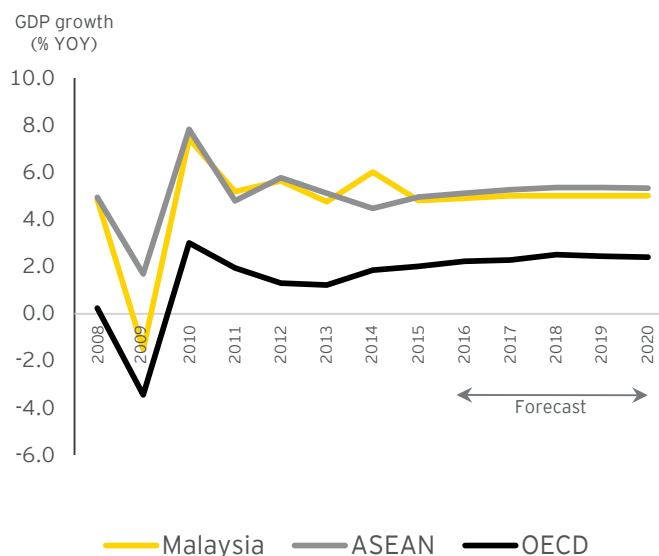
Diversified and vibrant economy

Malaysia's robust economic growth of 5.3% CAGR in the last five years (2010 - 2015) reflects her resilience to global economic volatilities. With a well-diversified economy propelled by a dynamic private sector, Malaysia's economy is expected to continue on an above-average growth trajectory of 5% into the next 5 years.

Services to drive future growth

As Malaysia transforms her economy, it is anticipated that the services sector will drive future growth, output and employment. In 2015, the services sector contributed over half (54%) of Malaysia's GDP and this share is expected to expand to 58% by 2020. The growth directions of the services sector is guided by the 4-point framework of Malaysia's Services Sector Blueprint.

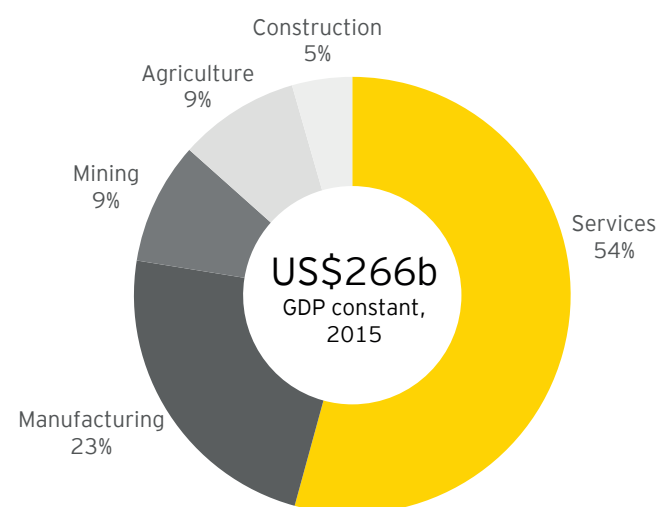
Chart 5: Malaysia's GDP growth forecast



Malaysia: Services Sector Blueprint 4-point framework



Chart 6: Malaysia's GDP by economic activity



Note:
US\$1 = RM4.00 (as of 23 March 2016)

Sources:

- ▶ Annual report 2015, Bank Negara Malaysia (BNM);
- ▶ Economic Outlook, 2017 - 2020, OECD;
- ▶ Services Sector Blueprint, March 2015, EPU;
- ▶ Southeast Asia Capital Confidence Barometer 2015, EY;
- ▶ World Economic Outlook Database, April 2015, International Monetary Fund (IMF)

Pro-business environment

Relative to her global and regional peers, Malaysia is highly rated for her favorable pro-business environment. Malaysia is ranked high in the “ease of doing business” (18th) and the “business efficiency” (10th) global competitiveness indices.

EY Southeast Asia Capital Confidence Barometer 2015 ranked Malaysia as the top five investment destinations. According to Bank Negara Malaysia, strong global investor interest saw Malaysia receive global FDI amounting to US\$9.9b (RM\$39.5b) in 2015.

After India and China, Malaysia is the next favorable destination among 55 countries for offshore/outsourcing services, according to A.T. Kearney’s Global Services Location Index 2016.

Malaysia’s global competitiveness rankings

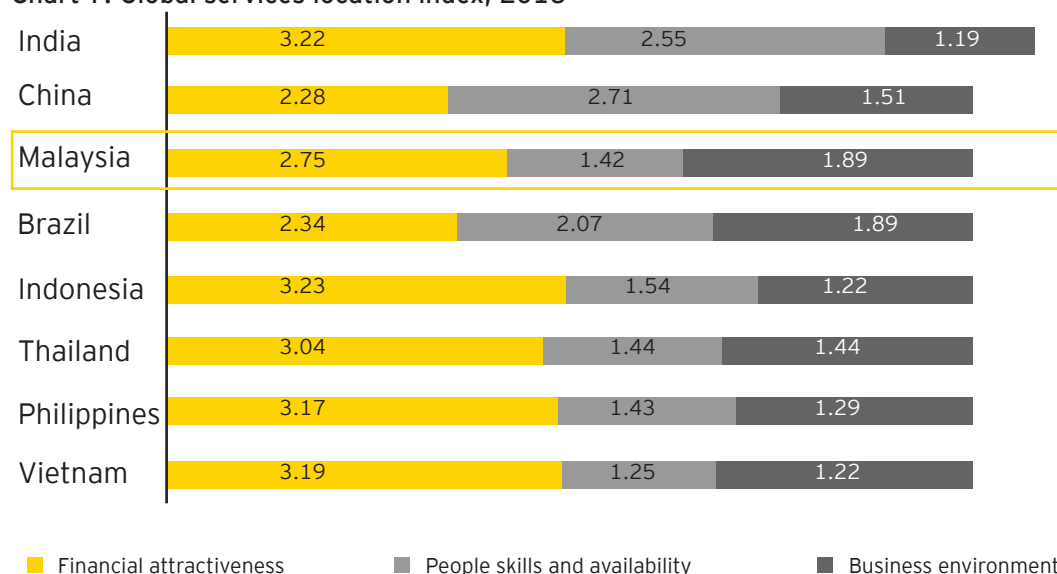
3rd preferred global offshore destination
Rating score of 55 countries
AT Kearney: Global Services Location Index, 2016

5th most attractive investment destination
Survey among 123 executives
EY: Capital Confidence Barometer, Southeast Asia, 2015

10th position on business efficiency
Rating score of 61 countries
IMD: World Competitiveness Report 2015

18th position on ease of doing business
Rating score of 189 countries
World Bank: Doing Business Report 2016

Chart 7: Global services location index, 2016



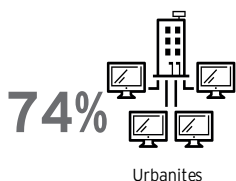
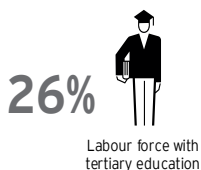
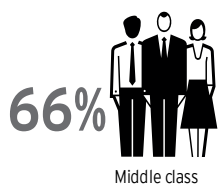
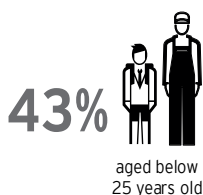
Sources:

- ▶ *Doing Business 2016 Report*, World Bank;
- ▶ *Global Services Location Index, 2016*, A.T. Kearney;
- ▶ *Monthly Statistical Bulletin, January 2016*, Bank Negara Malaysia;
- ▶ *World Competitiveness Report, 2015*, IMD;
- ▶ *World Investment Report 2015*, UNCTAD

Young and multi-lingual talent pool

Malaysia has a dynamic multi-ethnic, multi-lingual population of 30 million, of which about one-third have Chinese and Indian cultural links. Other key facts about her people:

- ▶ Over two-fifths (43%) are young - aged below 25 years old
- ▶ Two-thirds (66%) are middle-class
- ▶ High adult literacy rate of 93%
- ▶ About one-quarter of labour force (26%) have tertiary education
- ▶ Three-quarters (74%) of total population are urbanites
- ▶ Balanced diversity of male-female gender ratio



Highly cost competitive

Benchmarked against other Asian cities, Kuala Lumpur stands out as highly cost competitive on living cost and business cost dimensions:

▶ Prime CBD office rentals

Gross effective rental for KL CBD prime office rate is US\$17/sqm/month, the lowest among Asian cities.

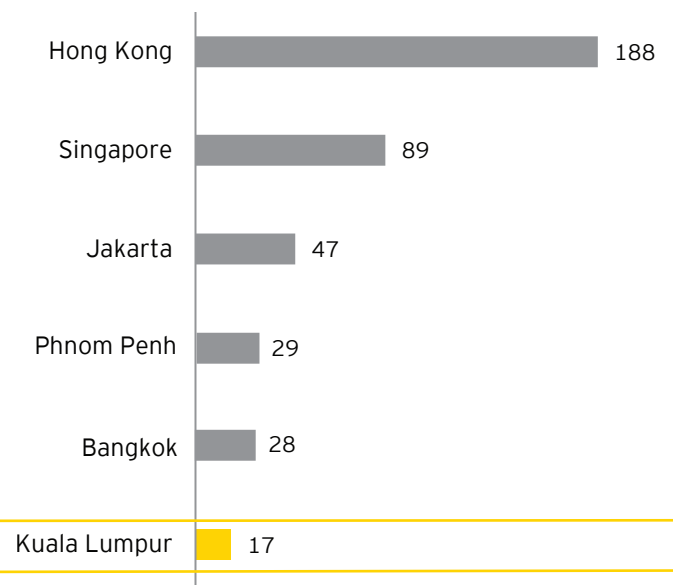
▶ Salaries of professionals

In KL, the average salary for a finance manager is US\$35,000 per annum. In comparison, the average salary for a finance manager in Singapore and Hong Kong is 2.2 times and 2.7 times that of KL average salary respectively.

▶ Cost of Living index

Highly affordable city, ranked 11th among Asian cities - Hong Kong (1), Singapore (2), Shanghai (3), Beijing (4), Seoul (5), Tokyo (6), Taipei (7), Bangkok (8), Manila (9) and Jakarta (10).

Chart 8: Asia-Pacific cities - prime office rental index



Sources:

- ▶ Asia Pacific Prime Office Rental Index Q4 2015, Knight Frank Research;
- ▶ Cost of Living City Rankings 2015, Mercer;
- ▶ Employed person by education, Department of Statistics Malaysia (DOSM);
- ▶ Key Indicators for Asia and the Pacific 2010, Asian Development Bank;
- ▶ Malaysia's literacy rate, 2015, UNESCO Institute of Statistics;
- ▶ World Economic Outlook Database, April 2015, IMF;
- ▶ World Population Prospects: The 2015 Revision, United Nations Department of Economic and Social Affairs;
- ▶ World Urbanization Prospects: The 2014 Revision, United Nations Department of Economic and Social Affairs

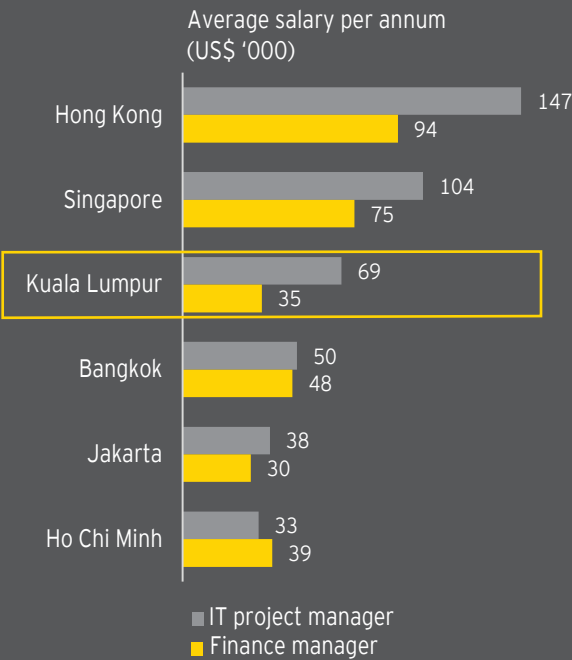


Sungkyu Chang
Partner
Ernst and Young
Advisory Services Sdn. Bhd.

“ Having worked in a number of cities, including my home in Seoul, I am amazed that KL’s talent pool is a vibrant mix of young and experienced talent. And what’s very interesting is that Malaysia’s talent pool has a diversity of regional and international exposures. ”

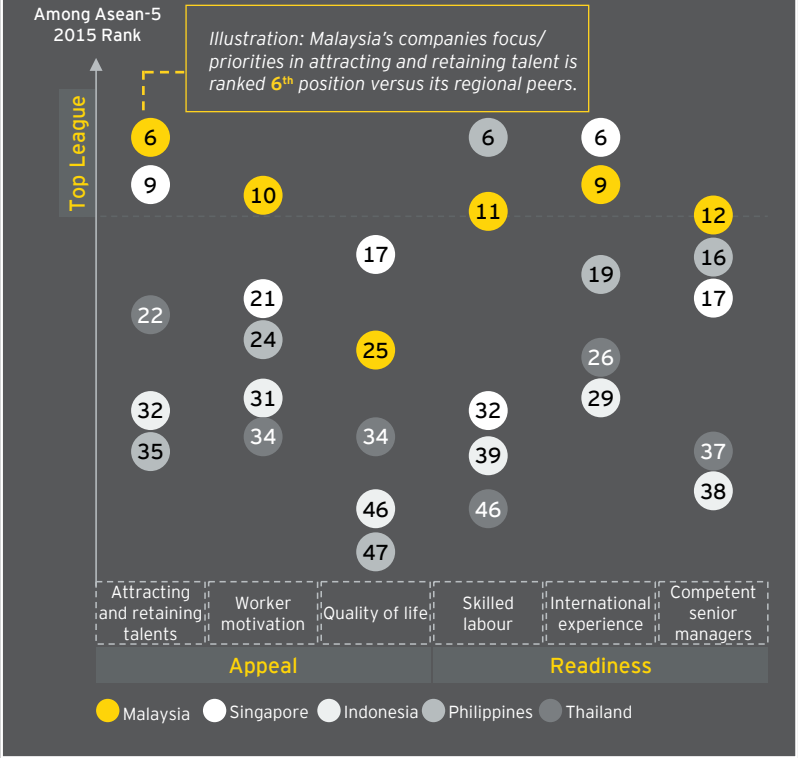
KL’s salary competitiveness

Chart 9: Asia-Pacific cities - average salary for finance and IT professionals



Malaysia’s strong position on talent appeal and readiness

Chart 10: Malaysia’s talent in top regional and global league



- Notes:
- ▶ Talent appeal factor - Beyond the focus on local talent, the appeal factor examines the ability of a country to attract highly skilled foreign labor and the way enterprises prioritize the attraction and retention of talent.
 - ▶ Talent readiness factor - Examines the context of the talent pool, ie. the quality of skills, the international experience and competencies of existing senior managers.

Sources:
▶ Global Salary Survey 2016, Robert Walters;
▶ IMD World Talent Report 2015, IMD

Focus:

Malaysia's
global trade
participation





Export-driven economy

Among Asian economies, Malaysia is the fourth most open trading economy - its trade to GDP ratio stands at 157%, after Hong Kong (434%), Singapore (359%) and close to Vietnam (164%).

Malaysia's active participation in strategic trade and economic partnership agreements including the ASEAN Economic Community (AEC) and the Trans Pacific Partnership Agreement (TPPA) continues to shape its trade and growth directions.

Malaysia has six regional FTAs and seven bilateral FTAs and a number of upcoming agreements in the pipeline including the Regional Comprehensive Economic Partnership (RCEP), ASEAN-Hong Kong FTA and Malaysia-EU FTA.

The TPPA expands Malaysia's trade opportunities to four new markets in the Americas (US, Canada, Mexico and Peru).

Malaysia has attracted significant FDI investments into export-oriented industries, producing a wide range of products and services integrating Malaysia into the global supply chain. Her export-oriented manufacturing and services sector have recorded 4.9% and 6.2% CAGR over the past five years, respectively.



In this fast-changing global environment, Malaysia has been progressively reshaping herself towards providing high value-added activities. In both the manufacturing and services sector, Malaysia is well-positioned in the global supply chain and with more FTAs and economic partnerships, Malaysia is gravitating to become the region's core activity nucleus.



Yeo Eng Ping

Malaysia Tax Leader
Asean Tax Leader
EY

Upcoming regional FTAs

Signed pending ratifications

- ▶ TPPA

In negotiations:

- ▶ RCEP
- ▶ D-8 PTA
- ▶ TPS OIC
- ▶ ASEAN-Hong Kong
- ▶ Malaysia-EU

Notes:

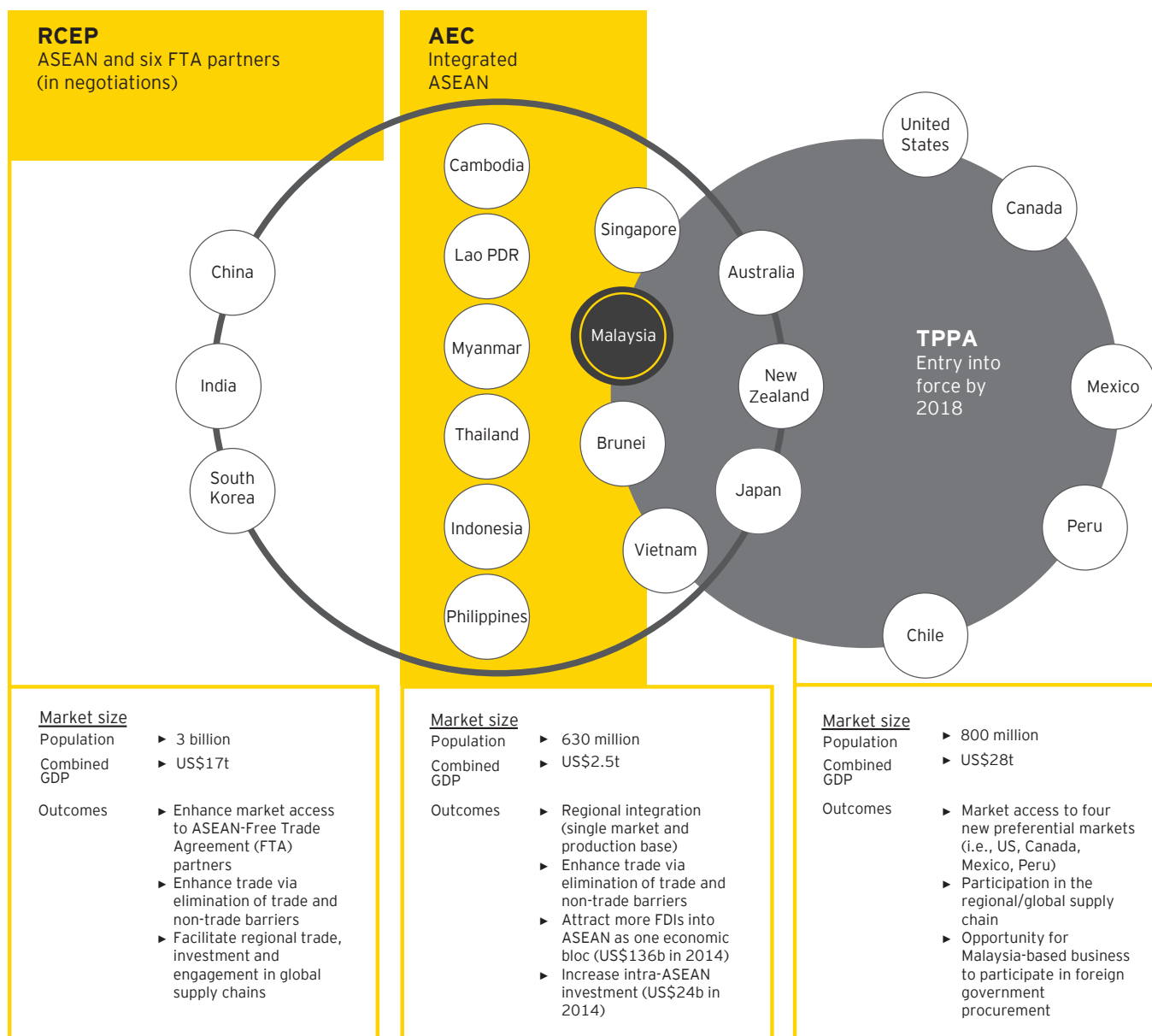
- ▶ TPPA refers to Trans Pacific Partnership Agreement which include 12 countries, namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam.
- ▶ RCEP refer to Regional Comprehensive Economic Partnership which include the 10 ASEAN members and Australia, China, India, Japan, New Zealand and South Korea.
- ▶ D-8 PTA refers to preferential tariff agreement (PTA) for the group of developing eight Islamic countries, which include Bangladesh, Indonesia, Iran, Malaysia, Egypt, Nigeria, Pakistan and Turkey.
- ▶ TPS OIC refers to the framework agreement on Trade Preferential System among the member states of the Organisation of the Islamic Conference (OIC).

Sources:

- ▶ *Annual report 2015*, BNM;
- ▶ *Malaysia's Free Trade Agreement, 2016*, Ministry of International Trade and Industry (MITI) Malaysia;
- ▶ *Monthly statistical bulletin, January 2016*, BNM;
- ▶ *Statistics database*, World Trade Organisation (WTO)

Malaysia's strategic trade agreements and economic partnerships

Moving forward, Malaysia's trade activities horizons are expanding with her AEC participation and other regional and global trade participation. With the AEC, Malaysian trade has access to a combined population of 630 million people, and a total GDP of US\$2.5t. And the TPPA participation will expand Malaysia's trade access to 11 other TPPA members with a collective GDP of US\$28t.

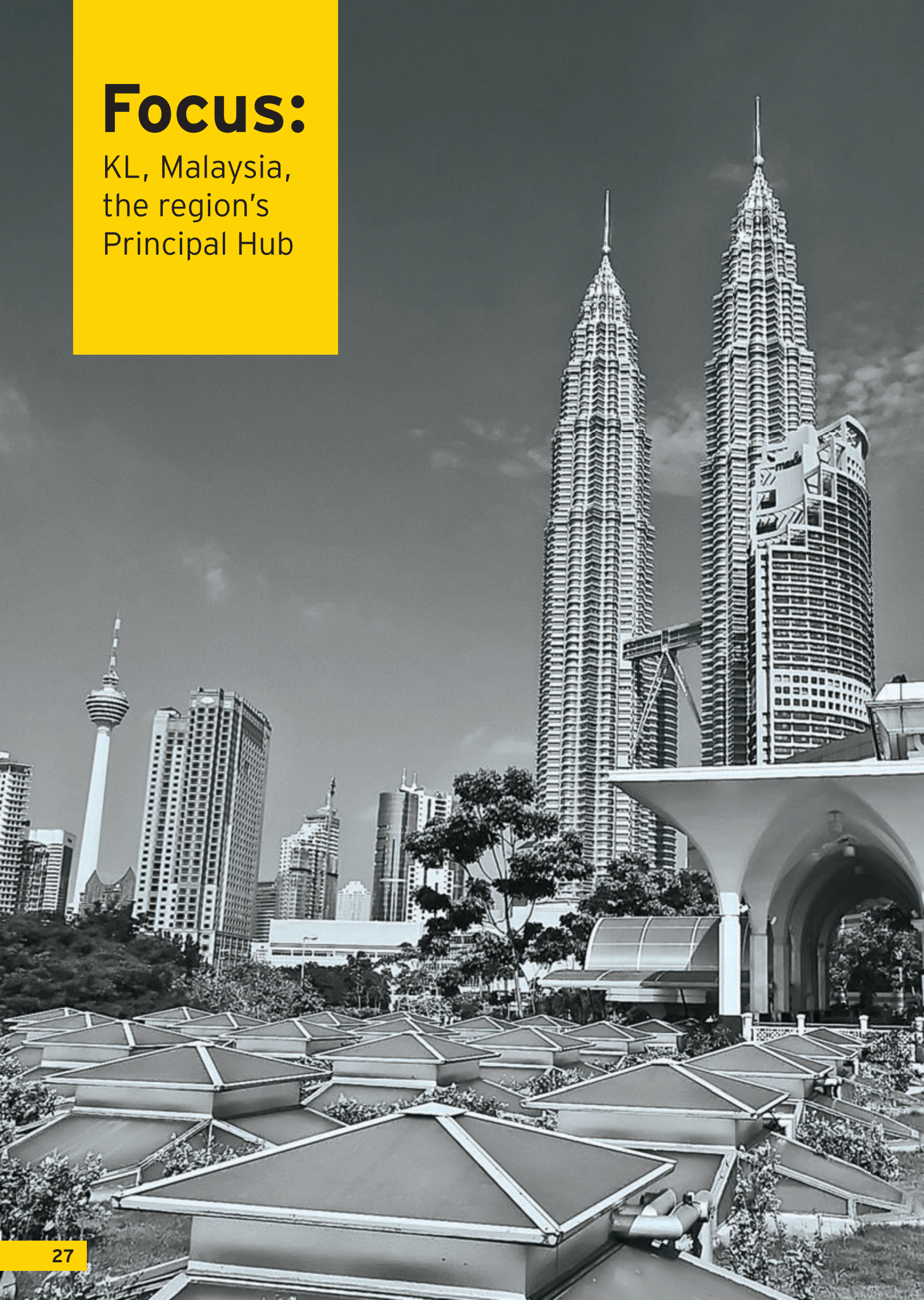


Sources:

- ▶ ASEAN Investment Report, 2015, ASEAN secretariat;
- ▶ Malaysia's Free Trade Agreement, 2016, MITI Malaysia;
- ▶ EY analysis

Focus:

KL, Malaysia,
the region's
Principal Hub





Focus:

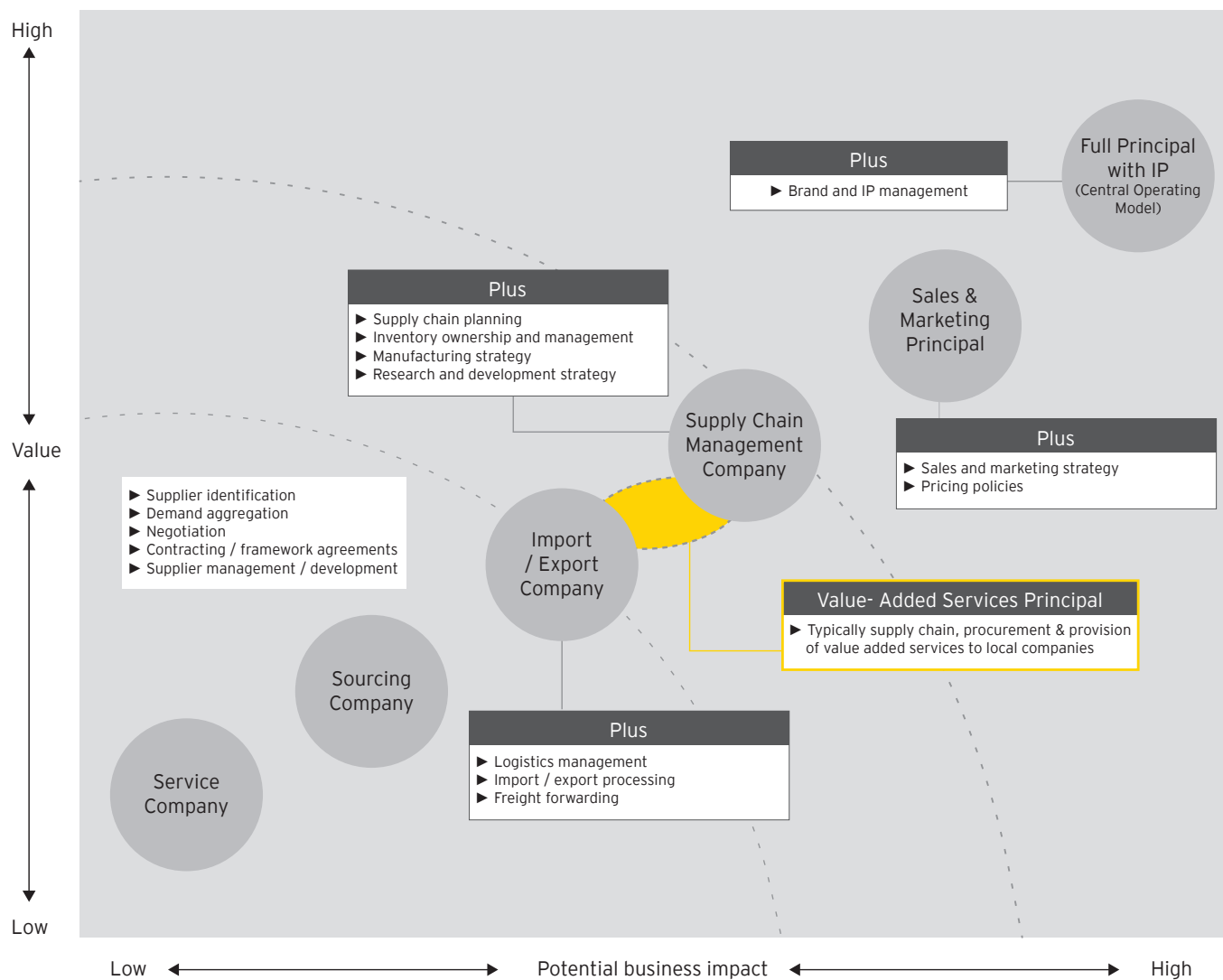
KL, Malaysia,
the region's
Principle Hub

Today's increasingly challenging global business environment spurs business models to aspire for 'high-value, high-impact' central operating models. In optimizing operating models, the search for flexible tax regimes becomes imperative.

Against this "flexible tax regime" backdrop, Malaysia has launched an incentive (i.e., Principal Hub incentive) in April 2015 to attract multinationals (MNCs) to locate their regional headquarters operations in Malaysia.

By definition, a Principal Hub is a locally incorporated company that uses Malaysia as a base for conducting its regional and global operations to manage, control and support its key functions including management of risks, decision making, strategic business activities, trading, finance, management and human resource.

Chart 11: Optimising operating business models



Source:

► Take 5, Malaysia: Principal Hub Incentive, April 2015, EY

Qualified companies who use Malaysia as their Principal Hub can optimise their supply chain operating model and benefit from tax savings. Corporates can leverage on the Principal Hub model to streamline their global and/or regional resources and enhance consistency across its group of companies.

In consideration of Malaysia's competitive Principal Hub incentive package and her comparatively lower operating cost, MNCs can strategise Malaysia as a preferred principal location to grow their business in the region and/or globally.

Principal Hub incentive offers:

- 1** Competitive corporate tax rates* - 0%, 5% or 10% depending on the value of committed business investments
- 2** Allows 100% foreign equity participation; Foreign Exchange Administration flexibilities
- 3** Flexible qualifying criteria including no limit on drop shipment
- 4** Customs duty exemptions
- 5** Ease in expatriate employment

Malaysia's Principal Hub concept requires the hub to act as a regional nerve centre for decision making. As such, the qualifying criteria for the Principal hub incentives require investors to maintain critical operational, management and legal functions and value-based economic activity in Malaysia.

Such substance requirements are timely given the current global tax climate, particularly the OECD's Base Erosion and Profit Shifting (BEPS) initiative which aims to ensure that profits are recognised where economic activities generating the profits are performed and where value is created.

Note:

*Please refer to Principal Hub tax framework in Appendices (page 76)

Source:

► Take 5, Malaysia: Principal Hub Incentive, April 2015, EY

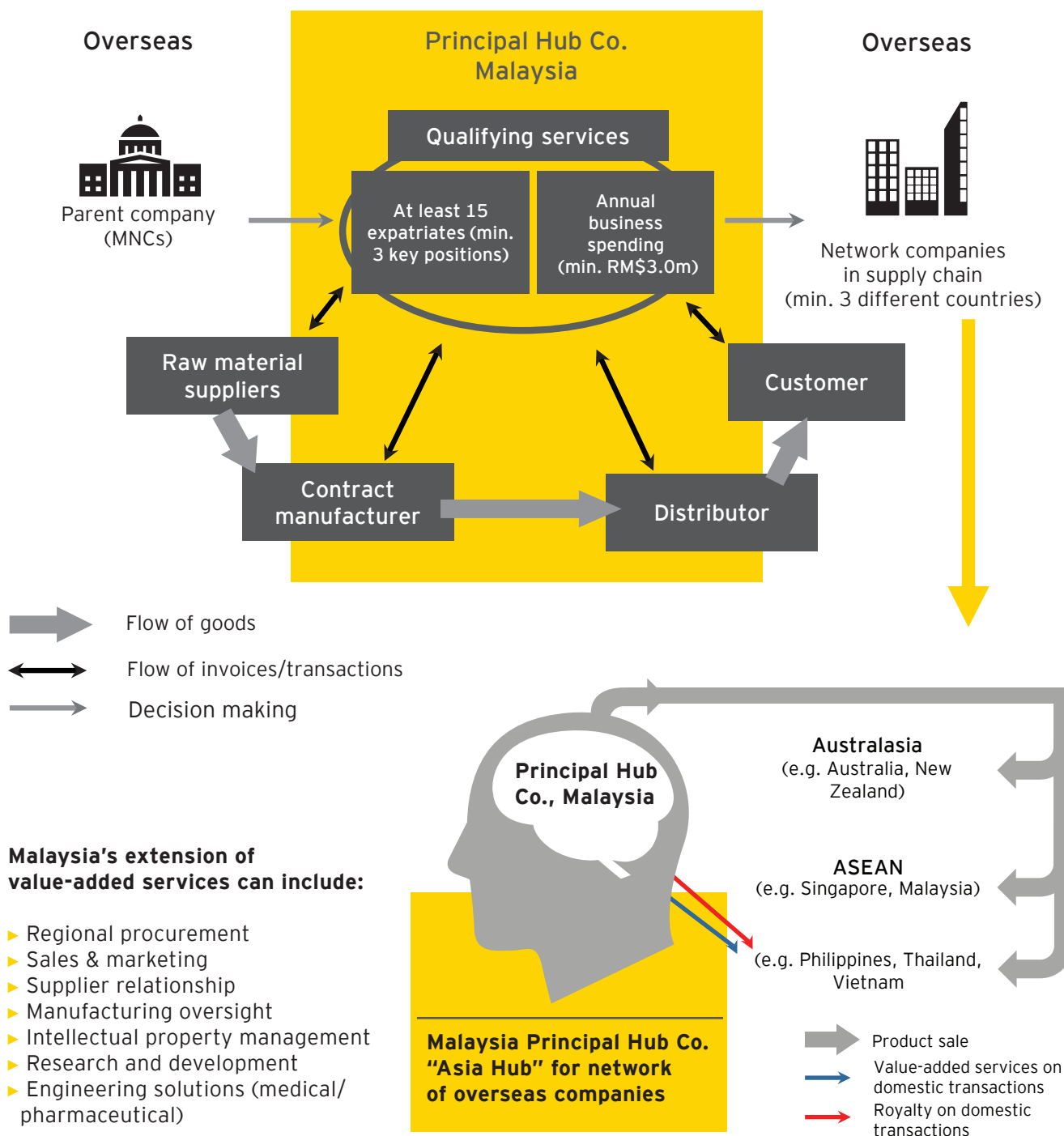
Focus:

KL, Malaysia,
the region's
Principle Hub

Illustration:

Malaysia as Asia Hub operating model for a global FMCG company

As an illustration, a multinational company "XYZ" sets-up Malaysia as their Asia supply chain hub (i.e., centralised procurement). All products are purchased via the Asia Hub and 're-sale' to the company entities in ASEAN and Australasia.



Key features and considerations: Malaysia as Principal Hub

Malaysia provides a stable and flexible operating environment to MNCs seeking both tax and operational cost efficiencies.

When formulating decisions on the optimisation of operating model, other factors in consideration

include model alignment with transactional and transfer pricing model and meeting risks mitigation objectives.

The salient features of Malaysia's Principal Hub incentives are summarised as follows:

Principal Hub incentive features

1

Three-tiered rates¹

3-tiers of concessionary corporate income tax rates based on:

- Level of business spend
- Value-added functions
- Risks transferred to hub
- Level of high-value job creation
- Number of countries it serves

2

Type of income exempted

The incentive allows for all types of income to be exempted to the extent they are generated from the qualifying activity

3

Flexible qualifying criteria

The incentive accommodates varied business models allowing a mix of commitments which meets Malaysia's investment criteria*

4

Multi-country control

Serves and controls network companies in at least 3 countries outside Malaysia

5

Extended duration

Incentive is for 5 years with a potential extension of 5 years

Notes:

¹Refer to Appendix for more detail on the three-tiered rates

²Investment criteria: Creating high income jobs, Gross National Income (GNI) impact through local spending and multiplier effect and having strategic functions driven through Malaysia

Benefits of using Malaysia as Principal Hub

Tax efficiencies

- Tax savings (maximum corporate tax from 24% reduced to 10% or nil)

Operational efficiencies

- Lower logistic costs (closer to regional customers and suppliers)
- Lower management and staff costs

Key considerations

Operating model

- Local sourcing or all imported
- Sales force and responsibility for other territories
- Inventory holding time

Transactional and transfer pricing model

- Asia Hub as sole supplier
- Local entity as importer of record

Risks and mitigation

- Managing historic transfer pricing
- Dealing with customs

Sources:

- Take 5, Malaysia: Principal Hub Incentive, April 2015, EY
- EY analysis

Focus:

KL, Malaysia,
the region's
Principal Hub

Qualifying services for Principal Hub incentive

To qualify for Malaysia's Principal Hub incentive, a company needs to carry out at least three qualifying services, of which one of the qualifying services must be from the strategic services cluster as follows:

Qualifying services

Strategic services

- Region P&L / business unit management, P&L management focuses on the growth of the company with direct influence on how company resources are allocated
- Strategic business planning and corporate development
- Corporate finance advisory
- Brand management
- IP management
- Senior-level talent acquisition and management

Shared services

- Corporate training and human resource management
- Finance and accounting
- General administration
- IT services

Business services

- Bid and tender management
- Treasury and fund management
- Research, development and innovation
- Project management
- Sales and marketing
- Business development
- Technical support and consultancy
- Information management and processing
- Economic / investment research analysis
- Strategic sourcing, procurement and distribution
- Logistics services

“ There is growing interest among MNCs to seriously consider KL as the nerve center or Principal Hub for their regional operations. Corporates can leverage on Malaysia's Principal Hub incentive to streamline their global and/or regional resources and benefit from tax savings, aside from operational efficiencies. ”

Farah Rosley

Partner
Business Tax Advisory
Ernst & Young Tax Consultants Sdn. Bhd.

Note:

The new Principal Hub incentive replaces the existing International Procurement Center, Regional Distribution Center and Operational Headquarters incentives. Companies which have completed their tax exemption period under these incentives may also apply for the Principal Hub incentive subject to meeting eligibility criteria.

Source:

► Take 5, Malaysia: Principal Hub Incentive, April 2015, EY



“

We view our Principal Hub in Malaysia as an opportunity to bring more senior decision-making and high value services into the dynamic, growing Southeast Asia region.

”

Briand Greer
President, Honeywell South East Asia



Refresh

Industry insights

- Oil and gas
- Financial services
- Business services

Focus

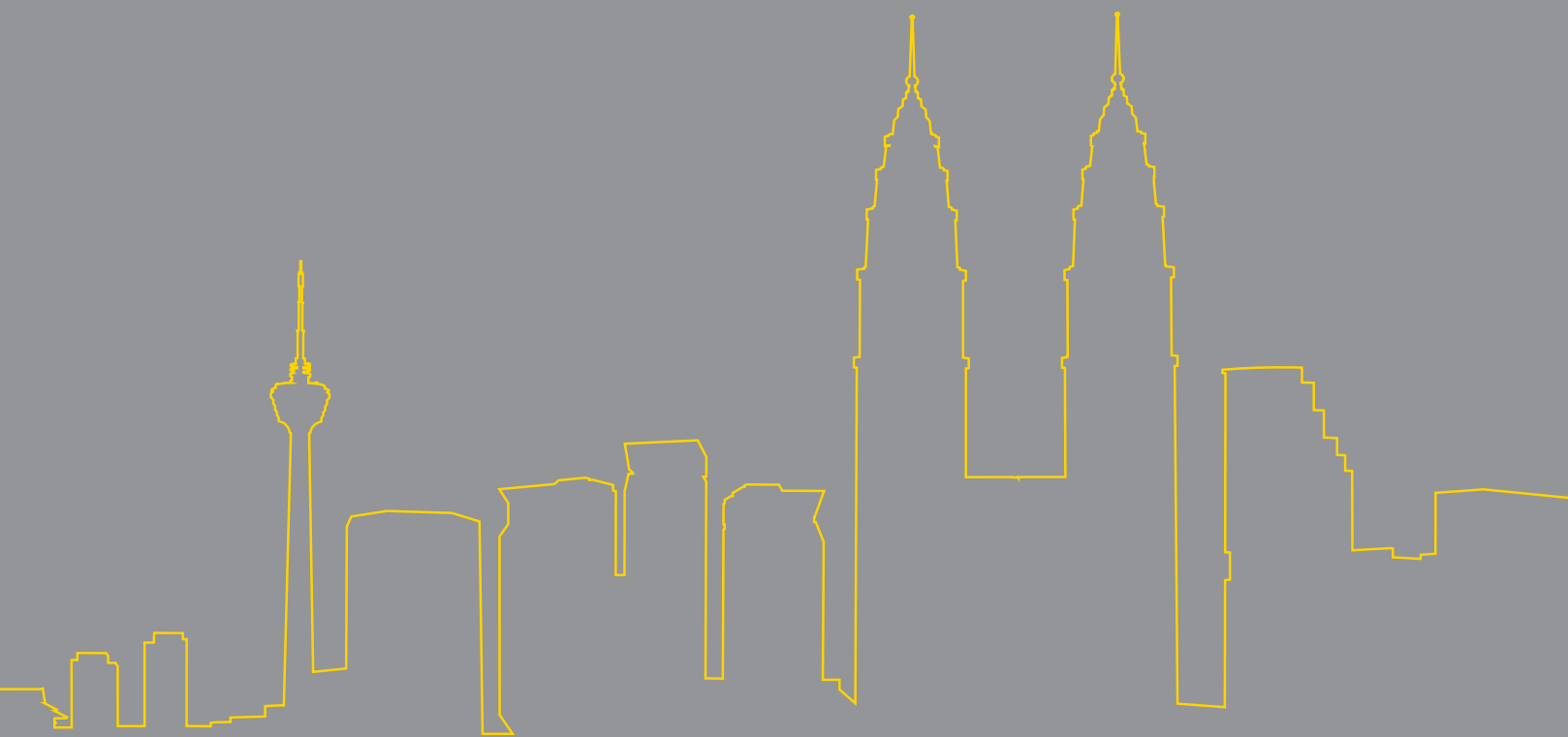
Knowledge Process Outsourcing

Viewpoint

Briand Greer,
Honeywell South East Asia



Oil & gas



Malaysia, a leading global LNG exporter

Malaysia's oil reserves are the fourth-highest in the Asia-Pacific region after China, India and Vietnam. And globally, Malaysia is the second largest exporter of LNG (liquefied natural gas) after Qatar.

Despite the current soft outlook, the demand for LNG is expected to grow at a rate of 5% to 6% until 2020. As a leading LNG exporter, Petroliaam Nasional Berhad (PETRONAS) has over 8,400 cargoes shipped across long term buyers in Asia and emerging markets worldwide.

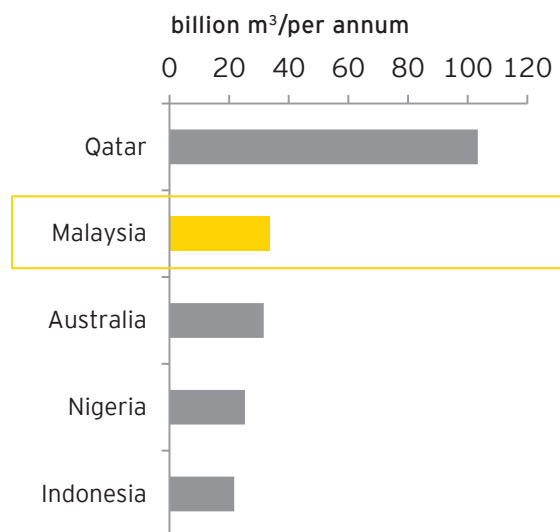
Although the upstream sub-segment of the oil and gas (O&G) value chain faces global supply and pricing challenges leading to rationalisation of exploration and production (E&P) activities, Malaysia's downstream sub-segment industry is expected to remain robust.

PETRONAS, Malaysia's national petroleum corporation remains committed to its long-term capital expenditure projects which include RAPID (Pengerang, Johor, Malaysia), the Pacific North West LNG project in Canada, the LNG Train 9 in Bintulu and the two PETRONAS Floating LNG projects being constructed in Korea. PETRONAS is ranked 68th on the Fortune Global 500 list as an independent company.

Malaysia holds the **4th largest** oil reserves in Asia-Pacific

Malaysia, the **2nd largest** global exporter of LNG

Chart 12: Malaysia - a leading global liquefied natural gas player



Sources:

- ▶ Annual report 2014, Petroliaam Nasional Berhad (PETRONAS);
- ▶ Crude Oil Proved Reserves 2015, U.S. Energy Information Administration (EIA);
- ▶ Global LNG. Will new demand and new supply mean new pricing? 2013, EY;
- ▶ Major exporting countries of LNG in 2014, Statista;
- ▶ Media releases 2015, PETRONAS

PETRONAS continues downstream focus

PETRONAS downstream business includes the five key segments:

- ▶ oil
- ▶ petrochemicals
- ▶ lubricants
- ▶ technology and engineering
- ▶ infrastructure and utilities

Known as one of the largest petrochemicals producers in ASEAN, Petronas Chemicals Group Berhad (PCG) is involved primarily in the manufacturing, marketing and selling of a diversified range of petrochemical products.

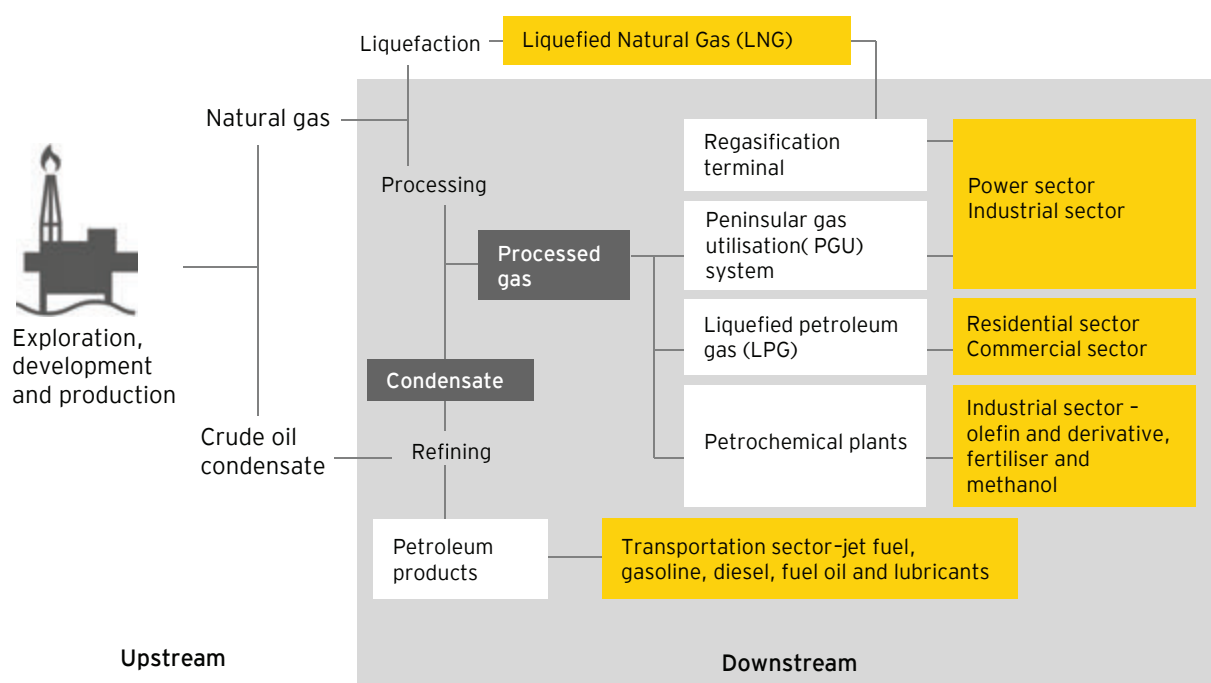
Both its Integrated Petrochemical Complexes (IPCs) are operated on a joint venture basis with various foreign multinational companies.

Petronas Lubricants International (PLI) is the global lubricants manufacturing and marketing arm of Petronas.

Currently ranked among the top 15 global lubricants company, PLI is driving an aggressive business growth agenda to capture a bigger market share globally. Its recent commendable efforts include investing in China facilities, setting up a US\$50m lubricant oil blending plant in India and planning for expansion in Argentina.

PETRONAS owns and operates three oil refineries in Malaysia while its subsidiary, Engen Ltd, operates one in Durban, South Africa.

Chart 13: Malaysia's oil and gas supply chain



Sources:

- ▶ Annual report 2014, PETRONAS;
- ▶ Media releases 2015, PETRONAS Lubricants International Sdn Bhd (PLI);
- ▶ Petronas Lubricants International sets up \$50 million plant in Maharashtra, 2015, The Economic Times

KL, a preferred regional HQ hub for O&G

PETRONAS's development plans for the Pengerang Integrated Petroleum Complex (PIPC) is its major step in creating value to Malaysia's downstream oil and gas value chain.

The 20,000 acres PIPC will house oil refineries, oil storage tanks, naphtha crackers, petrochemical plants, liquefied natural gas (LNG) import terminals and a regasification plant. The development of PIPC supports Malaysia's efforts to be the regional hub for oil and gas services in Asia.

Major catalytic projects include:

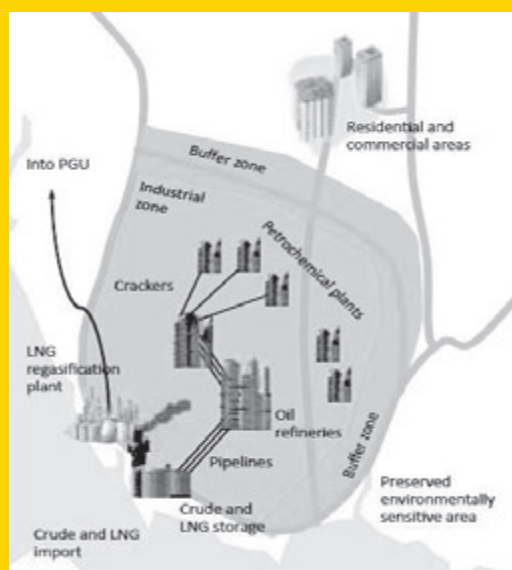
- ▶ The US\$1.3b (RM\$5b) Pengerang Independent Deepwater Petroleum Terminal (PIDPT), a joint-venture between DIALOG Group of Malaysia, Royal Vopak of Netherlands and Johor State Secretary Incorporated (SSI). The total PIDPT storage capacity is planned for five million cubic metres by the year 2020; and
- ▶ The Pengerang Integrated Complex (PIC) comprising RAPID oil refineries (US\$15b or RM\$60b) and six major associated facilities.

The ongoing global rationalisation of the oil and gas industry has seen emerging MNC interest in considering KL as a strategic and affordable HQ hub.

Recent HQ relocation decision consideration to KL include some offshore and marine (O&M) players. Key reasons cited for some MNC relocation to KL include:

- ▶ KL's affordable living and employment costs; and
- ▶ Malaysia's weaker ringgit, its central regional location and close proximity to regional clients and key markets.

Chart 14: Pengerang Integrated Petroleum Complex, Malaysia



“Our move to Malaysia was influenced by several factors, we have a client base in Kuala Lumpur and we want to work closely with clients as we move forward. Kuala Lumpur is also increasingly recognised as a regional hub for the oil and gas industry. Many of our key suppliers and specialist vendors are based there and there is a strong oil and gas industry engineering base as well.”

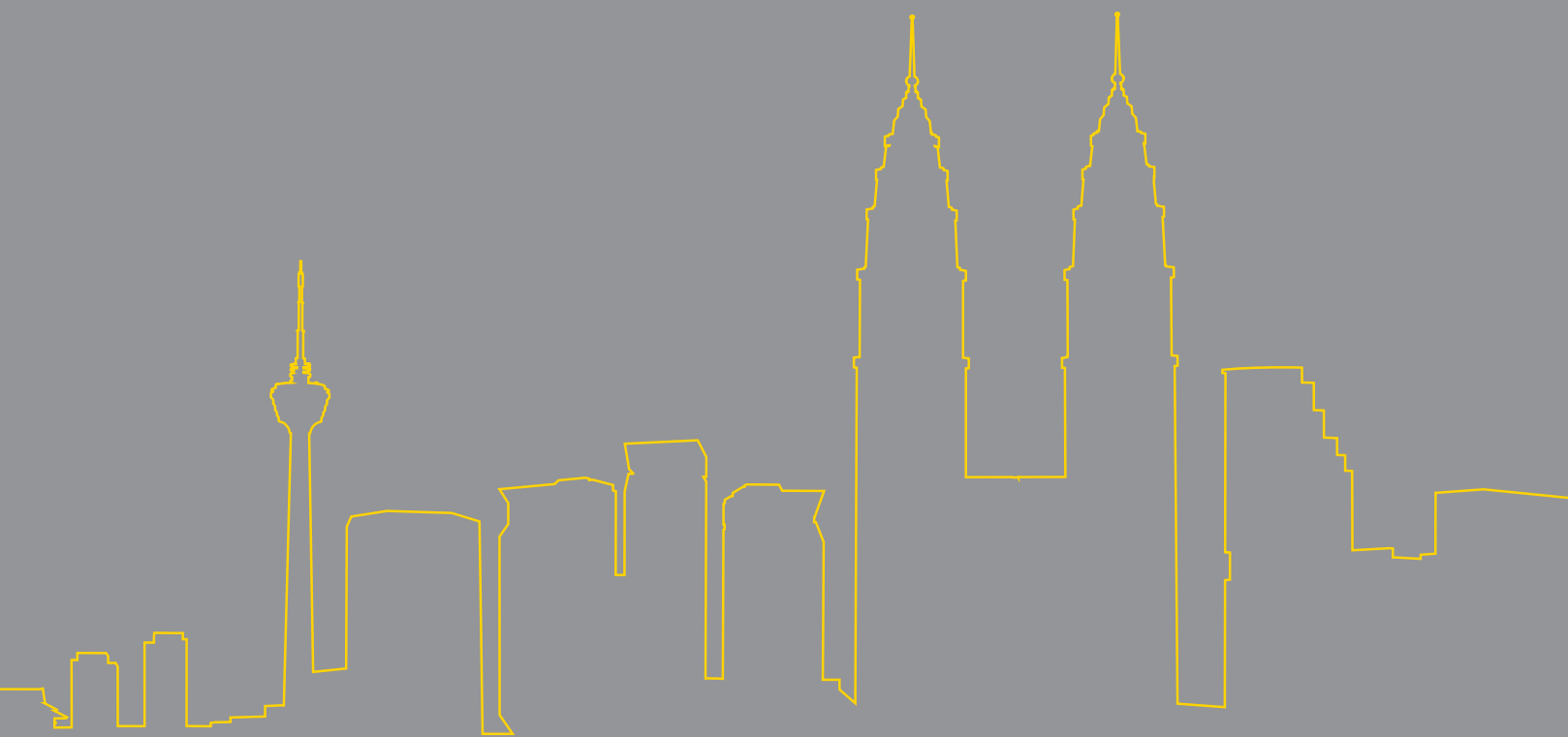
Hugh Cuthbertson
Vice President, Asia
McDermott International, Inc.

Sources:

- ▶ Houston-based McDermott to complete relocation to Malaysia soon, 20 April 2016, The Star Online
- ▶ More Oil & Gas MNCs exit Singapore for Greater KL, February 2016, InvestKL;
- ▶ Pengerang Integrated Petroleum Complex (PIPC), Malaysia Petroleum Resources Corporation (MPRC)



Financial services



KL advances as a regional finance hub

KL, Malaysia's capital city has progressed from capital bedrock to be the central hub of Malaysia's banking and capital market activities. Today, KL is the HQ address for Malaysia's 8 domestic banking groups and 19 foreign banks.

With Malaysia's strong domestic banks expanding their regional presence in key Asian markets, including ASEAN growth centres, KL has advanced to be a leading regional finance centre, supporting Malaysia International Finance Community's (MIFC) aspirations to be the region's Islamic finance hub. Furthermore, KL's financing activities are anticipated to be buoyant, largely driven by the intra-ASEAN trade volume (US\$600b) and dynamism. In fact, by 2020, intra-ASEAN trade is estimated to expand to 30%.

Chart 15: Malaysia-share of total banking assets, 2015

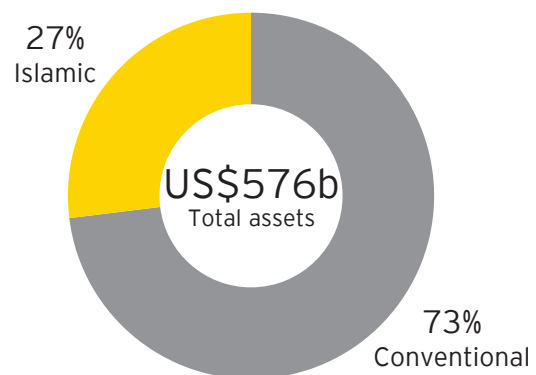
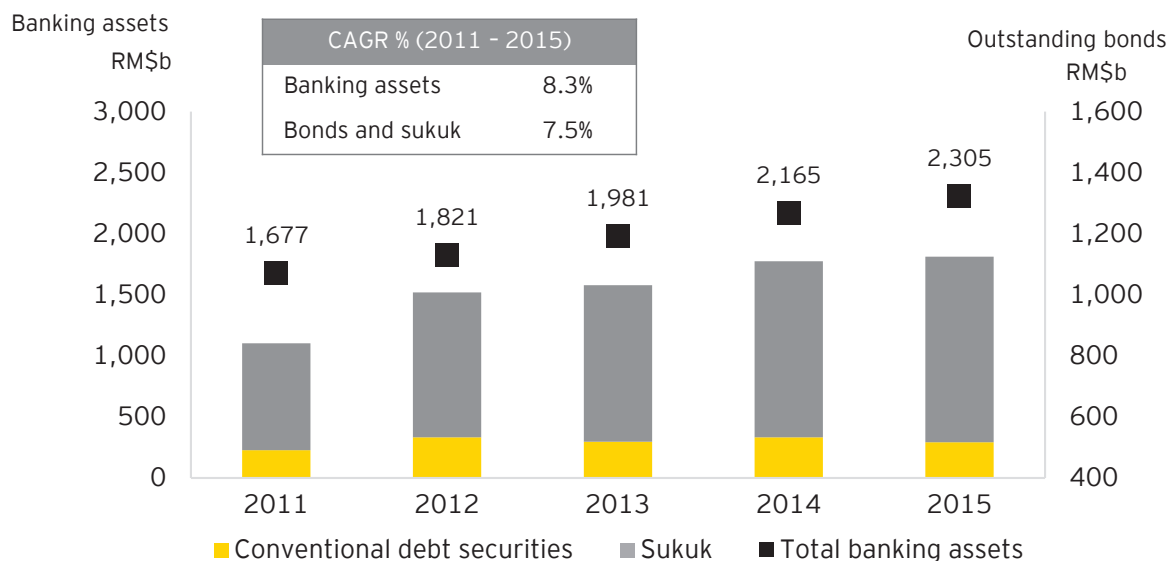


Chart 16: Strong growth of banking assets and bond (including sukuk) issuances



Note:
US\$1 = RM4.00 (as of 23 March 2016)

Sources:

- ▶ Annual reports 2011-2015, Securities Commission Malaysia;
- ▶ Forecast of intra-Asean trade, August 2015, Malaysia External Trade Development Corporation (MATRADE);
- ▶ Monthly Statistical Bulletin, January 2016, BNM;
- ▶ Trade Statistics 2015, MITI Malaysia

KL, the region's capital city for Islamic finance

With Malaysia's advancement in developing a comprehensive and sophisticated Islamic finance marketplace, KL has also evolved to be the hub for Malaysia International Islamic Finance (MIFC) activities.

Today, Islamic banking assets command over a quarter (27%) of Malaysia's banking assets. In meeting the diverse global demands for Shariah-compliant financial solutions, Malaysian banks have established a strong international repute for its development of an innovative range of Islamic financial products and services.

There is active participation of foreign Islamic banks, including new entrants who secured the international Islamic bank licences - includes Deutsche Bank Aktiengesellschaft, Alkhair International Islamic Bank and PT. Bank Syariah Muamalat Indonesia.

“Malaysia's diversity of domestic and international players and established global reputation for innovative Shariah-compliant and cross border financial solutions have shaped KL to be the region's capital city for Islamic finance.”

Muhammad Syarizal
Partner
Ernst & Young

Fact box

MIFC incentives for Islamic banking include:

Institutional benefits

- 1 ▶ Tax exemption on any profits paid out by Islamic banks to non-resident companies/institutions for deposits placed at the banks

Personal benefits

- 2 ▶ Tax exemption on any profit paid out by an Islamic bank to individual resident and non-resident depositors
- ▶ Withholding tax exemption on income received by non-resident experts in Islamic finance

Relaxation of foreign ownership rules

- 3 ▶ Up to 100% foreign equity ownership in the establishment of International Islamic Bank (IIB)

Flexible employment rules

- 4 ▶ Banking institutions and takaful operators, including International Islamic Bank, International Takaful Operator and International Currency Business Unit have the flexibility to employ expatriates with expertise to contribute to the development of the Islamic financial system in Malaysia

Facilitative immigration policies

- 5 ▶ Fast and easy immigration approval through the "Green Lane" established for expatriates and their immediate family members

Islamic banks in Malaysia:

10 local
6 foreign

Sources:

- ▶ *Incentives for Islamic Banking*, Malaysia International Islamic Finance Centre (MIFC);
- ▶ *Monthly Statistical Bulletin*, January 2016, BNM

Malaysia leads global sukuk market

Malaysia leads the global sukuk market with over half (53%) share of the global sukuk outstanding equivalent to US\$168b (RM\$670b).

Over the past nine years, Malaysia's sukuk issuances grew at 16% CAGR, largely driven by private sector financing activities.

Malaysia's prime position as the preferred sukuk market is supported by its liquidity and tradability factors.

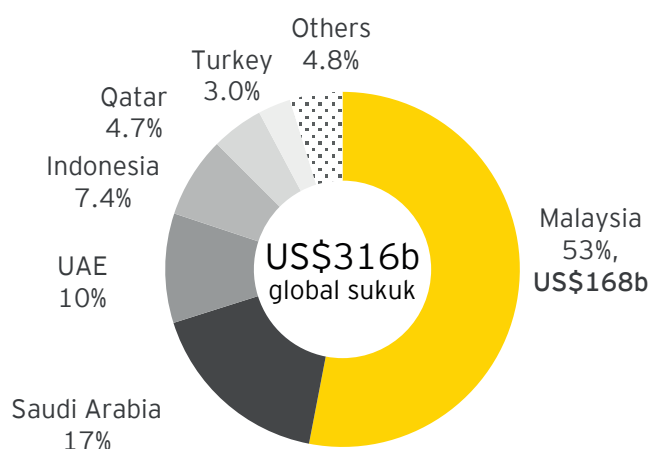
Emerging takaful market

Globally, Malaysia is ranked second for gross takaful contributions after Saudi Arabia.

In the ASEAN region, Malaysia commands over 70% share (or US\$3.0b) of the global gross takaful contributions.

Despite volatilities in the financial markets, the Malaysian takaful industry maintained good growth momentum with gross takaful contributions at steady growth rate of CAGR 12% in the last five years.

Chart 17: Malaysia - share of global sukuk outstanding, 2016



Sources:

- *Financial Stability and Payment Systems Report 2006, BNM;*
- *Malaysian Takaful Dynamics. Central Compendium 2015, EY;*
- *Outstanding Sukuk Map, April 2016, Zawya Thomson Reuters*

Fact box

Financial Sector Blueprint 2011 - 2020

Malaysia's 10-year blueprint for its financial sector is a strategic plan that charts the future direction of its financial system as Malaysia transitions toward becoming a high-value, high-income economy.

Key areas of focus include:

- ▶ Effective intermediation for a high value-added and high-income economy
- ▶ Developing deep and dynamic financial markets
- ▶ Financial inclusion for greater shared prosperity
- ▶ Strengthening regional and international financial integration
- ▶ Internationalisation of Islamic finance
- ▶ Safeguarding the stability of the financial system

World Bank Group Knowledge and Research Hub

The World Bank Group on 28 March 2016 has established a global knowledge and research hub in KL.

As an operational hub, the new office facilitates the sharing of Malaysia's development experiences with countries around the world, and provides Malaysia with access to global knowledge and expertise as it transitions into an advanced, high-income economy.

Policy research and analytical work will focus on regional and global issues, including assessments of the business and investment climate across countries.

Asian Banking School

BNM has initiated the development of the Asian Banking School (ABS), a strategic initiative towards supporting Malaysia's regional aspirations to grow Malaysia into an educational hub.

The ABS is managed by the Asian Institute of Chartered Bankers (AICB) towards professionalising the banking industry through the development of professional qualifications and specialised certification track.

Qualification programmes offered include:

- ▶ Chartered Banker (CB)
- ▶ Professional Credit Certification (PCC)
- ▶ Professional Qualifications in Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT)
- ▶ Professional Qualification in Regulatory Compliance (RC)
- ▶ Bank Risk Management (BRM)

Sources:

- ▶ Asian Banking School (ABS);
- ▶ Financial Sector Blueprint 2011-2020, BNM;
- ▶ World Bank Office Opening Highlights Malaysia's Development Experience, 28 March 2016, World Bank

Business services

- Engineering construction
- Aerospace
- Halal food



Services sector to power Malaysia's economy

As Malaysia advances towards her aspiration to become a high income nation, the services sector continues to be the main source of economic growth.

In 2015, the services sector contributed 54% to Malaysia's GDP and grew 6.2% CAGR (2010 to 2015). By 2020, the contribution of the services sector is targeted to increase to 58%.

Moving forward, Malaysia's Services Sector Blueprint has set ambitious targets to double the value added per worker to US\$36,000 and to expand the contribution of knowledge intensive services to Malaysia's GDP and increase exports of services by 2020.

The Blueprint recommends wider internationalisation of service providers, effective investment incentives, enhancing human capital development and promoting integrated sectoral governance reform.

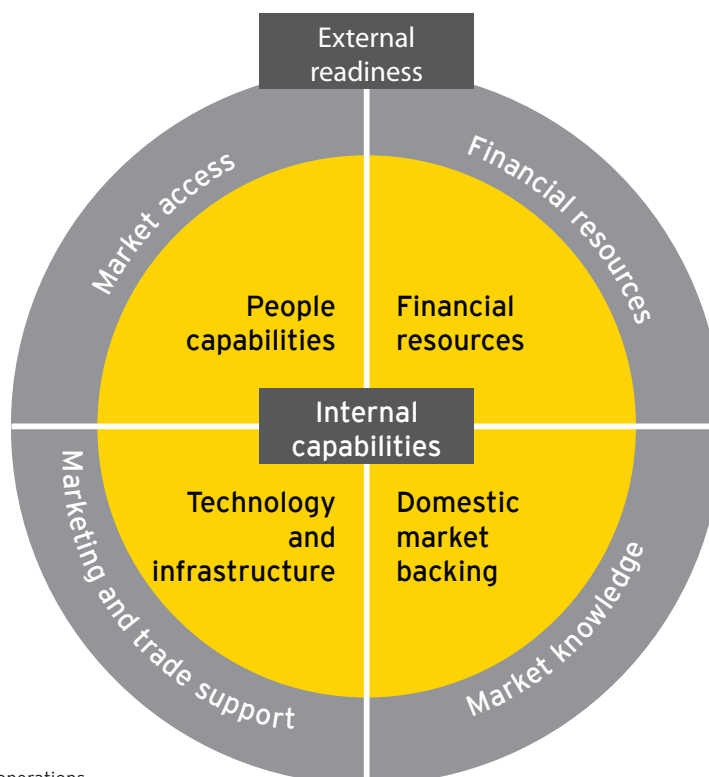
Growth segments in the business services sector

KL as Malaysia's logistics hub has a spectrum of business service segments. Among the many growth segments, positive growth trends are identified in the following areas:

- ▶ Global business services (KPO, BPO, SSO)
- ▶ Engineering construction services
- ▶ Aerospace (aviation, avionics, MRO*)
- ▶ Halal food

Chart 18: Malaysia's Services Sector Blueprint 2015 - the internationalisation strategy

Goal
Creating an export-oriented services sector economy



Note:

▶ *MRO refers to maintenance, repair and overhaul/operations

Sources:

- ▶ Monthly Statistical Bulletin, January 2016, BNM;
- ▶ Services Sector Blueprint, March 2015, EPU

KL's engineering construction services driven by transport infrastructure upgrades

KL as Malaysia's capital city continues to be transformed by infrastructure upgrades particularly rail transport connectivity projects which has buoyed the demand for engineering and construction services. The major infrastructure construction projects shaping KL's transformation include the:

- **Rail projects:** Klang Valley Mass Rapid Transit (MRT 1 and 2); Light Rail Transit (LRT) extensions; and
- **Business hubs:** Bandar Malaysia, KL Financial District: Tun Razak Exchange, Warisan Merdeka: KL118 Tower

With Malaysia's construction sector expected to grow at 10.3% per annum generating an estimated contribution of US\$82b (RM\$327b) or 5.5% to GDP by 2020, there are significant nationwide engineering construction opportunities.

Malaysia's five-year development plan, the 11th Malaysia Plan (11MP), 2016 to 2020, identified five focus areas in the infrastructure sector, from digital infrastructure upgrades to integrated need-based transport system.

11MP: Malaysia's infrastructure focus

1

Building an integrated needs-based transport system

2

Unleashing growth of logistics and enhancing trade facilitation

3

Improving coverage, quality and affordability of digital infrastructure

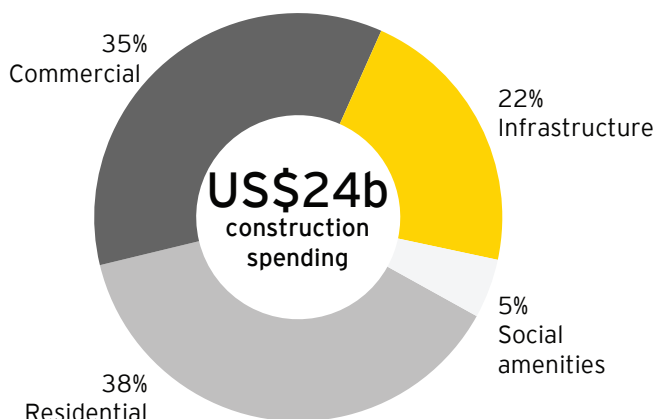
4

Continuing the transition to a new water services industry framework

5

Encouraging sustainable energy use to support growth

Chart 19: Malaysia's share of construction spending by sector, 2015



Sources:

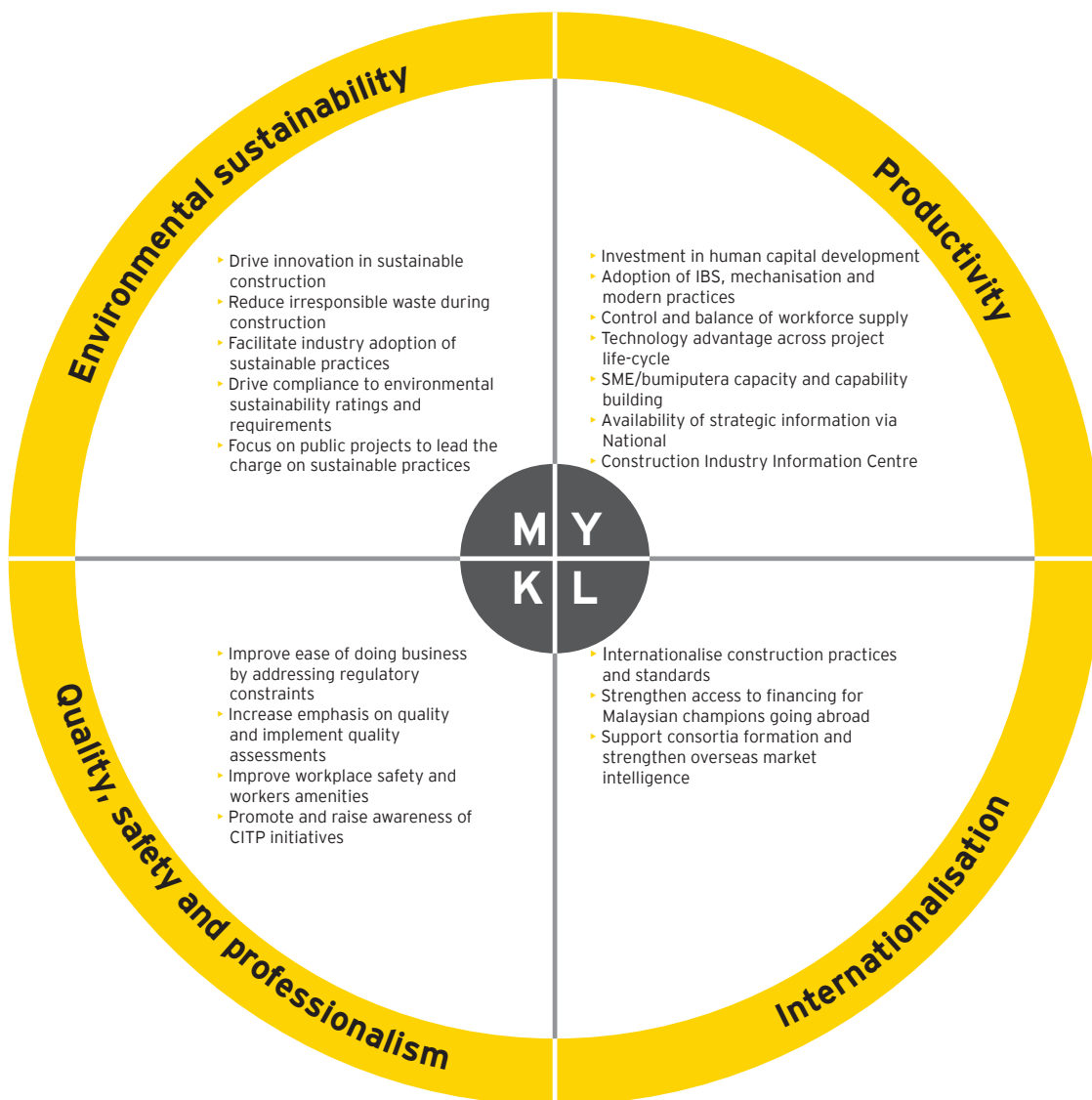
- Construction Quarterly Statistical Bulletin 2012 - 2015, Construction Industry Development Board (CIDB);
- Eleventh Malaysia Plan 2016 - 2020, May 2015, EPU;
- Take 5: Recalibration of Budget 2016, Special focus on infrastructure EY

Construction Industry Transformation Programme

Malaysia has also issued a five-year blueprint to overhaul its construction sector. The scheme, known as the Construction Industry Transformation Programme (CITP), outlines measures to

professionalise the industry, improve environmental sustainability at the design and construction stages, and increase the sector's overall productivity and competitiveness.

Chart 20: Malaysia's four strategic thrusts of CITP Programme, 2016 - 2020



Source:

► Construction Industry Transformation Programme, 2016 - 2020, CIDB

Malaysia, an integral part of the global aerospace supply chain

Malaysia aspires to be a leading aerospace nation and an integral part of the global market by 2030. Malaysian companies are already active participants of the global supply chain and have global capabilities in meeting the stringent demands of the Original Equipment Manufacturers (OEMs).

The Malaysian aerospace sector is estimated at around US\$3b

(RM\$12b) and employs over 19,500 people with an estimated 159 companies.

By 2030, the Malaysian aerospace industry Blueprint anticipates that industry revenue has the potential to more than quadruple to US\$13.8b (RM\$55b).

Malaysia's aerospace industry ecosystem has progressed to

be well-structured with strong participation of global and domestic players.

Three activity areas where Malaysia is internationally recognised as a leading aerospace hub include:

- ▶ Aviation OEMs
- ▶ Avionics and systems integration
- ▶ Maintenance, Repair and Overhaul/Operations (MRO).

KL focus on MRO

MRO services comprised over half (55%) share of Malaysia's aerospace sector and is forecasted to grow rapidly in supporting the strong growth in airline fleets.

Airbus has developed its presence in KL with the establishment of:

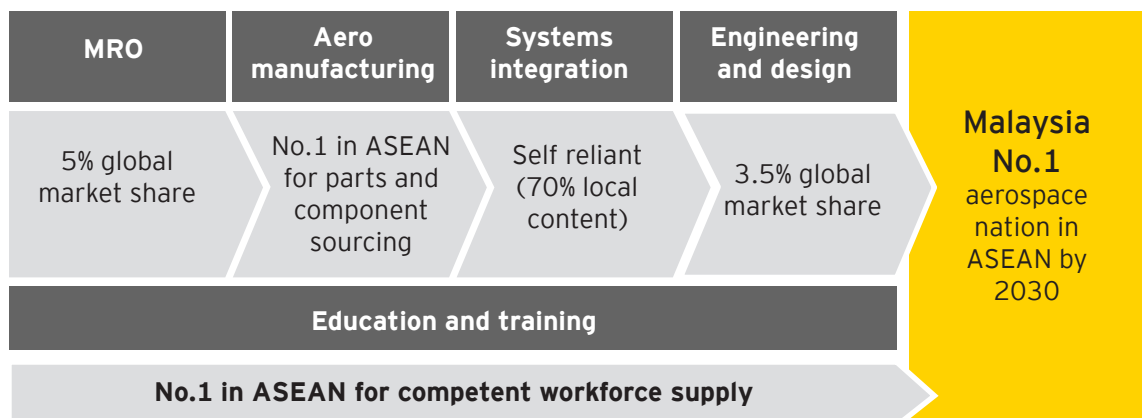
- ▶ a joint venture with Sepang Aircraft Engineering (SAE) to construct a second MRO hangar at KLIA
- ▶ a new Airbus Customer Service Centre providing 24/7 specialised major aircraft engineering and repair services.

The potential for Malaysia's aerospace sector is promising on the back of regional aviation growth.

Asia-Pacific has become the largest aviation market in the world. With Asia-Pacific's buoyant growth, Boeing estimates long-term projected demand for 14,330 new airplane deliveries valued at US\$2.2t over 2015 to 2034.

Moving forward, the continued steady growth of aerospace manufacturing and services activities in KL, including the development of the Asia Aerospace City (AAC) and KLIA Aeropolis strengthens KL's position as the region's aerospace hub.

Chart 21: Malaysia's Aerospace Industry Blueprint, 2030



Notes:

The five focus areas include the following components:

1. MRO - aircraft, ground systems, simulators and ground support equipment;
2. Aero manufacturing - aero-structures, avionics equipment, engines and airframe equipment;
3. Systems Integration - ground systems, simulators, spacecraft, UAV, aircraft avionics and missiles & rockets;
4. Engineering and design - detailed design, analysis and certification, manufacturing design and in-service and concept;
5. Education and training - blue collar new entrant, general education, white collar new entrant and continuing professional development (CPD).

Sources:

- ▶ *Advancing Malaysian Aerospace Industry Through Research & Technology (R&T)*, January 2015, myForesight;
- ▶ *Current market outlook 2015 - 2034*, Boeing;
- ▶ *Malaysian Aerospace Industry Blueprint 2030*, 17 March 2015, Malaysian Industry-Government Group for High Technology (MIGHT);
- ▶ EY analysis

KL, regional aerospace hub

KL's aspiration to become the regional aerospace hub is supported by two catalytic developments:

- ▶ Asia Aerospace City (AAC) hub in Subang (25km from KL city centre)
- ▶ KLIA Aeropolis hub located adjacent to KLIA and KLIA2

Both the AAC and KLIA Aeropolis are part of Malaysia's aerospace belt to support the regional aviation and aerospace ecosystem.





With a skilled talent pool, quality workmanship and competitive cost base, Malaysia is one of the countries that have the right ingredients to become a key partner for Airbus. This is in line with our strategy to have a stronger footprint in international markets and develop our support services for operators of our aircraft nearer to their home bases.



Fabrice Brégier
President and CEO
Airbus

Chart 22: KL's aerospace hubs

| Project Scale | Key Components |
|--|--|
|  <ul style="list-style-type: none"> ▶ 1,000 acres ▶ Estimated investment: US\$1.8b (RM7b) over five years | 3 major clusters: <ul style="list-style-type: none"> ▶ Air cargo and logistics (200 acres) ▶ Business and aviation parks (400 acres) ▶ Meetings, incentives, conferences and events (MICE) and leisure (400 acres) <p>Key projects include a theme park, hotel, KLIA Aerotech Park, KLIA Cargo and Logistics Park and Regional Transshipment Centre</p> |
|  <ul style="list-style-type: none"> ▶ 80 acres ▶ Estimated gross development value: US\$250b (RM1t) by 2020 | <p>AAC provides an integrated business ecosystem which includes:</p> <ul style="list-style-type: none"> ▶ Engineering services (aircraft engineering design, structural analysis) ▶ Professional development centre ▶ Research and technology (aerospace tooling manufacturing) |

Did you know?

- ▶ Malaysia is a key player in the global aerospace supply chain.
- ▶ Malaysia's Composites Technology Research Malaysia (CTRM) is the fifth largest supplier of composite structures globally for Airbus and manufactures wing components for flagship aircraft development programs like the A380 and the new A350XWB.
- ▶ Malaysia's Spirit Aerosystems is a key component supplier and assembler for Airbus and is also among the largest aircraft component manufacturers in the world.
- ▶ Malaysia's Strand Aerospace Malaysia (SAM) provides pure-play engineering (design and structural analysis) services to the global OEMs.

Fact box

MIDA incentives for aerospace include: Aerospace companies undertaking MRO activities, qualify for import duty and sales tax exemption on the following:

- ▶ Raw materials
- ▶ Components
- ▶ Machinery and equipment
- ▶ Spares and consumables

subject to each importation being accompanied by certificates of parts and components issued by selected OEMs.

Sources:

- ▶ *Advancing Malaysian Aerospace Industry Through Research & Technology (R&T)*, January 2015, myForesight;
- ▶ *Airbus develops presence in Malaysia with new services*, 2 October 2013, Airbus press centre;
- ▶ *Airport city in the making in Malaysia*, 26 April 2016, The Star Online;
- ▶ *Asia Aerospace City (AAC)*;
- ▶ *Malaysian Aerospace Industry Blueprint 2030*, 17 March 2015, MIGHT;
- ▶ *Tariff Related Incentives*, Malaysian Investment Development Authority (MIDA);
- ▶ *With Asia Aerospace City, the Sky's the Limit For Malaysia*, February 2016, ASEAN Today

Malaysia: a global halal hub by 2020

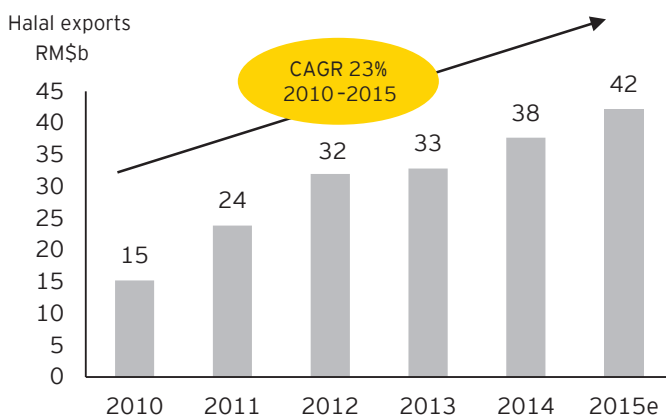
Globally, the market value for Halal products, food and non-food is estimated at around US\$2.3t (RM\$9.2t). Malaysia is a key participant of the global halal supply chain - exported halal products worth an estimated US\$11b (RM\$42b) in 2015, of which nearly 40% is attributable to food and beverages.

Malaysia's conducive and well-endowed food business ecosystem provides integrated halal food services from raw material sourcing, R&D scientific lab incubation centre facilities through to production, packaging, branding and transportation logistics. Complementing, Malaysia's growth in halal food services is Malaysia's halal certification which sets quality halal standards and stringent audit and certification procedures.

Did you know?

- ▶ The global market for halal products is estimated at US\$2.3t (RM\$9.2t) of which half are food-related.
- ▶ Malaysia is a major halal player exporting over US\$11b (RM\$42b).
- ▶ Malaysia's key export destinations for halal products include China, USA, Indonesia and Japan.
- ▶ Malaysia is the world's largest exporter of halal ingredients.

Chart 23: Strong growth of Malaysia's halal exports



Double-digit halal exports growth

Exports of Malaysia's halal products have been on double-digit growth trajectory of CAGR 23% in the last five years, 2010 - 2015.

Halal segments growth areas extend beyond food to include:

- ▶ Cosmetics and personal care
- ▶ Ingredients
- ▶ Livestock
- ▶ Services - logistics, tourism and healthcare

Sources:

- ▶ Halal Industry Development Corporation (HDC);
- ▶ *Status of the Halal Industry*, 2 February 2016, MITI Malaysia;
- ▶ *Taking the halal industry forward*, February 2016, New Straits Time (NST) Online;
- ▶ EY analysis

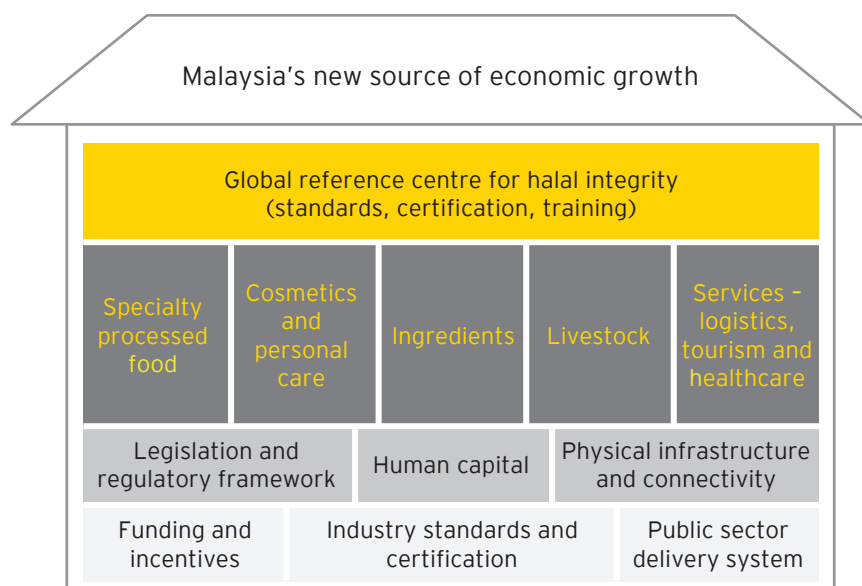
KL, the region's halal food hub

Malaysia's Halal Industry Development Master Plan (HIDMP) 2008 - 2020, has outlined a comprehensive development framework to drive the growth of Malaysia's halal industry towards becoming a global halal hub by 2020.

Among sectoral initiatives include the establishment of Halal Parks - a halal industry cluster which houses halal manufacturing and services business in a common location.

Businesses operating in Halal Parks enjoy attractive tax incentives. There are 22 Halal Parks in Malaysia, of which 14 are HALMAS* certified. The Selangor and Port Klang Free Zone (PKFZ) National Halal Parks are located within Greater KL. The investment value of HALMAS Halal Parks is estimated at US\$2.8b (RM\$11b).

Chart 24: Malaysia's Halal Industry Development Master Plan, 2008 - 2020



Notes:

*HALMAS is an accreditation given to Halal Park operators who have successfully complied with the requirements and guidelines stipulated under the Halal Industry Development Corporation (HDC) designated Halal Park Development.

Sources:

- ▶ Halal Industry Development Corporation (HDC);
- ▶ *Status of the Halal Industry*, 2 February 2016, MITI Malaysia

Fact box

Nestlé chooses KL as its halal center of excellence:

Malaysia is a country with a majority of Muslim population, strategic location, established infrastructure and globally recognized halal certification.

The global halal market is becoming increasingly lucrative.

- ▶ There are more than 1.6 billion Muslims worldwide.
- ▶ Muslims are expected to account for 26.4% of the world's population by 2030.
- ▶ Global halal trade is estimated to be worth US\$2.3 trillion annually.

As a result, Nestlé has chosen KL to be its halal center of excellence to offer policy guidelines, know-how and expertise on halal products to other Nestlé markets worldwide. Nestlé has three (3) halal factories in KL.

Other Halal Parks and/or center of excellence



Cargill

US\$125m (RM\$500m) investment in Halal Park

Fraser and Neave (F&N)

US\$75m (RM\$300m) investment in Halal Park

Halal park operators, industry players and logistics service providers located in HALMAS designated halal parks can apply for the following incentives:

| | HDC designated halal parks operators | Halal industry players | Halal logistics operators |
|--|--|---|---|
|  Income Tax | <ul style="list-style-type: none"> ▶ Full income tax exemption for a period of 10 years; OR ▶ 100% income tax exemption on capital expenditure for a period of 5 years | <ul style="list-style-type: none"> ▶ 100% income tax exemption on capital expenditure for a period of 10 years; OR ▶ Income tax exemption on export sales for a period of 5 years ▶ Double deduction on expenses incurred in obtaining international quality standards, Sanitation Standard Operating Procedures and regulations on compliance on export markets | <ul style="list-style-type: none"> ▶ Full income tax exemption for a period of 5 years; OR ▶ 100% income tax exemption on capital expenditure for a period of 5 years |
|  Customs Tax | <ul style="list-style-type: none"> ▶ Exemption from import duty and sales tax on equipment, components and machinery used directly in the Cold Room Operations in accordance to prevailing policies | <ul style="list-style-type: none"> ▶ Exemption on import duty and sales tax on raw materials used for the development and production of halal promoted products | <ul style="list-style-type: none"> ▶ Exemption on import duty and sales tax on equipment, components and machinery used directly in Cold Room Operations subject to the current policies |

Source:

▶ HDC Halal Incentives, March 2016, HDC

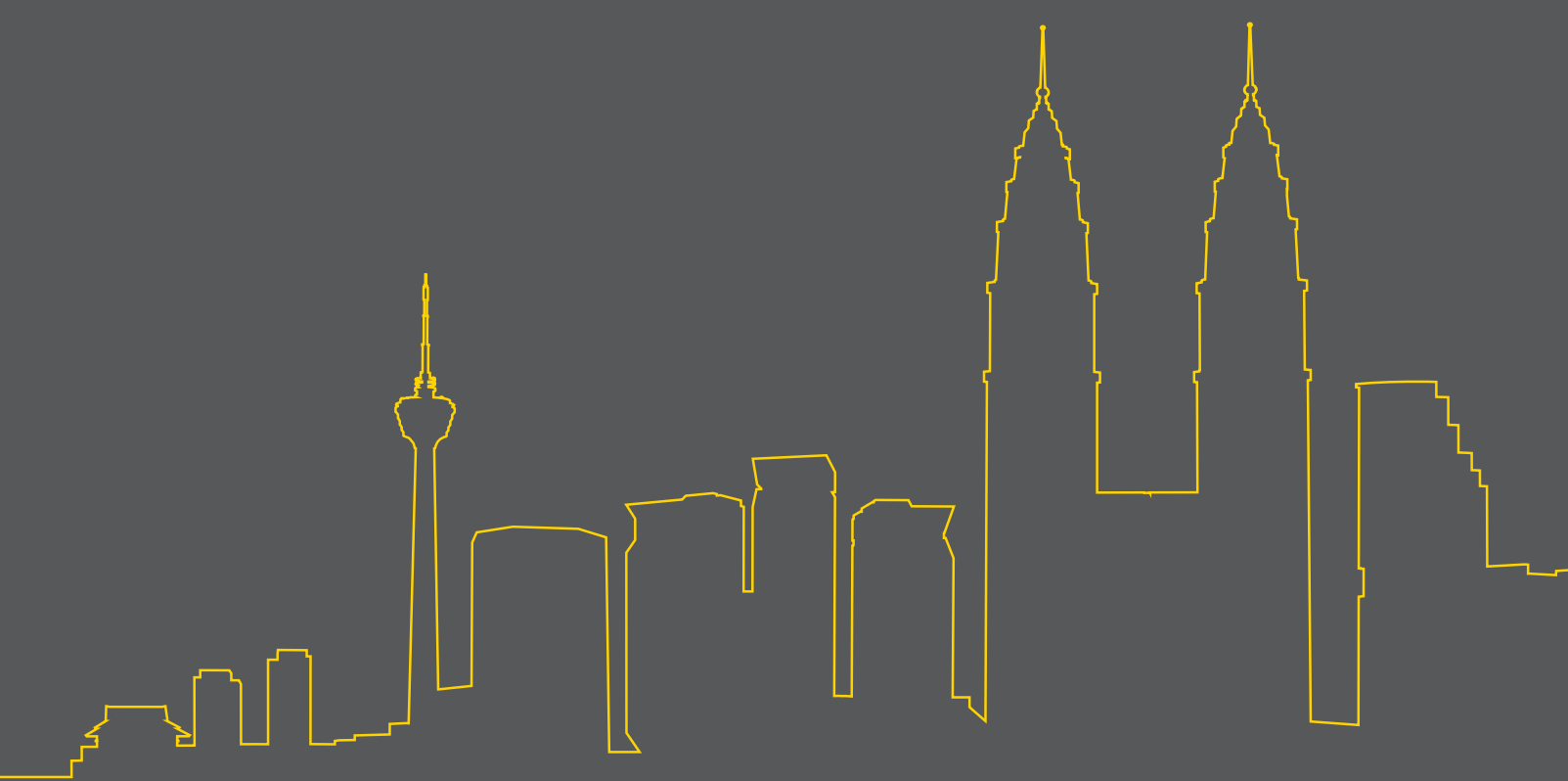


Christoph Mueller
CEO
Malaysia Airlines Berhad

“

When compared to key cities in the region, KL has a relatively “low cost for high standard of living”, world-class educational and medical support services. Supporting KL’s position as the preferred regional hub is Malaysia’s consistent pro-business and investor-friendly policies.

”



Focus:

Knowledge process
outsourcing



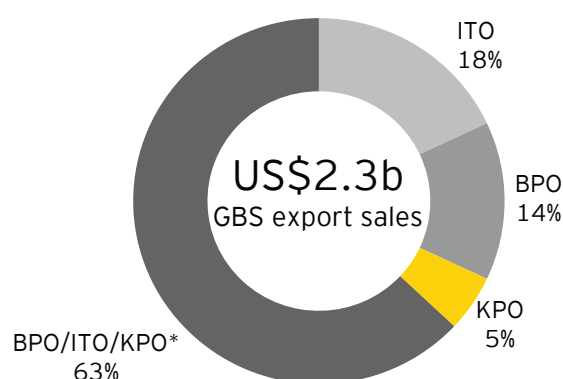
Malaysia's new strategic focus: Global Business Services (include KPO)

Under the Economic Transformation Program (ETP), Malaysia has set her aspirations to be a leading Global Business Services (GBS) hub through the development of globally competitive shared services and outsourcing services.

Today, Malaysia stands at 3rd position in AT Kearney's Global Services Location Index as a choice destination for global business services (GBS) MNCs. Malaysia has an estimated 406 GBS companies. Malaysia's export revenue of GBS was approximately US\$2.3b (RM\$9.2b) in 2014 with strong double-digit growth of 16% CAGR, over 2010 to 2014.

Half of Malaysia's GBS export revenue was from the Business Process Outsourcing (BPO) and IT Outsourcing (ITO) sectors. Knowledge Process Outsourcing (KPO) presently at 5% of the revenue - this share is expected to expand as Malaysia enhances her policy initiatives and talent pool towards the provision of knowledge-based services.

Chart 25: Malaysia's export of Global Business Services, 2014



Notes:

Global Business services (GBS) encompassed Business Process Outsourcing (BPO), IT Process Outsourcing (ITO) and Knowledge Process Outsourcing (KPO).

*BPO/ITO/KPO include 50% (BPO, ITO), 8% (ITO and KPO), and 3% (BPO, ITO, KPO) and 2% (BPO and KPO) sectors

Sources:

- ▶ Annual report 2014, Multimedia Development Corporation (MDeC);
- ▶ Beyond Borders Issue 02, 2015, MDeC;
- ▶ Global Knowledge Process Outsourcing (KPO) Market, 2015 - 2019, Technavio.com;
- ▶ MSC Malaysia Annual Industry Report, 2014, MDeC;
- ▶ MSC Malaysia MyProCert 2016, MDeC;
- ▶ Talent Procurement, 2016, Talent Corporation

Considerations to establish KPO in KL

1 Affordable and wide talent pool

With the undervaluation of ringgit Malaysia (RM\$) and the relatively cheaper cost of living in KL, the cost of recruitment of KPO relevant professionals is relatively affordable versus regional peers.

The variety of local and foreign universities and technical colleges in KL, provides a strong pipeline of young and multi-disciplined talent.

Government agencies such as Talent Corporation and Multimedia Development Corporation (MDeC) provide various programmes and incentives for investment in the training and upskilling of talent.

2 Competitive Principal Hub incentive

Malaysia's Principal Hub incentive offers competitive corporate tax rates from 10% to 0% for MNCs to establish their strategic services, business services and shared services in Malaysia.

(refer to focus section on Principal Hub incentive (page 30) and Appendices section - Principal Hub tax framework (page 74))

3 Conducive KL cybercities

KL has 34 cybercities or cybercentres which serves as industry clusters for BPO, ITO and KPO - these centres are well-equipped with the necessary ICT infrastructure and located in residential/commercial vicinities.

Knowledge Process Outsourcing: global trends

The global KPO industry was valued at approximately US\$20b in 2014 and expected to near triple (2.8 times) to reach US\$56b at an exponential growth rate of 23% CAGR over 2014 to 2019.

Almost half of the global KPO market (52%) involves market and business intelligence services. And about one quarter (23%) involved analytics and approximately one fifth (17%) are business support services. Legal process outsourcing holds about 8% of the global KPO market.

Chart 26: Global KPO market size, 2014

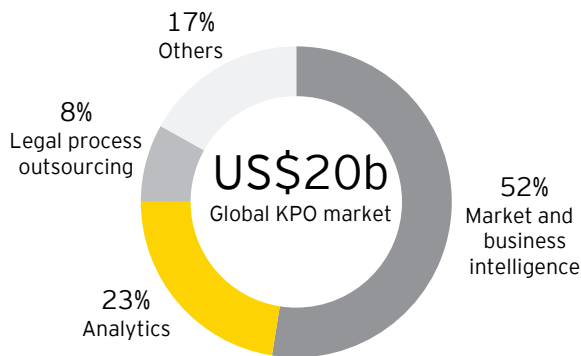
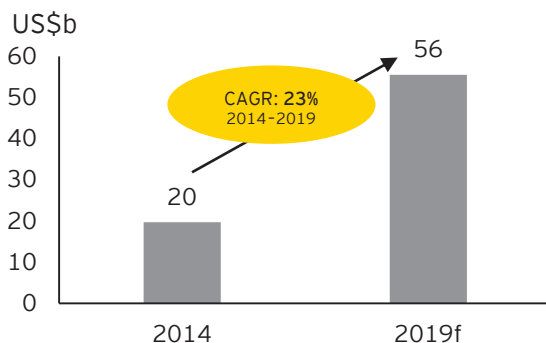


Chart 27: Growth of global KPO market, 2014 - 2019



Notes:

- ▶ Market and business intelligence services include market analysis, market segmentation, mapping, needs gap analysis, activities related to marketing stimulus, spending optimization, data mining, companies/industry specific reports, customer analytics i.e., customer satisfaction surveys, price analysis and benchmarking, as well as data management.
- ▶ Analytics involves the use of big data to generate insights to assist in strategic business decisions.
- ▶ Legal process outsourcing (LPO) services include drafting contracts, reviewing transactional and litigation documents, research memoranda and prosecutions.
- ▶ Others include services related to publishing, engineering design and automation, procurement support services, social media research and logistics

Source:

- ▶ *Global Knowledge Process Outsourcing (KPO) Market, 2015 - 2019*, Technavio.com



KL is Malaysia's pivot point to service the global needs of tomorrow's sharing economy - the continued transformation and advancement of her intellectual assets, i.e., her people will determine the direction of KL's KPO service segments.



Chow Sang Hoe
Malaysia Advisory Services Leader
Asean Advisory Leader
EY

KPO services at a glance

Definition Outsourcing of knowledge-related and information-related work to an external company

KPO services include

- ▶ Analytics
- ▶ Animation and design
- ▶ Market and business intelligence
- ▶ Database management
- ▶ Finance shared services
- ▶ Finance modelling
- ▶ Patent research
- ▶ Legal services
- ▶ Research and development (R&D)
- ▶ Tax and financial consultancy
- ▶ Training and development

Next outsourcing wave: strategic services

With improving technology (i.e., internet accessibility, cloud computing, analytics) and increasing demand for high response rates, the global business services (GBS) outsourcing model is fast evolving from operational-based models to strategic or outcome based functions in specific business domains.

Chart 28: The evolution of outsourcing services

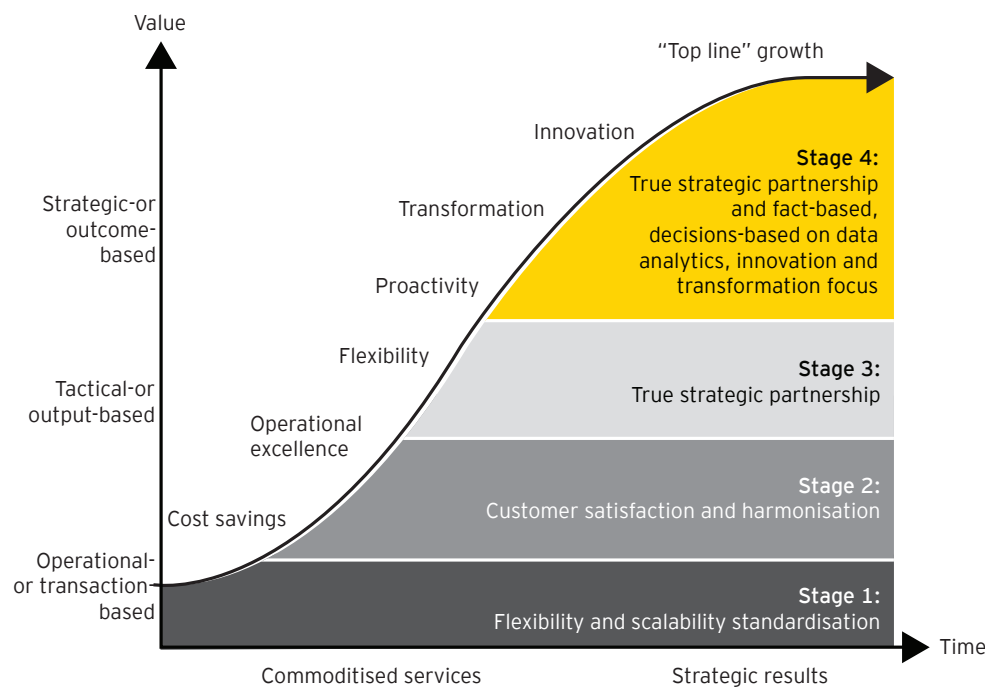
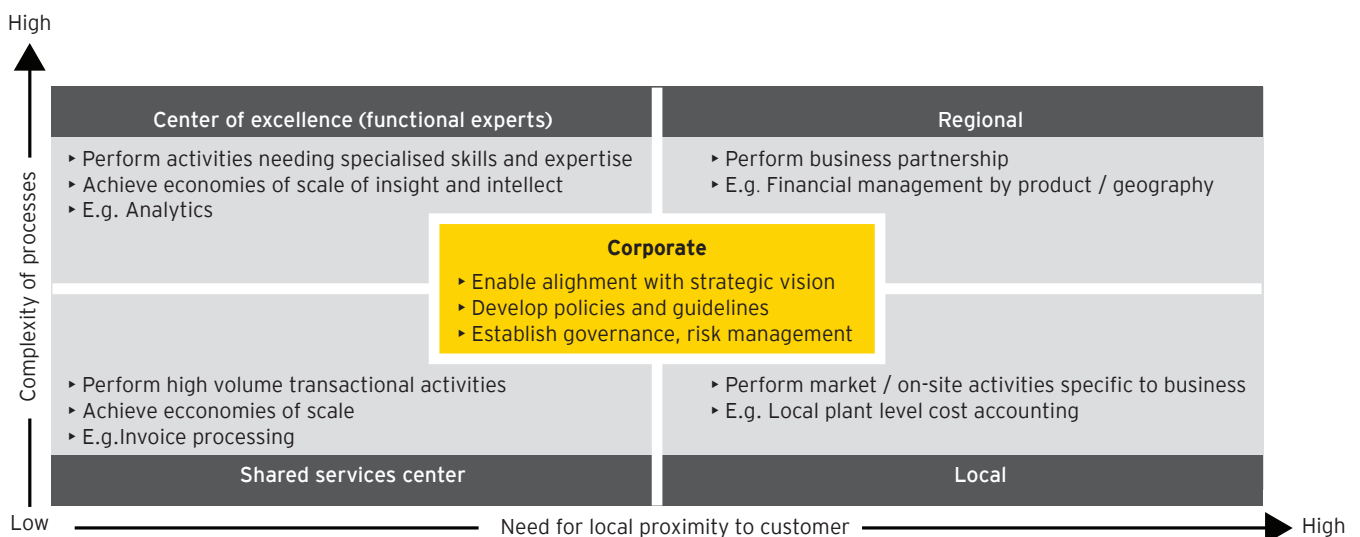


Chart 29: Expanding shared services into functional centre of excellence



Sources:

- Does your workplace outsourcing create value beyond savings? 2016 EY;
- Intellectual outsourcing: a requirement for strategic growth, Performance, Volume 6, Issue 3, August 2014, EY;
- The new case for shared services, 2014, EY



“Malaysia’s rapid urbanization, growing affluence of its citizens, demand for energy and resources, and both investments in the Kuala Lumpur’s infrastructure and Malaysia’s national projects across the country are fascinating opportunities for multinational companies like Honeywell.”

Briand Greer, President Honeywell South East Asia shares his thoughts about KL as Principal Hub.

What was behind Honeywell’s decision to locate its South East Asia Principal Hub in Kuala Lumpur?

Honeywell is a long-term investor in Malaysia. Our Malaysian operations started in 1985 and, since then, all of our businesses are present here. We have more than 1,500 employees in six cities: Kuala Lumpur, Petaling Jaya, Shah Alam, Penang, Kemaman, and Johor Bahru.

Kuala Lumpur provides strong infrastructure, connectivity to the rest of the region, a significant highly-skilled labor force, and government entities like Invest KL and MIDA that are supportive facilitators for building up our presence.

What strategic services will Honeywell perform in this Principal Hub?

We view our Principal Hub in Malaysia as an opportunity to bring more senior decision-making and high value services into the dynamic, growing Southeast Asia region.

We will be performing Regional P&L/Business Unit Management, Strategic Business Planning and Corporate Development, Project Management, Sales and Marketing, Business Development, Technical Support and Consultancy, Strategic Sourcing, Procurement and Distribution, and Logistics Services in our Kuala Lumpur Principal Hub.

By joining the Principal Hub initiative, we look forward to investing and placing more resources to support Malaysias and Southeast Asias growth.

We will bring in best-in-class technologies into the country, and join hands with our local partners to build a nation that is more sustainable, more secure, connected, energy efficient, and productive.

Honeywell in Malaysia

30 years (since 1985)

1,600 employees

6 cities (KL, Petaling Jaya, Shah Alam, Penang, Kemaman, and Johor Bahru)

3 manufacturing plants to supply global customers

How does Kuala Lumpur complement Honeywell on its strategic and business objectives?

Malaysia is a fast-growing, upper middle income nation. Malaysias rapid urbanization, growing affluence of its citizens, demand for energy and resources, and both investments in the Kuala Lumpurs infrastructure and Malaysias national projects across the country are fascinating opportunities for multinational companies like Honeywell.

Kuala Lumpur is an excellent base for companies like ours to be located in a diverse, dynamic market with excellent local business opportunities, while also able to conveniently do business in the many high growth markets across the region.

How has Honeywell fared in building the capabilities of Malaysian talent?

Of our 1,600 employees across Malaysia, more than 95% are Malaysians, and we have a very strong representation of local employees across our mid and senior level management.

Our employees are our ultimate differentiator. We believe in hiring the right people, providing them with meaningful jobs, development opportunities that enrich and enhance their capabilities, and career opportunities.

We focus and invest on promoting from within, as our internal talent is the single most valuable resource to us. Providing internal opportunities is not an aspiration, it is fundamental to our ongoing success, and we have been successful in achieving this at Honeywell Malaysia.



Revisit

KL gallery

Invest-work-live-play perspectives

Viewpoint

Christoph Mueller,
Malaysia Airlines Berhad





KLCC day view



KLCC at night



KL heritage - facets of Sultan Sulaiman building



Putra Mosque, Putrajaya





KL glitters - night scene



“When my company offered me a ‘permanent’ position in Malaysia, my wife and I decided that this was an opportunity we shouldn’t miss. I find this cities and infrastructure interesting, and the professional work culture in multinational companies similar to what I would find anywhere else.”



David Lacey
Research & Innovation Director,
Osram Opto Semiconductors

“

Living in Malaysia is Amazing. Malaysia has so much to offer. One of the things I really appreciate about Malaysia is the diversity that exists within the country. Malaysia really does it right.

”



Dr. Norma J. Hudson
Head of School
International School of
Kuala Lumpur (ISKL)



Multi racial food fare

Taylor's Lakeside campus



Formula One, Sepang





Cosmopolitan city



Butterfly park, KL



Young golfer

Malaysia as a Global Emerging Market (GEM), strategically located in the centre of Asia-Pacific and ASEAN has progressively evolved to be an international trade hub. Being a “newie” in KL, I am taken by her continued transformation, such as her improving transport connectivity which is a “pull factor” for foreign investors and businesses

Christoph Mueller, CEO of Malaysia Airlines Berhad (MAB) shares his thoughts about KL's transformation to be a place to “invest, work, live and play”.

As an emerging Asian services hub, what are KL's assets that sets it apart from its regional peers?

KL has excellent infrastructure – the ongoing transformation of KL's transport links (roads, bus, trains, and regional air and shipping logistics) has led to better connectivity with other Malaysian urban centers and more efficient air and sea linkages with Asia-Pacific and global markets.

When compared to key cities in the region, KL has a relatively “low cost for high standard of living”, world-class educational and medical support services. Supporting KL's position as the preferred regional hub is Malaysia's consistent pro-business and investor-friendly policies.

In your global cities experiences, what do you like most about KL as a place to “invest, work, live and play”?

My Asian city experiences distinguish KL as an easy and safe place to get around. With the wide usage of English by her cosmopolitan populace, KL is a breeze to international travellers – no language communication hassle with food retailers, hoteliers, real estate agents, etc.

I am personally awed by KL's diversity of facilities and amenities, e.g. her very high standards of KL hotels and her range of international restaurants, wide choice of international schools, shopping malls and the availability of green parks for recreational activities.

KL is fast transforming to be a leading regional Supply Chain Management (SCM) hub – what in your opinion are KL's key driving factors here?

KL's infrastructure is built for the demand of tomorrow. For example: KLIA, at 40 % capacity, is designed for future air traffic growth for the next few decades. Although, KL's road infrastructure is well developed, there are significant upcoming investments in public transport, including the MRT and LRT lines, which will rapidly elevate KL's “city to suburbia” connectivity.

In addition, the looming oversupply of KL's real estate are leading to affordable pricings for quality accommodation – from residential to business and industrial warehousing. And a key differentiating point between KL and her regional peers is her pool of well-trained talent with good command of the English language in addition to other Asian ethnic

languages such as Bahasa Malaysia as well as several vernacular Chinese and Indian languages.

With the strengthening of regional integration (i.e., Asean Economic Community) and other global economic partnerships (e.g., Trans Pacific Partnership Agreement) these few years, what do you anticipate will be the mid to long-term business impact to MAB?

As an airline, we are more prepared than others to compete daily in a highly competitive international environment.

MAB's business model is by definition a global one and, with the demand on passenger and cargo side, largely GDP driven. Any positive impact arising from Malaysia's international trade agreements will have positive ramifications on Malaysia Airlines.

Engineering and Maintenance (E&M) of Malaysia Airlines Berhad (MAB) has an ambition to be the preferred global Maintenance, Repair and Overhaul (MRO) organisation and a leading provider of MRO services for commercial aircraft in this region. Does the refreshed MAB share this global MRO vision? If so, what are MAB's competitive advantages to be the preferred global MRO?

KLIA has no capacity restrictions for the next couple of decades. KLIA is geographically located in the region's centre of gravity which makes it easy to ferry aircraft at no additional costs into KLIA. Infrastructure wise, MAB has one of the best hangar facilities in the world. Around the hangar, there is ample space to accommodate related business as support for pure MRO activity (e.g. component shops, training facilities).

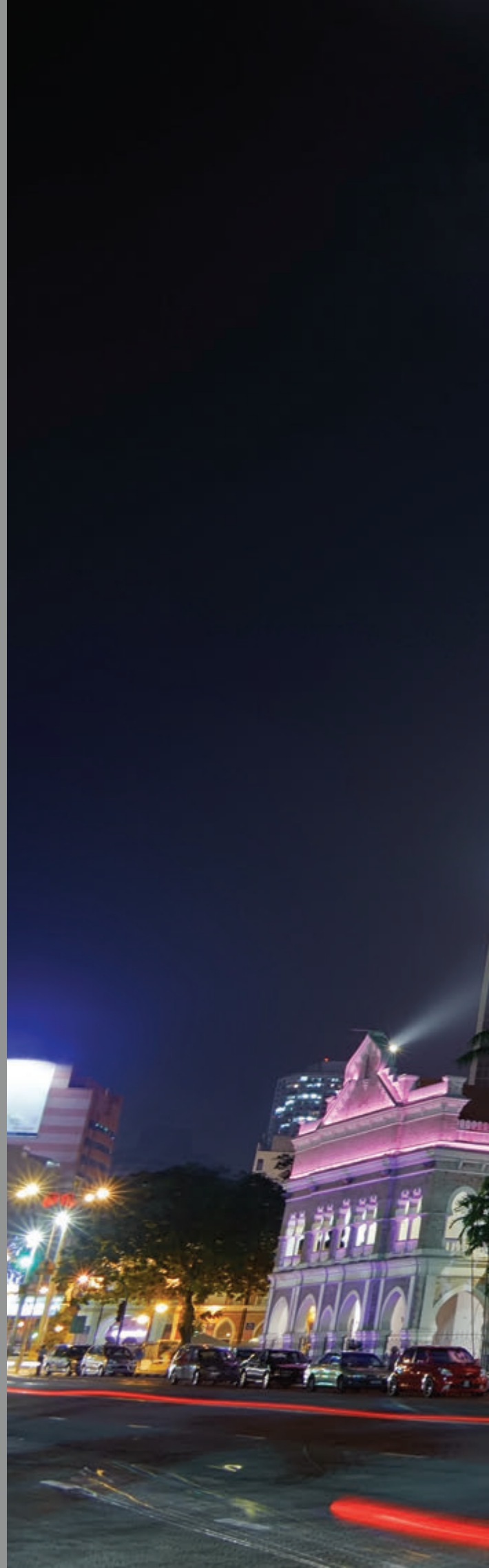
Further, Malaysia's competitive advantage is her highly affordable talent pool - Malaysian labour rates are anticipated to remain below China's labour rates. What is interesting is that the qualifications and language skills of Malaysia's engineers and mechanics are generally perceived to be at international levels.

“When compared to key cities in the region, KL has a relatively “low cost for high standard of living”.”

Christoph Mueller
CEO
Malaysia Airlines Berhad



Appendices







Principal Hub tax framework

Criteria for the three-tiered tax incentive rate for Principal Hub

| | Tier 3 | | Tier 2 | | Tier 1 | |
|---|--|---------------|--|---------------|--|---------------|
| | 5 years | +5 years | 5 years | +5 years | 5 years | +5 years |
| Corporate tax Incentive (effective tax rate) | 10% | | 5% | | 0% | |
| <div>▶ High value jobs by end of year 3 with minimum salary of RM5,000 per month</div> <div>▶ At least 50% must be Malaysians by end of year 3</div> <div>▶ Including key positions with minimum salary of RM25,000 per month</div> | 15 | 20% increment | 30 | 20% increment | 50 | 20% increment |
| | 3 | | 4 | | 5 | |
| Qualifying services | At least 1 strategic services and 2 other services | | At least 1 regional Profit & Loss (P&L) service and 2 other services | | At least 1 regional Profit & Loss (P&L) service and 2 other services | |
| Annual business spending | RM3 million | 30% increment | RM5 million | 30% increment | RM10 million | 30% increment |
| Services and control network companies* (minimum number of countries outside Malaysia) | 3 | | 4 | | 5 | |
| Trading of goods Annual sales (additional requirement for goods-based applicant company) | Rm300 million | | | | | |
| Use of local ancillary services | Local banking and financial services and other ancillary services and facilities (e.g., trade and logistics services, legal and arbitration services, finance and treasury services) | | | | | |
| Applicant | Locally incorporated company with paid-up capital of more than RM2.5mil (can be 100% foreign owned) | | | | | |

US\$1 = RM4.00 (as of 23 March 2016)

Notes:

- ▶ The new Principal Hub incentive replaces the existing International Procurement Center, Regional Distribution Center and Operational Headquarters incentives. Companies which have completed their tax exemption period under these incentives may also apply for the Principal Hub incentive subject to meeting eligibility criteria.
- ▶ Income tax exemption received from services/goods-based company is based on the ratio of 30:70 (include: outside)
- ▶ A network company (*) is a related company or any entity within the group including subsidiaries, branches, joint ventures, franchises or any other company related to applicants supply chain and business with contractual agreements.

Source:

- ▶ Take 5, Malaysia: Principal Hub Incentive, April 2015, EY

Glossary

Abbreviation Definition

| | |
|---------|--|
| 11MP | Eleventh Malaysia Plan |
| AAC | Asia Aerospace City |
| ABS | Asian Banking School |
| AEC | ASEAN Economic Community |
| AICB | Asian Institute of Chartered Bankers |
| AML | Anti-Money Laundering |
| APHM | Association of Private Hospitals of Malaysia |
| ASEAN | Association of Southeast Asian Nations |
| BNM | Bank Negara Malaysia |
| BPO | Business Process Outsourcing |
| BRM | Bank Risk Management |
| BEPS | Base Erosion and Profit Shifting |
| BRT | Bus Rapid Transit |
| CAGR | Compound Annual Growth Rate |
| CB | Chartered Banker |
| CBD | Central Business District |
| CFT | Counter Financing of Terrorism |
| CIDB | Construction Industry Development Board |
| CITP | Construction Industry Transformation Programme |
| CPD | Continuing Professional Development |
| CTRM | Composites Technology Research Malaysia |
| D-8 PTA | D-8 Preferential Tariff Agreement |
| DOSM | Department of Statistics Malaysia |
| E&M | Engineering and Maintenance |
| E&P | Exploration and Production |
| EIA | U.S. Energy Information Administration |
| ETP | Economic Transformation Programme |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FMCG | Fast-Moving Consumer Goods |
| FTA | Free Trade Agreement |
| GBS | Global Business Services |
| GDP | Gross Domestic Product |
| GDV | Gross Development Value |
| GEM | Global Emerging Market |
| GIFT | Global Incentives for Trading Programme |
| GKL | Greater Kuala Lumpur |
| GNI | Gross National Income |
| HDC | Halal Industry Development Corporation |
| HIDMP | Halal Industry Development Master Plan |
| HQ | Headquarters |
| HSR | High Speed Rail |
| IIB | International Islamic Bank |
| IMD | International Institute for Management Development |
| IMF | International Monetary Fund |
| IP | Intellectual Property |
| IPC | Integrated Petrochemical Complex |
| IT | Information Technology |
| ITO | Information Technology Outsourcing |
| KL | Kuala Lumpur |
| KLCC | Kuala Lumpur City Centre |
| KLIA | Kuala Lumpur International Airport |
| KPO | Knowledge Process Outsourcing |
| KTM | Keretapi Tanah Melayu |
| Lao PDR | Lao People's Democratic Republic |
| LITC | Labuan International Commodity Trading Company |
| LNG | Liquefied Natural Gas |
| LPO | Legal Process Outsourcing |
| LRT | Light Rail Transit |

Abbreviation Definition

| | |
|----------|---|
| M&A | Mergers and Acquisitions |
| MAB | Malaysia Airlines Berhad |
| MAPCU | Malaysian Association of Private Colleges and Universities |
| MATRADE | Malaysia External Trade Development Corporation |
| MDeC | Multimedia Development Corporation |
| MIDA | Malaysian Investment Development Authority |
| MIFC | Malaysia International Islamic Financial Centre |
| MIGHT | Malaysian Industry-Government Group for High Technology |
| MITI | Ministry of International Trade and Industry of Malaysia |
| MNC | Multinational Corporation |
| MPRC | Malaysia Petroleum Resources Corporation |
| MRO | Maintenance, Repair and Overhaul / Operations |
| MRT | Mass Rapid Transit |
| NCIIC | National Construction Industry Information Centre |
| O&G | Oil and Gas |
| O&M | Offshore and Marine |
| OECD | Organisation for Economic Co-operation and Development |
| OEM | Original Equipment Manufacturer |
| P&L | Profit and Loss |
| PCC | Professional Credit Certification |
| PCG | Petronas Chemicals Group Berhad |
| PEMANDU | Performance Management & Delivery Unit |
| PETRONAS | Petroleum Nasional Berhad |
| PHI | Principal Hub Incentives |
| PIC | Pengerang Integrated Complex |
| PIDPT | Pengerang Independent Deepwater Petroleum Terminal |
| PIPC | Pengerang Integrated Petroleum Complex |
| PKFZ | Port Klang Free Zone |
| PLI | Petronas Lubricants International |
| R&D | Research and Development |
| RAPID | Refinery and Petrochemical Integrated Development |
| RC | Professional Qualification in Regulatory Compliance |
| RCEP | Regional Comprehensive Economic Partnership |
| SAE | Sepang Aircraft Engineering |
| SAM | Strand Aerospace Malaysia |
| SCM | Supply Chain Management |
| SSI | Johor State Secretary Incorporated |
| SSO | Shared Services Outsourcing |
| TPPA | Trans Pacific Partnership Agreement |
| TPS OIC | Trade Preferential System among the Member States of the Organisation of the Islamic Conference |
| TRX | Tun Razak Exchange |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| WTO | World Trade Organisation |
| YOY | Year-On-Year |

The set of information sources referenced in this guide were derived from EY online resources and various local and international publications, research papers, statistical bulletins and online sources over 7 March 2016 to 26 April 2016.

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Economic indicators 2015 US\$

| | |
|-----------------------------------|-------|
| GDP (constant prices) | 266b |
| GDP per capita (constant prices)* | 8,273 |
| Trade balance | 24b |
| Foreign direct investment (FDI) | 9.9b |

%

| | |
|-----------------------------------|------|
| Current account of BOP (% of GNI) | 3.0 |
| Total debt (% of GDP) | 54.5 |

Social indicators 2015

| | |
|-------------------------|------|
| Population (million) | 31 |
| Urban population (%)* | 74 |
| Life expectancy (years) | 74.8 |

*Latest available data, 2014

Long-term sovereign credit ratings and outlook

| 2015 | Ratings | Outlook |
|---------|---------|---------|
| Moody's | A3 | Stable |
| Fitch | A- | Stable |
| S&P | A- | Stable |

Doing business indicators

| | 2010 rank ¹ | 2016 rank ² | Change |
|------------------------|------------------------|------------------------|--------|
| Ease of doing business | 23 | 18 | +5 |
| Starting a business | 88 | 14 | +74 |
| Enforcing contracts | 59 | 44 | +15 |

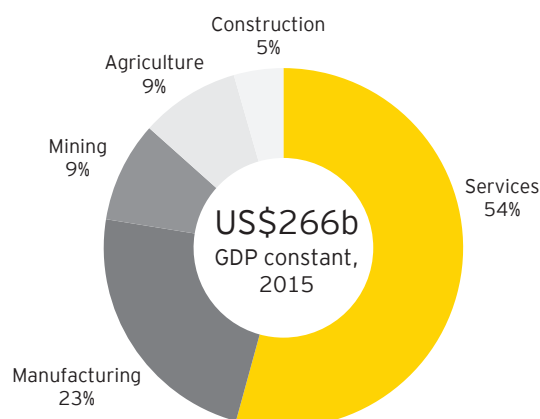
Notes: ¹Rank out of 183 | ²Rank out of 189.

Note: US\$1 = RM4.00 (23 March 2016)

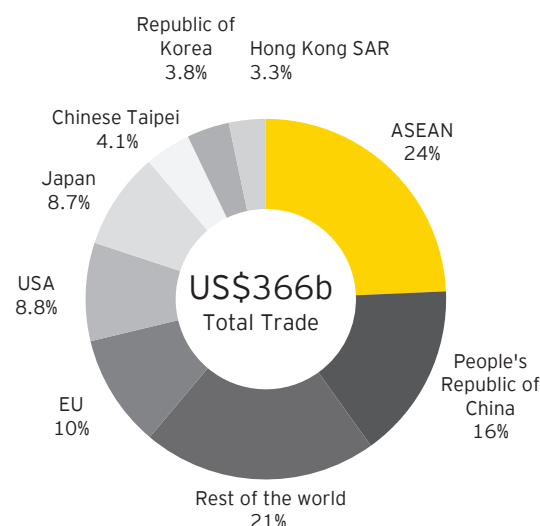
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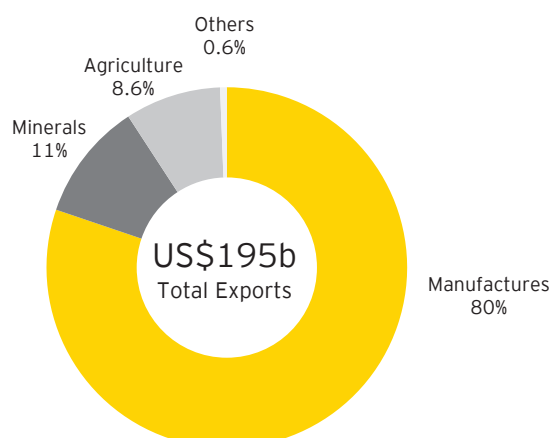
Malaysia's GDP by economic activity, 2015



Malaysia's total trade by markets, 2015



Composition of exports, 2015





Invest KL

InvestKL is a specialist investment agency that was set up by the Malaysian Government to attract and facilitate investments from global multinational companies (MNCs), and encourage them to set up their regional headquarters in Greater Kuala Lumpur. It is under the purview of the Ministry of International Trade and Industry (MITI) and the Ministry of Federal Territories and Urban Wellbeing. It is also accountable to the Performance Management and Delivery Unit (PEMANDU) under the Prime Minister's Department to establish Greater Kuala Lumpur as a center for business, innovation and talent.

InvestKL offers customized investment services from formulating plans for Greater Kuala Lumpur and Asia, customizing incentives, expediting approvals with government agencies, securing talent and offering relocation assistance to post-investment advisory.

InvestKL helps companies set up their operational headquarters, international procurement centers, regional distribution centers and regional shared services in Greater Kuala Lumpur and strategically grow their business in Asia.

Visit www.investkl.com



Kuala Lumpur City Hall

Kuala Lumpur City Hall or Dewan Bandaraya Kuala Lumpur (DBKL) is the local authority charged with the administration of KL city.

DBKL, an agency under the Ministry of Federal Territories, is responsible for public health and sanitation, waste removal and management, town planning, environmental protection and building control, social and economic development and general maintenance functions of urban infrastructure.

Visit www.dbkl.gov.my



MINISTRY OF FEDERAL TERRITORIES

Ministry of Federal Territories

The Ministry of Federal Territories, is a ministry of the Government of Malaysia that oversees the administration and development of all three federal territories in Malaysia: Kuala Lumpur, Labuan and Putrajaya.

The Ministry of Federal Territories aims to lead the progress and development, improve the quality of life and eradicate poverty in Federal Territories (Kuala Lumpur, Labuan and Putrajaya). Its key functions and roles include to enhance and develop excellent Federal Territory sports, organise planning and development for a balanced Klang Valley and conduct Federal Territories Wellbeing programs.

Visit www.kwp.gov.my

Ministry of International Trade & Industry (MITI)

The Ministry of International Trade and Industry (MITI) is the key driver in making Malaysia the preferred location for quality investments and a globally competitive trading nation by 2020.

Visit www.miti.gov.my

Malaysian Investment Development Authority (MIDA)

MIDA is the Government's principal agency responsible for promoting the manufacturing and services sectors in Malaysia. MIDA is the first point of contact for investors who intend to set up projects in the manufacturing and services sectors in Malaysia.

Visit www.mida.gov.my

Talent Corporation (TalentCorp)

TalentCorp partners with leading employers and collaborates with institutional stakeholders to drive human capital development initiatives built around Malaysia's three sources of talent: native Malaysians, Malaysians settled abroad and foreign nationals residing in Malaysia.

Visit www.talentcorp.com.my

Malaysian Biotechnology Corporation (BiotechCorp)

BiotechCorp is the leading development agency for the biotech industry in Malaysia. It acts as a central point of contact providing support and advisory services for biotech and life sciences companies in Malaysia.

Visit www.biotechcorp.com.my

Multimedia Development Corporation (MDeC)

MDeC is an agency that advises the Government on legislation, policies and standards for Malaysia's ICT and multimedia operations. It drives national ICT and digital initiatives, including MSC Malaysia and Digital Malaysia.

Visit www.mdec.my, www.mscomalaysia.my and www.digitalmalaysia.my

Halal Industry Development Corporation (HDC)

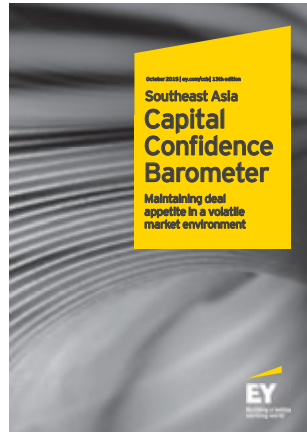
HDC coordinates the overall development of the Malaysian halal industry in an integrated and comprehensive manner. It is focused on the mission to make Malaysia the leading Global Halal Hub based on three strategic thrusts, namely halal integrity, industry development and branding and promotion.

Visit www.hdcglobal.com

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The last mile toward 2015 and beyond
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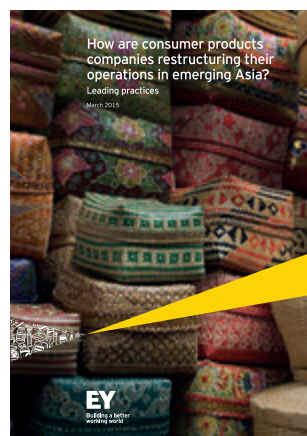
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