HB ADVISOR

OCTOBER - DECEMBER 2023

PLUS

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I WAS GIVEN THE CHANCE TO LEAD HENRY BUTCHER ART AUCTIONEERS (HBAA) IN 2016 AND IN THE BLINK OF AN EYE, IT'S BEEN 7 FULL YEARS!

I remember my first assignment after coming on board was to kickstart a collaboration with Galeri Prima (GP) in October 2016. Since then, we have hosted numerous exhibitions, art auctions and charity events at GP. It has indeed been seven good years at GP (under Media Prima Bhd, Malaysia's largest and leading integrated media company with a complete repertoire of media-related businesses in TV, print, radio, out-of-home advertising, content creation, commerce & digital media).

Besides having the wide media coverage for HBAA's events, our team has also successfully raised the annual auction sales from RM2.4 million in 2016 to RM3.3 million in 2017, RM5.8 million in 2018, RM8.3 million in 2019, RM8.5 million in 2020, RM11.6 million in 2021, RM8.4 million in 2022 and RM8.9 million in 2023. We are sincerely grateful to the Supporters and Friends of HBAA! We also feel fortunate to have achieved our highest sales in 2021, a year still marked by the pandemic and when many other industries were also facing their own set of challenges.

Aside from the auctions, our HBAA team actively carried out art valuation projects (under Henry Butcher Malaysia) including prestigious art collections by top corporations and institutions such as Khazanah Nasional Bhd, Malayan Banking Bhd, HSBC Bank Malaysia Bhd, Digi Telecommunications Sdn Bhd, UMW Holdings Bhd, Universiti Malaya etc, where we provide them with the most accurate and latest market valuation.

The World Brands Foundation presented The Brand Laureate Entrepreneur Award: ArtPreneur (Entrepreneur of the Year 2023) to Sim Polenn on 19 September 2023 at Majestic Hotel. Polenn received the Award from Deputy Minister of Entrepreneur and Cooperatives Development YB Pn. Saraswathy Kandasami (3rd from left) in the presence of Y.M. Tengku Dato' Dr. Hishammuddin Zaizi (2nd from right), The BrandLaureate President Dr. KKJohan (right) and Miss World Malaysia 2023 Ms. Saroop Roshi (2nd from left).

Over the years, HBAA has also organised solo exhibitions for respected senior Malaysian artists such as Awang Damit Ahmad, Yusof Ghani, Dr. Jolly Koh, Rafiee Ghani etc. Of prominence was the Yusof Ghani exhibition in 2019 titled "Segerak VIII: Utopia" which was officiated by His Majesty Sultan of Perak Sultan Nazrin Muizzuddin Shah ibni Almarhum Sultan Azlan Muhibbuddin Shah and Her Majesty The King Queen of Perak Tuanku Zara Salim. A more recent one held in May 2023 was Awang Damit Ahmad's book launch and exhibition officiated by Minister of Communications and Digital YB Fahmi Fadzil.

HBAA's other initiatives include actively carrying out private artwork sales, initiating consignment collaborations with top foreign auction houses (eg. Sotheby's), actively dealing with quality works painted by prominent First-Generation Singapore Artists (eg. Georgette Chen, Liu Kang, Cheong Soo Pieng etc), curating Tan Sri Azman Hashim's permanent collection to be showcased at University Malaysia Sabah Azman Hashim Gallery (in June 2023), publishing art books to be retailed at top local bookstores (including Eslite etc) and also being involved in many other charity events.

Fortunately our diligence has not been without its rewards as on 19 September this year, I was awarded the Brand Laureate Entrepreneur Award: ArtPreneur (Entrepreneur of the Year 2023) by The World Brands Foundation and receiving it from Deputy Minister of Entrepreneur and Cooperatives Development YB Pn. Saraswathy Kandasami with a certificate signed by the Minister of Entrepreneur and Cooperatives Development YB Datuk Ewon Benedick.

KDN PP18893/11/2015(034373)

EDITOR'S NOTE

I am humbled and honoured with this recognition (made possible only with a dedicated HB team); our hard work has paid off!

To our loyal fans and followers, it would be opportune for me to share that HBAA has just moved out from GP in early October this year as the event hall will undergo a year-long renovation. Our new venue for future auctions starting from January 2024 will be at Hall 1 of Level M at Menara KEN TTDI in Taman Tun Dr. Ismail, Kuala Lumpur. We look forward to welcoming you at our new auction premises with the promise that we will work even harder to present you with better editions of the Henry Butcher Art Auctions.

Once again, Thank You Very Much for the support!

SIM POLENN
Director, Henry Butcher Art Auctioneers

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October - December 2023

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Publishing Agency
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Printer
Percetakan CL Wong Sdn Bhd
AS-84, Jalan Hang Tuah 4,
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NOT MUCH GOODIES FOR THE PROPERTY SECTOR IN BUDGET 2024

A bit of a disappointment for the property sector in Budget 2024 but not all is lost.

Did Budget 2024 intentionally leave out more goodies for the Malaysian property industry?

In the run-up to Budget day 2024, REHDA, as well as a few leading property developers and other stakeholders in the property industry came out with their wish lists for the government's consideration for inclusion in Budget 2024. These proposals included the revival of the Home Ownership Campaign (HOC), providing incentives to developers to incorporate smart technologies in projects undertaken by them, incentivise the adoption of IBS (industrialised building systems), increasing incentives for developers to adopt more environmentally friendly practices, reducing compliance costs, extending incentives in the form of tax deductions, grants as well as lower interest rates that can help lessen the burden of future homeowners. The latter in particular is to cater to first-time home buyers.

Other proposed measures included the setting of a ceiling price or implementing a temporary reduction or removal of levies on the importation of certain building materials to minimise construction costs and thereby reduce house prices. There were also calls for the relaxation of Malaysia My 2nd Home (MM2H) programme's conditions.

Another interesting proposal was for the government to consider allocating a revolving fund to the commercial banks for the purpose of working with the developers to purchase unsold house units at a discount and for the commercial banks to finance the home buyers for a period of five years. At the end of the fifth year, the tenants shall have the privilege to exercise the option to purchase the houses at predetermined prices under the RTO (Rent to Own) scheme.

When the Finance Minister, and also Prime Minister, Datuk Seri Anwar Ibrahim tabled the budget on 13 October 2023, the stakeholders in the industry were certainly disappointed to find out that very little of what was on their wish lists was adopted by the government.

The allocation of RM393.8 billion in Budget 2024 is the largest ever in the country's history, with RM303.8 billion being allocated for operating expenditure, RM90 billion for development expenditure and RM2 billion for contingency savings. The budget tabled by the unity Madani government placed priority on the rakyat's wellbeing while maintaining fiscal responsibility.

The highest allocations, understandably and justifiably went to the education, health and higher education ministries. The property sector was however not accorded top priority by the government and the following are the main budget proposals related to the sector:

Public Housing

- A sum of RM2.47 billion has been allocated for public housing projects in 2024.
- RM385 billion has been set aside for the construction of affordable housing projects under the Program Rumah Mesra Rakyat which will add on a total of 3,500 housing units.
- RM100 million will be allocated to maintain low and medium cost strata housing units nationwide whilst another RM100 million will be set aside to upgrade the infrastructure and community facilities in Chinese new villages.
- A sum of RM460 million will be provided to aid 65,000 under privileged individuals in rural areas to build new houses or to repair their debilitated homes.
- RM2.4 billion will be put aside to build and maintain housing facilities

There is special attention for sick and abandoned housing projects in Budget 2024.

for civil servants under the Special Task Force on Agency Reform (STAR).

These measures will certainly help the B40 group to purchase their own homes as well as to improve the conditions of existing homes that they are currently living in and certainly shows the caring side of the government.

Stamp Duty on Property Transactions

- The stamp duty levied on transfer of properties between parents and children, and grandparents and children will now be fixed at RM10 effective 1 January 2024. Presently there is only a 50% discount given on the stamp duty on the balance of the property value above RM1 million (there is full tax exemption for the first RM1 million).
- The stamp duty for foreign individuals and companies will be increased to a flat 4% in 2024. Currently, calculation of stamp duty is based on a tiered structure with the first RM1 million being taxed within three bands at 1%, 2% and 3% and the residue above RM1 million, at 4%.

The increase in stamp duty payable by foreigners for purchase of property is certainly not helpful to the industry's drive to attract more foreign investments in the real estate sector and runs counter to the government's proposal to relax conditions under the MM2H programme.

New Industrial Master Plan (NIMP) 2030

- To drive the New Industrial Master Plan (NIMP) 2030, the government has earmarked 10% of the total NIMP investment of RM95 billion for Budget 2024, starting with an initial fund of RM200 million in 2024.
- The government has also proposed the Pengerang Integrated Petroleum Complex (PIPC) as a development hub for the chemical and petrochemical sector and a special tax incentive will be given in the form of a special tax rate or investment tax allowance.
- The government has plans to offer a tiered reinvestment tax incentive in the form of an investment tax allowance ranging from 70% to 100% to encourage companies to invest in high-growth and high-value areas.
- The government will open a high-tech industrial area in Kerian in northern Perak in order to build a wider ecosystem for the electrical and electronics sector.

The above measures in the Budget will augur well for the industrial property sector and will also indirectly benefit residential and commercial developments within the vicinity of the industrial estates that will be developed under the NIMP as well as the PIPC.

Sick & Abandoned Housing Projects

- The government has proposed to set up a special task force under the Ministry of Local Government Development (KPKT) to tackle the problem of private housing projects that are sick, late or have been abandoned. In addition, the government has proposed to set up a special guarantee fund amounting to RM1 billion to incentivise reputable developers to take up and revive selected abandoned housing projects.

This measure will help buyers of projects that have run aground as there will now be a chance that these projects will be revived and completed thus, resolving the financial quagmire that these buyers have landed themselves in for choosing a project built by a less capable developer.

Housing Credit Guarantee Scheme

- In Budget 2024, the government has proposed to allocate RM10 billion to expand the Housing Credit Guarantee Scheme which will benefit 40,000 borrowers.

This is double the RM5 billion set aside under Budget 2023 and will therefore be able to help twice the number of borrowers.

En-Bloc Sale

- Currently the agreement of 100% of the owners is required before a stratified residential scheme can be sold en-bloc for redevelopment purposes. In Budget 2024, the government has proposed to reduce the threshold to "a level consistent with international practices" which means that the consent of each and every owner is no longer required. Although this proposal is met with objections by some owners and NGOs like the National House Buyers Association, this move will allow some dilapidated buildings in prime locations to be redeveloped into something more in line with current trends and market conditions.

This proposal will be able to spur urban renewal and rejuvenation and make available for redevelopment, more sites in prime locations. Nevertheless, it is important for the government to put in place mechanisms and safeguards to protect the interests of the minority who are not keen to sell their units.

Infrastructure

The major infrastructure projects identified in Budget 2024 are as follows:

- A sum of RM4.7 billion will be allocated for the construction of the LRT 3 project.
- RM5.8 billion will be allocated for development expenditure in Sarawak whilst RM6.6 billion will be allocated to Sabah.

Improvements in infrastructure and public transport will open up previously less accessible and less popular areas and will provide a boost to housing and commercial development activities in the areas benefiting from the improved infrastructure.

Visit Malaysia Year 2026

- 2026 has been designated as the next Visit Malaysia Year and in this regard, RM350 million has been allocated for promoting tourism activities in the country whilst RM80 million will be set aside for preserving heritage buildings and sites. It is the government's aim to bring in 26.1 million tourists with an estimated domestic spending of RM97.6 billion.

This is certainly a welcome piece of news for the hotel, entertainment, shopping and F&B sectors which were very badly hit by the various phases of Movement Control Orders (MCO) imposed by the government during the pandemic between 2020 to 2021. Hotels could see an improvement in occupancy rates as well as average achieved room rates whilst shopping malls, especially those located in areas popular with tourists, will see high occupancy rates being maintained.

Malaysia My 2nd Home (MM2H)

- Under the previous Perikatan Nasional (PN) Government, tougher conditions were introduced for the MM2H programme as it was the then Home Minister Datuk Seri Hamzah Zainudin's objective to push for the Premium Visa Programme (PVIP) targeted at more well-heeled foreigners, to replace the MM2H programme. This resulted in a 90% drop in the number of applicants. The unity Madani Government intends to put the MM2H programme back on track. However, no details have been announced yet and it is left to be seen whether the refreshed MM2H programme will be more, if not at least as, attractive as its previous version.

If the relaxations introduced by the government are able to make the MM2H programme more attractive, this may benefit the residential property sector as an increase in the number of applicants under the programme could see an increase in house buying or house rental activities. The increase in MM2H applicants could also indirectly benefit the shopping, F&B and entertainment sectors.

Service Tax

- The service tax, currently levied at the rate of 6% will go up by 2% in 2024 and expanded to include logistics, brokerages, underwriting and karaoke services. However, in order not to burden the rakyat, the increase will not apply to food & beverage businesses as well as telecommunications.

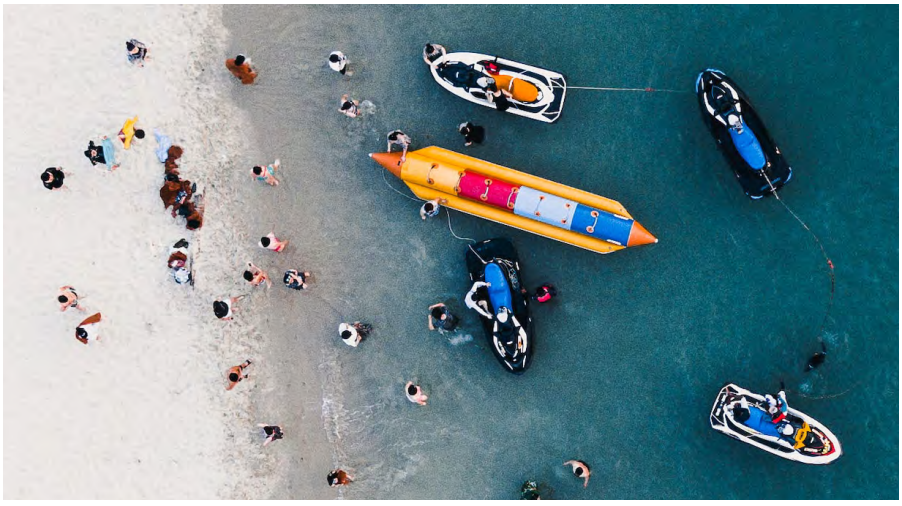
Service tax is not charged on purchase of property including land but various services related to the purchase and disposal of property are subject to SST (Sales & Service Tax) viz., valuation, real estate agency and legal services. The increase in SST to 8% will certainly add to the cost of purchasing or disposing a property and in that sense, is not favourable to the property industry.

Concluding Note

Budget 2024 is mildly expansionary in its thrust and the Malaysian economy is projected to grow by between 4% to 5% in 2024. This is comparable to the projected growth rate of 4% for 2023.

For the property sector, an expanding economy is a positive piece of news as this will support healthy buying activities in the housing sector.

Although there may not be many direct measures proposed in Budget 2024 for the property sector, the sustained economic growth as well as other indirect measures such as higher infrastructure spending, bigger allocations for building affordable homes and increased allocation for the Housing Credit Guarantee Scheme will all help to support and sustain the housing industry in the year ahead.



The government has designated 2026 as Visit Malaysia Year and this will undoubtedly receive the support of all tourism and hospitality stakeholders.

HENRY BUTCHER REAL ESTATE SDN. BHD.
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Henry Butcher Real Estate Sdn Bhd actively involved in sales and leasing of commercial properties. We work closely with a list of commercial property owners (private and government sector) and real estate investment trusts (REITs). By providing leasing services for owners, we also conduct office search to match companies with suitable office space. Apart from that, we have a team that specialises in tenant mix planning. This team continuously sources suitable business venues for our clients from the F&B and other retail industries.

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Wisma JAG
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Office & Retail Space
From approx. 1,080 to 7,690 sqft
Asking RM3.50 to 8.00psf

Wisma Boustead & Menara Boustead
Jalan Raja Chulan, Kuala Lumpur
Office Space
From approx. 1,500 to 8,575 sqft
Asking RM5.30psf

Menara Shell
KL Sentral, Kuala Lumpur
Office Space (MSC status)
From approx. 2,324 to 17,203 sqft
Asking RM8.50psf

Platinum Sentral
KL Sentral, Kuala Lumpur
Office Space (MSC status)
From approx. 2,275 to 16,706 sqft
Asking RM8.50psf

Guoco Tower
Bukit Damansara, Kuala Lumpur
Office Space (MSC status)
From approx. 3,000 to 5,376 sqft
Asking RM8.00psf

PJ New Town
Jalan 52/2, Petaling Jaya
Ground Floor - Office & Retail Space
Approx. 1,875 sq ft
Asking RM11,000/month

CP Tower
Phileo Damansara, Petaling Jaya
Office Space
From approx. 3,327 to 7,791 sqft
Asking RM4.50psf

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OPR'S IMPACT ON MALAYSIA'S PROPERTY MARKET: A POST-PANDEMIC PERSPECTIVE

Bank Negara Malaysia (BNM) uses the Overnight Policy Rate or OPR as a policy tool to control inflation or boost economic growth. The OPR is the benchmark rate which is the reference point for setting interest rates in the country. If the OPR is raised, it will lead to an increase in borrowing costs through higher interest rates. This may then lead to a lowering of the appetite of individuals and businesses to borrow to fund business expansion or asset acquisitions whilst a reduction in OPR will result in the reverse. A significant increase in the OPR would impact the property market in two ways:

a) The increase in borrowing costs may make it harder for the borrower to continue servicing the loan and may lead to him defaulting on the loan. This in turn could lead to a rise in non-performing loans (NPLs);

b) The higher interest rates may deter investors from buying property as the higher borrowing costs may make it a less attractive proposition especially if rental rates and capital appreciation rates remain stagnant. This could then lead to a drop in the volume and value of property transactions.

Nevertheless, it has to be pointed out that borrowing activities are not influenced solely by changes in interest rates but will also be impacted by the state of the country's economy as well as the property market, changes in political environment, and consumer and investor confidence.

2020: Rupture

When Covid-19 hit the country in 2020, BNM dropped the OPR four times over the course of the year to cope with the sudden halting of a moving economy. The reduction was made as early as on 22 January followed by further cuts on 3 March, 5 May and 7 July. Each adjustment lowered the OPR by 25 basis points with the exception of May where the OPR went down by 50 basis points. The OPR went from 3.00% (before the first revision) to 1.75% in 2020.

Based on BNM's data, residential related NPLs stood at RM6.9 billion in December 2019, a 13.6% year-on-year rise from the RM6.1 billion recorded in December 2018. This was before the Covid-19 pandemic was unleashed in 2020.

When market jitters found its way into Malaysia after the outbreak of the pandemic, it quickly led to BNM lowering the OPR to 2.75% on 22 January 2020 in an effort to spur consumer spending and business activities. Although OPR reductions would usually lend a better environment for credit expansion owing to cheaper credit, this textbook theory may not have transpired into reality.

Firstly, despite the reduction in OPR in January, residential NPLs actually rose from RM7.1 billion in January to RM7.2 billion in February 2020, suggesting that perhaps the more benign interest rate environment was overshadowed by the gloomy economic outlook due to the escalating infections and death rates caused by Covid-19 and the mounting pressures faced by businesses worldwide.

Secondly, although the OPR was swiftly adjusted downwards for the second time within a period of just about two months, NPLs continued to escalate to RM7.4 billion in the same month, registering a 2.78% increase month-on-month compared to the 1.41% increase from January to February 2020. For the record, 11 March 2020 was incidentally the time when the World Health Organisation (WHO) declared Covid-19 as a pandemic, a worldwide event which caused immense suffering and financial loss on a global scale. The lowering of borrowing costs in this instance were not sufficient to overcome the lower consumer confidence arising from painful salary cuts, job losses and business failures and as such NPLs continued to rise despite interest rates being lowered.

As time passed and with a series of stimulus/relief measures announced by the government to either boost the market (eg. 2020 Economic Stimulus Package announced on 27 February) or control the spread of the disease by restricting movements of people (eg. Movement Control Orders effective from 18 March), economic pointers began to show mixed signals that were however not as easy to decipher.

Residential NPLs for example began decelerating from April to September 2020, registering RM7.2 billion to the year's lowest of RM5.8 billion respectively. This improvement can however be partly attributed to the housing loan moratorium assistance announced by BNM on 25 March 2020.

In terms of loan applications, BNM's data showed that the value of loans

Malaysia's Overnight Policy Rate Movement (Jan 2020 - May 2023)

Date	Change in OPR (%)	New OPR Level (%)
22 Jan 2020	-0.25	2.75
03 Mar 2020	-0.25	2.50
05 May 2020	-0.25	2.00
07 Jul 2020	-0.25	1.75
11 May 2022	+0.25	2.00
06 Jul 2022	+0.25	2.25
08 Sep 2022	+0.25	2.50
03 Nov 2022	+0.25	2.75
03 May 2023	+0.25	3.00

Source: Bank Negara Malaysia

The reduction and increase of the OPR has had its impact on the man of the street's personal income.

applied came down from RM127.1 billion in the first half of 2019 to RM96.4 billion in the first half of 2020, despite the reduction in OPR during the year. As for approved housing loans for H1 2020 the amount came up to RM32.8 billion from the total of RM96.4 billion loan applications. The 34.1% approval rate was considerably lower than the average approval rate recorded for all first half yearly data from 2014 to 2019 ie. at 44.6%.

In light of the situation, and with the continuous calls from the industry to restore market interest, the Home Ownership Campaign (HOC) was reinstated from 1 June 2020 to 31 May 2021 before being extended again to December 2021. The HOC had initially been carried out in 2019 to help the industry overcome the alarming overhang stock in the country.

With the final OPR adjustment taking place on 7 July and holding it at 1.75% from then on, the property market witnessed a resurgence of activity with experiential virtual walkthroughs taking centre stage to plug the gap left by the restriction on physical visits to the developers' sales offices. The stifled physical environment saw online solutions being thrusted to the forefront with every property developer vying for the same attention with better and more convenient digital processes to seal the deal.

When one door closes, another opens, especially for the more discerning buyers.

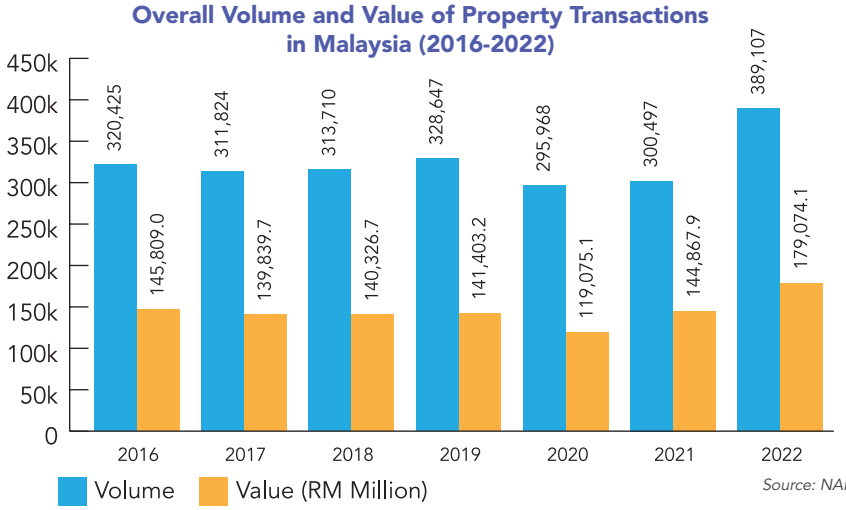
As a result of the setbacks suffered in 2020 due to the pandemic and painful movement control restrictions which impacted most businesses, Malaysia's property market ended the year with 191,354 transacted properties worth RM65.8 billion. These were 8.57% lower compared to the 209,295 units and 9.15% lesser against the RM72.4 billion recorded in 2019.

New Residential Launches & Sales Performance in Malaysia

Year	2019	2020	2021	2022
New Launches (Unit)	59,968	47,178	43,860	54,118
Units Sold	24,238	13,560	17,237	19,497
Sales Performance (%)	40.42%	28.74%	39.30%	36.03%

Source: NAPIC

Overall Volume and Value of Property Transactions in Malaysia (2016-2022)



Source: NAPIC

2021: Rumblings

As the market entered the new year with the OPR at 1.75%, the value of residential loan applications went up to RM179.4 billion in the first half of 2021. The percentage of loans approved also rose to 35.3% in H1 2021 or RM63.3 billion of loans approved out of RM179.4 billion of loans applied for, the highest quantum ever recorded in first half yearly data since 2014. By performance, these were improvements of 92.6% in approvals and 86.0% in applications respectively compared to the preceding year.

Residential NPLs however persisted with a flip-flop trend month-to-month, starting with RM8 billion in January, coming down to RM7.9 billion in February and reaching a high of RM8.7 billion in September before closing the year at RM8.1 billion in December.

In the same year, the total volume of property transactions increased by 3.9% to 198,812 units while the total value of transactions went up by a higher margin at 16.9% to record RM76.9 billion compared to 2020.

Right at this juncture, these indicators would seem to suggest that the lower OPR may have incentivised new borrowers instead of existing ones, especially those overgeared or already relegated into the NPL category. The continuous measures to assist this critical class of borrowers such as the housing loan moratoriums and possibly a varied form of proprietary assistance offered by the financial institutions have

yielded little and did not prove to be as good an antidote as had hoped.

2022: Resurgence

If loans and property performance inched up while holding the OPR constant in 2021, 2022 surprised the market with four OPR escalations, with each rising by 25 basis points to reach 2.75% on 3 November 2022.

Against this backdrop, residential loans applications surprisingly increased to RM235.7 billion in the first half of 2022 whilst the value of loans approved surged by 39.2% to hit a record breaking RM92.4 billion loans.

Residential NPLs nonetheless experienced another dreadful year as it worsened further from RM8.8 billion in January to RM10.2 billion in December.

As for property transactions, there was an increase of 22.3% in the volume of units changing hands in 2022 compared to 2021 while the value of transactions went up by 22.6% over the same period. Both the total volume and value of transactions for 2022 at 243,190 units and RM94.3 billion respectively outpaced all annual transactions recorded by NAPIC since 2016.

2023: Recovery?

After showing some form of inelasticity against the OPR hike, the Monetary Policy Committee (MPC) at BNM raised it once more six months later by 25 basis point to 3.00% on 3 May 2023. This new uptick levelled the OPR back to the pre-pandemic regime but remains 25 basis points below its peak of 3.25% (from 25 January 2018 to 6 May 2019). The two subsequent meetings by the MPC on 6 July and 7 September kept the OPR unchanged at 3.00% as an accommodative measure to support the economy.

With the higher OPR at 3.00%, the number of loan applications came down slightly in the first half of 2023, dropping from RM235.7 billion to RM222.0 billion in the first half of 2023. The value of residential loans approved however went up marginally from RM92.3 billion to RM93.9 billion

With the normalised OPR, Malaysia's residential NPL unfortunately continued swelling, expanding from RM10.1 billion in January to RM10.4 billion in March 2023 (BNM's last available data).

Period	Loan Application (RM Million)	Loan Approval (RM Million)	% Change Loan Application	% Change Loan Approval	Approval Application %
H1 2014	113,572.12	57,677.59	-1.1	4.7	50.8
H1 2015	105,088.95	52,805.52	-7.5	-8.4	50.2
H1 2016	105,114.20	41,442.29	0.0	-21.5	39.4
H1 2017	116,420.80	48,512.88	10.8	17.1	41.7
H1 2018	113,233.68	48,688.11	-2.7	0.4	43.0
H1 2019	127,119.01	53,937.10	12.3	10.8	42.4
H1 2020	96,445.53	32,841.42	-24.1	-39.1	34.1
H1 2021	179,427.35	63,250.01	86.0	92.6	35.3
H1 2022	235,732.86	92,381.92	31.4	46.1	39.2
H1 2023	222,032.06	93,949.40	-5.8	1.7	42.3

Source: Bank Negara Malaysia

Analysing NAPIC's data for 1H 2023, it is noted that the total volume of property transactions declined by 2.1% to 184,140 units whilst the total value of transactions increased slightly by 1.1% to RM85.4 billion compared to the corresponding period in 2022. For residential property transactions, the volume of transactions declined by 1.0% whilst the value of the transactions came down by 1.8%

On the macroeconomic landscape, NAPIC's 1H 2023 report also cited the dwindling Consumer Sentiment Index (CSI) and Business Conditions Index (BCI) tracked by the Malaysian Institute of Economic Research (MIER). According to the research house, CSI dipped below the 100 threshold at 90.8 as of Q2 2023 due to "pessimism about future jobs, incomes and inflation, (and) their spending plans also appear to be lower" while the BCI weakened to 82.4 points in Q2 2023 attributed to global uncertainties.

Will the next OPR movement impede or encourage property take up?

It remains to be seen with many moving parts still to consider after a relatively fine run up until 2022. Factors at play include the stability of the government, state of the country's economy, employment rate, the individual's spending power, personal credit history, domestic market dynamics, supply chain activities, external risks, geopolitical climate, international trade tensions etc. It is clear that the movement of the OPR alone will not by itself, increase or reduce the volume of property purchases or the level of NPLs as all the other factors aforementioned will come into play in determining the overall health and direction of the property market.

But judging from this brief analysis, the normalisation of the OPR has had a negative impact on existing borrowers although it has not closed the doors entirely to credit-worthy property buyers. The good news is, eligible buyers could still enjoy some form of HOC-like incentives such as stamp duty exemptions for first time house buyers for properties worth up to RM500,000 until 31 December 2025 as provided by the revised Budget 2023 tabled on 24 February 2023.

The contrasting performance between the property loan approval and the state of the NPL warrants the market to undergo a balancing act during this time. It's important as such for the Madani Government and the financial institutions to pay closer attention to this acute category before the NPL predicament gets out of hand. If not for keeping the house in order, it is to ensure the solid property market structure in Malaysia is not weakened unnecessarily. More so when measures like the HOC and the OPR adjustments have successfully navigated the market out of the momentary setback experienced in 2020.

MORE LAUNCHES IN KLANG VALLEY UP TO 3Q 2023

Both the number of projects and number of units launched in the first nine months of 2023 were higher compared to the same period in 2022. This is based on the data gathered by our research team at Henry Butcher Malaysia. The statistics provided here may differ from the official tally compiled by NAPIC.

- Klang Valley played witness to a 50% rise in new launches or 60 projects in the first nine months of 2023 compared to the same period in 2022 with 40 projects.
- Number of units added by the new launches also rose by 51% to reach 32,572 units compared to 21,525 units in the period under review.
- Selangor had 39 new projects launched compared to Kuala Lumpur with 21 projects in the first nine months of 2023. By percentage points, Kuala Lumpur registered an increase from 25% to 35% from the first nine months of 2022 compared to the same period in 2023.
- Interestingly, both Kuala Lumpur and Selangor have an almost similar number of units launched at 16,436 and 16,136 units respectively. In the corresponding period in 2022, Selangor had 54% share of the number of units launched.
- Tracking new launches on a monthly basis, most months in 2023 recorded a higher number of launches than 2022 with the exception of July and August. March 2023 recorded the most number of launches with 13 projects, possibly owing to the completion of the festivities that ends traditionally with Chinese New Year, followed by February and May with 8 projects each.
- The landed Terrace/Super Link category registered the highest number of new launches with 20 projects followed by Condominium with 14 projects and the Serviced Residence/Service Apartments with 13 projects. The Terrace/Super Link category also had the highest number of launches in 2022 with 13 projects followed by Serviced Residence/Service Apartments with 9 projects and Apartment/Flat with 7 projects.
- There were more high-rises being launched in the period under observation of 2023 with 39 projects compared to 28 landed schemes. In the corresponding period of 2022, there was an almost even split of 23 high-rises and 21 landed projects.
- In terms of number of units, high-rises chalked up a higher proportion with 87% or 28,471 units compared to 83% or 17,842 units in 2022. Landed projects contributed 13% or 4,101 units in 2023 compared to 17% or 3,682 units in 2022.

Total Projects Launched

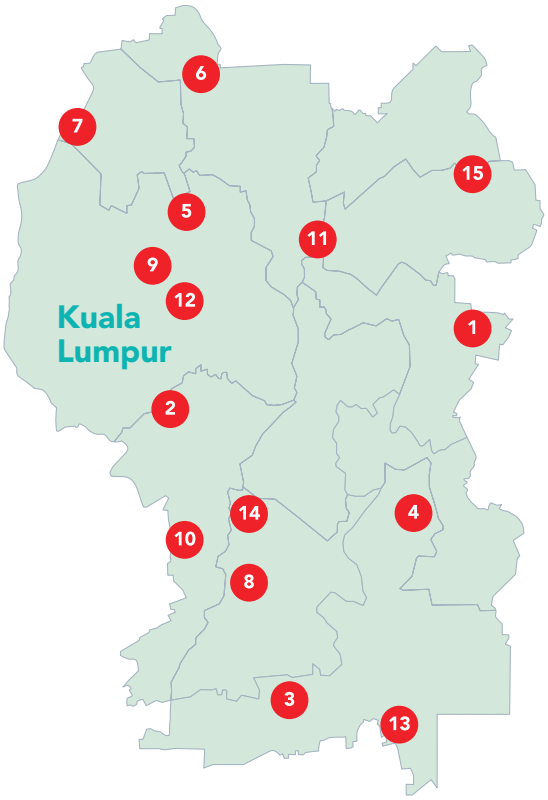
	2022	2023
Projects	40	60

Total Units Launched

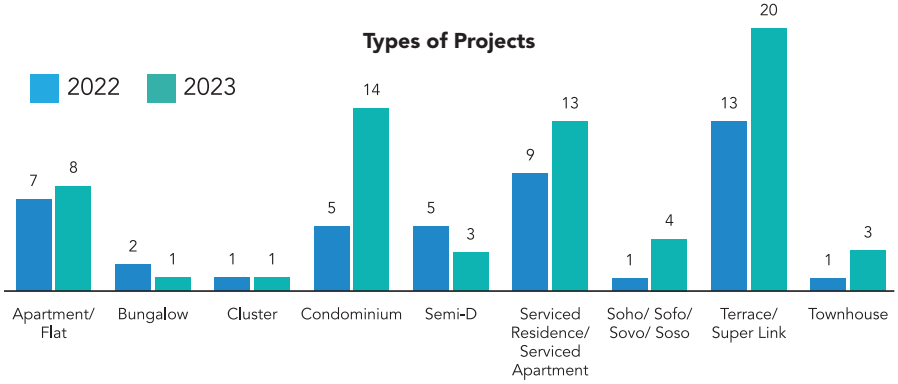
	2022	2023
Units	21,525	32,572

Kuala Lumpur

1) **Ampang = 2 Projects**
   Highrise = RM900 - RM1,100psf
2) **Bangsar = 1 Project**
   Highrise = RM1,300 - RM1,500psf
3) **Bukit Jalil = 2 Projects**
   Highrise = RM400 - RM700psf
4) **Cheras = 2 Projects**
   Highrise = RM600 - RM800psf
5) **Dutamas = 1 Project**
   Highrise = RM600 - RM750psf
6) **Jalan Kuching = 1 Project**
   Highrise = RM650 - RM700psf
7) **Kepong = 1 Project**
   Highrise = RM700 - RM800psf
8) **Kuchai Lama = 1 Project**
   Highrise = RM600 - RM700psf
9) **Mont Kiara = 2 Projects**
   Highrise = RM550 - RM1,100psf
10) **Pantai = 1 Project**
    Highrise = RM650 - RM750psf
11) **Setapak = 2 Projects**
    Highrise = RM500 - RM700psf
12) **Sri Hartamas = 1 Project**
    Highrise = RM1,000 - RM1,100psf
13) **Sungai Besi = 2 Projects**
    Highrise = RM375 - RM600psf
14) **Taman Desa = 1 Project**
    Highrise = RM750 - RM950psf
15) **Wangsa Maju = 1 Project**
    Highrise = RM800 - RM900psf



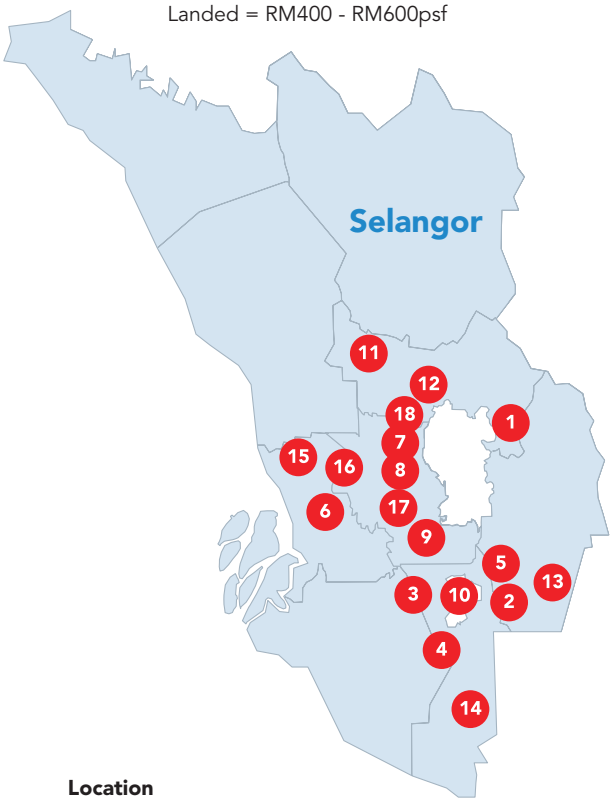
- By built-ups, the 801 to 1,000 sq ft sizes were the most prominent which were present in 46% or 31 of the new launches. This is followed by the 1,001 to 1,200 sq ft and above 2,000 sq ft categories with 34% or 23 projects each.
- By price, the RM601,000 to RM800,000 category had the most properties priced within this range with 55% or 37 projects followed closely by the RM401,000 to RM600,000 category with 54% or 36 projects. This contrasts with 2022 where 43% or 19 projects had properties worth more than RM1 million.
- In terms of price per sq foot, it is consistent with the market's affordable sentiments with 52% or 35 projects priced below RM500 per sq ft followed by RM501 to RM750 per sq ft with 40% or 27 projects. This is consistent with 2022's data where the RM500 and below category had 55% or 24 projects followed by the RM501 to RM750 per sq ft category with 36% or 16 projects.
- By location, Sepang contributed a considerably higher number of launches with 7 projects followed by Subang Jaya with 5 projects and

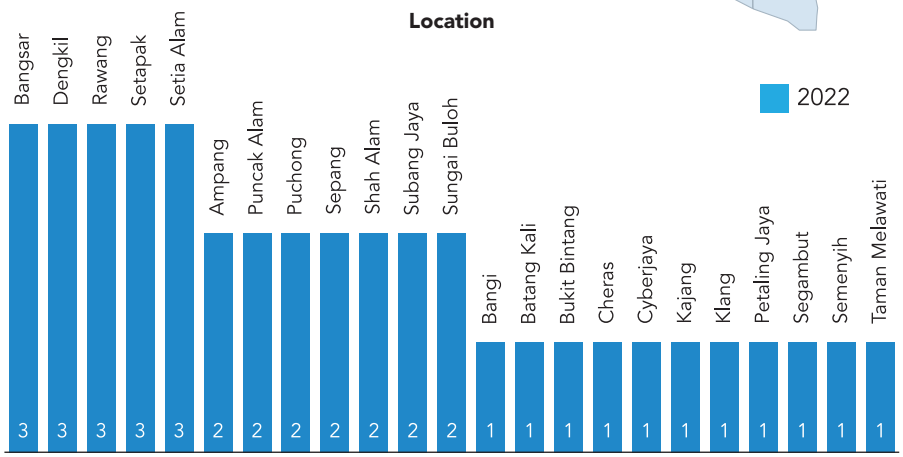


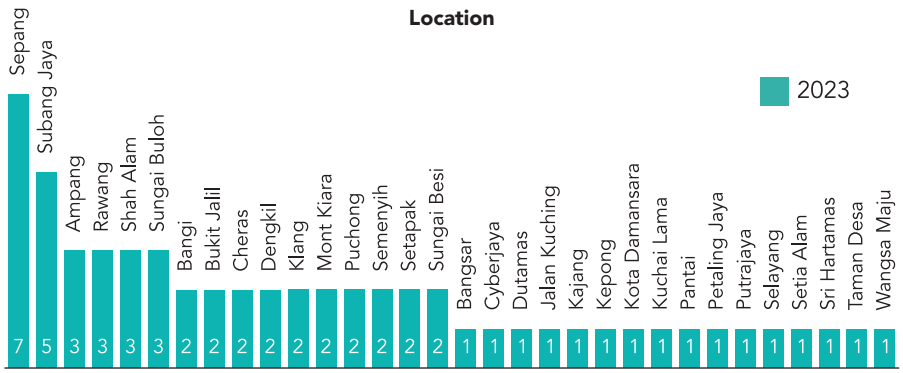
Ampang, Rawang, Shah Alam and Sungai Buloh with 3 projects each. In 2022, the highest number of projects were only 3 per locality and these came from Dengkil, Rawang, Setapak and Setia Alam.

Selangor

1) **Ampang = 1 Project**
   Landed = RM500 - RM750psf
2) **Bangi = 2 Projects**
   Landed = RM350 - RM550psf
   Highrise = RM400 - RM500psf
3) **Cyberjaya = 1 Project**
   Landed = RM600 - RM700psf
4) **Dengkil = 2 Projects**
   Landed = RM300 - RM500psf
5) **Kajang = 1 Project**
   Highrise = RM400 - RM450psf
6) **Klang = 2 Projects**
   Landed = RM350 - RM500psf
7) **Kota Damansara = 1 Project**
   Highrise = RM250psf
8) **Petaling Jaya = 1 Project**
   Highrise = RM900 - RM950psf
9) **Puchong = 2 Projects**
   Highrise = RM250 - RM500psf
10) **Putrajaya = 1 Project**
    Highrise = RM400 - RM500psf
11) **Rawang = 3 Projects**
    Landed = RM250 - RM400psf
    Highrise = RM400 - RM550psf
12) **Selayang = 1 Project**
    Highrise = RM500 - RM600psf
13) **Semenyih = 2 Projects**
    Landed = RM300 - RM500psf
14) **Sepang = 7 Projects**
    Landed = RM200 - RM500psf
    Highrise = RM250 - RM750psf
15) **Setia Alam = 1 Project**
    Highrise = RM550 - RM850psf
16) **Shah Alam = 3 Projects**
    Landed = RM350 - RM800psf
    Highrise = RM250psf
17) **Subang Jaya = 5 Projects**
    Highrise = RM400 - RM900psf
18) **Sungai Buloh = 3 Projects**
    Landed = RM400 - RM600psf







UNIT SIZES BY PROJECTS		
2022		2023
14%	Below 600sf	24%
20%	601sf - 800sf	19%
32%	801sf - 1,000sf	46%
20%	1,001sf - 1,200sf	34%
25%	1,201sf - 1,500sf	21%
11%	1,501sf - 1,800sf	16%
2%	1,801sf - 2,000sf	18%
36%	Above 2,000sf	34%

PRICING BY PROJECTS		
2022		2023
27%	Below RM400,000	28%
39%	RM401,000 - RM600,000	54%
32%	RM601,000 - RM800,000	55%
23%	RM801,000 - RM1,000,000	43%
43%	Above RM1,000,000	37%

PRICE PER SQUARE FEET (PSF)		
2022		2023
55%	Below RM500	52%
36%	RM501 - RM750	40%
18%	RM751 - RM1,000	16%
7%	RM1,001 - RM1,500	9%
2%	Above RM1,500	0%

NB: The percentages shown in the table are based on our analysis of the projects that we surveyed but they are not computed based on the number of units within those projects. The way to read this table is as follows eg. based on the projects that we analysed, 56% of them included units of above 2,000 sq ft in size. It however does not mean that 56% of all the units are above 2,000 sq ft. Each project will probably only have very few units of above 2,000 sq ft in size.

A MILESTONE OF LEGACY & TRANSITION

Henry Butcher Malaysian & Southeast Asian Art Auction achieved RM2.61 million in a 3-hour auction sale on 1 October 2023.

The final showcase for Henry Butcher Malaysian and Southeast Asian Art Auction for 2023 achieved a total of RM2.61 million with 70% or 149 Lots successfully sold within a three-hour duration at Galeri Prima, Kuala Lumpur.

The Top 2 Lots for the auction were Datuk Ibrahim Hussein's *London* (2005; sold post auction privately) and Dzulkifli Buyong's *Pohon Sireh* (1990; sold during auction), sold at RM280,000 with collectors taking the chance to secure the beautiful and rare masterpieces.

Considered a household name at Henry Butcher's art auction, Datuk Ibrahim Hussein's other paintings were also sold at the event, namely *Contained* dated 1983 at RM39,200 and *Ada Mood* dated 1983-1984 was sold for RM33,600. Overall, nine out of eleven of the legendary artist's works were sold at the auction.

Another artist with multiple artworks and received great reception were Dato' Sharifah Fatimah Syed Zubir's *Totem* (1995) achieving RM69,440, *Evening Glow* (1990s) and *Night Dance 2* (1990s) at RM36,960 each.

Yusof Ghani, another familiar name, also saw his *Segerak Series 'Indulgement'* dated 2018 sold for RM35,840 while Jolly Koh's *Sunrise At A Li Shan, II* dated 2006 sold for RM47,040, Tay Bak Koi's *Untitled* painting of the buffaloes achieved RM39,200 and Khoo Sui Hoe's *The Greetings* dated 1981 was sold for RM33,600.

Other artists that enjoyed the sound of the gavel confirming the sales included Kow Leong Kiang's *Malayan Nights 1010* painting dated 2017 sold for RM35,840, Fauzan Omar's set of 9 mixed media on wood *Luminosity Series* (2019) sold at RM 56,000 and Raduan Man's exceptional *Far From Heaven II* dated 2012 sold for RM35,840.

"After seven years of holding the auction at Galeri Prima, Henry Butcher Malaysian & Southeast Asian Art Auction will be moving to a new location in 2024, ushering a new era in our journey as art auctioneers," said Sim Polenn, Director of Henry Butcher Art Auctioneers.

"Although we are leaving this place with a heavy heart, this final instalment has seen the collection picked up by both old and new faces in the art fraternity. We are absolutely thrilled to have seen this happening at the final curtain of the auction at Galeri Prima.

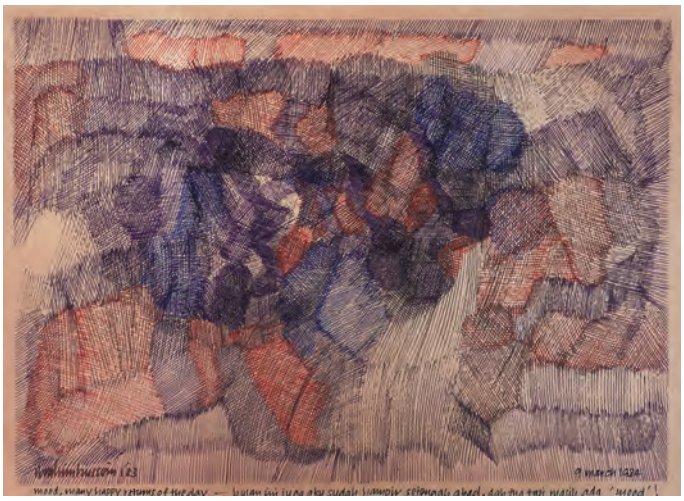
"Until next year, stay tuned as we continue to gather well deserving art pieces across Malaysia and the Southeast Asian region and showcase to our collectors once again in 2024.

"Thank you also to Galeri Prima for your support all these years."

Sim Polenn, Director of Henry Butcher Art Auctioneers.

Dzulkifli Buyong,
***Pohon Sireh*, 1990**
Sold for RM280,000.

Ibrahim Hussein, Datuk,
***Contained*, 1983**
Sold for RM39,200.



Ibrahim Hussein, Datuk,
***Ada Mood*, 1983-1984**
Sold for RM33,600.

Sharifah Fatimah Syed Zubir, Dato',
***Totem*, 1995**
Sold for RM69,440.

Tajuddin Ismail, Dato',
***May Mindscape II*, 2015**
Sold for RM28,000.

Henry Butcher Malaysian & Southeast Asian Art Auction's new location in 2024 will be at:

Hall 1, Level M,
Menara KEN TTDI,
37, Jalan Burhanuddin Helmi,
Taman Tun Dr Ismail,
60000 Kuala Lumpur.

VALUATION OF STARTUPS & EARLY-STAGE BUSINESSES

Valuation of startups and early-stage businesses has become a more prevalent topic globally as investors and business owners have increasingly focused on the importance of the valuation of such businesses/investments (and of course, monetisation!).

The startup and early-stage businesses ecosystem in Malaysia has grown rapidly particularly since 2010, with a significant increase in the number of startups and investors in the country. As per Startup Genome's 2020 Global Startup Ecosystem Report, Kuala Lumpur ranked as the 70th best startup ecosystem globally, and the 3rd best in Southeast Asia, after Singapore and Jakarta.

There are challenges including lack of capital in the country and the difficulty in scaling up. A lot of startups and early-stage businesses fail mainly due to these reasons amongst others. There is a growing culture of innovation and entrepreneurship in Malaysia, with many young people starting their own businesses instead of pursuing corporate/traditional career paths.

As such, the valuation of startups and early-stage businesses in Malaysia, whether it is for funding, M&A, strategic partnerships, shareholder purposes, is gaining importance.

Let's look at some of the typical characteristics of a startup business:

- Limited history and track record – ie. limited company history and inexperience business owners/ management.
- Lack of business, industry and financial information – ie. product or service offered that are unique and therefore its business model is untested and uncertain.
- Reliance on fundings, typically for growing market share, marketing/ advertisement, talent acquisition.
- A focus on growth, rather than profitability.
- Most of the time – a complex capital structure.

An example in the Fintech funding and valuation characteristics by stage of growth is noted in "Fintech Funding and Valuation Characteristics by Stage of Growth."

In general, there are three (3) approaches to valuation – market approach, income approach and cost approach. Typically the cost approach is not used in valuing a startup or early-stage business unless it is under a process of liquidation or having a going concern issue or it is pre-revenue but significant funds may have been deployed to develop a product or service or a technology related platform or software, etc.

The valuation of startups and early-stage businesses for transaction negotiations can be arrived at depending on factors, including but not limited to:

- The number of current and potential users/customers.
- Total current and potential revenues.
- Revenue growth trajectory.
- The business model.

Fintech Funding and Valuation Characteristics by Stage of Growth

	ART ↑ SCIENCE ↓	Startup Stage of Evolution	Source of Capital	Typical Funding Size	Typical Valuation Range	Funding Basis
1		Idea only	Bootstrap, F&F, Angel/Seed Funds	$50-100K	$500K-1.5M	Idea attractiveness and market size
2		+ Strong team	Bootstrap, F&F, Angel/Seed Funds	$100-250K	$500K-1.5M	Execution capability of founders
3		+ Demo prototype	Angel/Seed Funds	$250-500K	$2.5M	A successful working model of product/service
4		+ Validated product MVP	Angel/Seed Funds	$1.5M	$5-20M	Customer adoption and early visibility of cash flows
5		+ Rapid customer adoption	**Typical series A** Angels, seed-funds Exit, VCs increase	$5-20M	>$50M	Strongly based on growth, market share and revenue growth estimates
6		Growth Capital for viral growth over a long period	**Multiple rounds (B, C, D, E..)** VCs will start taking partial exits, PE enters in a big way	$20-100M	>$250M	Supported by ongoing rapid growth and expected market share leading to revenue/ profitability
7		Stable growth	Stable growth	>$100M	>$500M	Profitability/Cash flows based

Source: Toptal

- Uniqueness of product/service.
- The market niche.
- The technology/Intellectual Property (IP) value.

It also reflects the relative negotiating power of each party involved.

An overview of expected rates of return by Venture Capitalists (VCs) based on four studies are noted in Table 1.

Some of the methods for early-stage or startups company valuation include:

Scorecard Valuation - Method
In most industries/sectors, in general, pre-revenue startups' pre-money valuation does not vary too significantly from one industry/sector to another given the limited information and uncertainties involved. This method compares the subject company to broadly similar angel-funded startups and adjusts the average valuation of recently funded companies in the relevant industry/sector to establish a pre-money valuation. However, comparisons can only be made for companies at the same stage of development.

Berkus Method
This method was invented in the 1990s by Dave Berkus, a well-known US angel investor and venture capitalist. According to him - fewer than one in a thousand startups meet or exceed their projected revenue in the projected period and as such at that stage, key strength and weakness factors which are highly subjective, provide a good guide for valuation.

This is a basic and convenient rule of thumb or framework to estimate the value of a pre-revenue start-up for entrepreneurs and early-stage investors based on risk factors as financial projections at that stage are highly uncertain or not that meaningful. Just because it's basic and simple, doesn't mean that detailed fact-finding or comprehensive due diligence should not be done.

Comparable Transactions Valuation - Method
This is one of the most popular start-up valuation methods as it's built on precedent. What one is trying to answer, "How much were similar start-ups acquired for?"

This method is part of the multiples analysis and is also known as multiples relative valuation, transaction multiples valuation etc. Where financial indicators may not be available, other indicators can be used.

It provides an indicator of value which will be a proxy for the value of an early-stage company. This indicator can be specific to the industry/sector: which could be: Monthly Transactions (e-commerce), Monthly Recurring Revenues (SaaS), Asset Under Management (Wealth Management), Patents Filed (Biotech), Number of Outlets (Retail). Most of the time, one can just take the key financial matrix from P&L: revenue, gross margin, EBIT/EBITDA etc.

First Chicago Valuation - Method
The First Chicago method is used either in the Venture Capital method or the DCF method.

Once the method is chosen, it considers the worst-case, average/base-case and best-case valuation outcomes under that method.

By combining the 3 scenarios with realistic probabilities of each of the 3 scenarios, a weighted average valuation can be arrived at.

Venture Capital Method
It is used in the case of pre-revenue company valuation for pre-money valuations.

It provides another option to consider for pre-revenue valuation. It also reflects the mindset of VC investors who are considering exiting a business after making the required return within a certain timeframe.

Table 1 - 4 Studies of Venture Capitalists' Expected Returns

Stage of Development	Plummer/ QED Media	Scherlis and Sahlman	Sahlman, Stevenson and Bhide	Damodaran
Seed Stage	50% to 70%	50% to 70%	50% to 100%	50% to 70%
First Stage	40% to 60%	40% to 60%	40% to 60%	40% to 60%
Second Stage	35% to 50%	30% to 50%	30% to 40%	35% to 50%
Bridge/IPO	25% to 35%	20% to 35%	20% to 30%	25% to 35%

Source: KPMG Quarterly Brief, Q2, 2021

Back Solved Method
This method is more commonly used for startups who have successfully completed a fundraising exercise (usually through issuance of shares other than the common shares). When an exit event is not imminent, the appropriate models to measure the fair value of a company with a complex capital structure are:

- the Probability Weighted Expected Return Method (PWERM)
- the Option Pricing Method (OPM)

While the choice of the model(s) is often dictated by facts and circumstances – for example, the company's stage of development, visibility into exit avenues etc. – using either the PWERM or the OPM requires several key assumptions that may be difficult to source or support for pre-public, often pre-profitable, companies.

This method is particularly useful for startup companies granting equity-based compensation which require valuation for financial reporting purposes.

Conclusion
Ultimately, any business valuation and more so, startups and early-stage businesses valuation, is an art and not a science. It requires significant experience, judgement and deep qualitative and quantitative analysis to arrive at a reasonable and defensible valuation. The Malaysian startup and early-stage businesses ecosystem will benefit from experienced professional valuers to be part of that ecosystem.

This article is written by Adie Gupta, Managing Director and Nai Siu Loon, Director of Spring Galaxy, an Associate of Henry Butcher Malaysia. Adie and Siu Loon provide valuation and related advisory services to the corporate sector in Malaysia, Singapore and the wider AsiaPac region.

Spring Galaxy is a corporate advisory firm specialising in business valuations and transaction support services. For more information, please visit www.springgalaxy.com

HENRY BUTCHER
ART AUCTIONEERS

Malaysian & Southeast Asian Art Auction
JANUARY 2024

Venue: Hall 1, Level M, Menara KEN TTDI

AWANG DAMIT AHMAD
Essence Of Culture (E.O.C.) "Approaching The Season", 1994, mixed media on canvas, 182 x 76cm each (triptych)

2016 **RM 2.4** million auction sales
2017 **RM 3.3** million auction sales
2018 **RM 5.8** million auction sales
2019 **RM 8.3** million auction sales
2020 **RM 8.5** million auction sales
2021 **RM 11.6** million auction sales
2022 **RM 8.4** million auction sales
2023 **RM 8.9** million auction sales

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