

## **MAH SING GROUP BERHAD (“MAH SING” OR “COMPANY”)**

**PROPOSED ACQUISITION OF ALL THAT PIECE OF PRIME FREEHOLD LAND IN PYKETT AVENUE, GEORGETOWN MEASURING IN TOTAL APPROXIMATELY 13,694.94 SQUARE METRES (3.38 ACRES), THROUGH MAH SING’S WHOLLY-OWNED SUBSIDIARY, KLASSIK TROPIKA DEVELOPMENT SDN BHD FROM KHAW BIAN CHENG SDN BHD FOR A TOTAL CASH CONSIDERATION OF RM38,651,118 OR APPROXIMATELY RM262.19 PER SQUARE FOOT**

### **1. INTRODUCTION**

The Board of Directors of Mah Sing (“**Board**”) wishes to announce that its wholly-owned subsidiary, Klassik Tropika Development Sdn Bhd (“**Klassik Tropika**”), had on 2 December 2009, entered into a sale and purchase agreement (“**SPA**”) with Khaw Bian Cheng Sdn Bhd (“**Vendor**”) for the proposed acquisition of all that piece of prime freehold land in Pykett Avenue, Georgetown, Penang measuring in total approximately 13,694.94 square metres (147,416 square feet or 3.38 acres) held under GRN (First Grade) 33671, Lot No. 951, Seksyen 13, Bandar Georgetown, Daerah Timor Laut, Pulau Pinang bearing address No. 20, Pykett Avenue, 10400 Penang (“**Land**”) for a total cash consideration of RM38,651,118 or approximately RM262.19 per square foot (“**Proposed Acquisition**”).

The Land is located along Pykett Avenue off Jalan Burma in the heart of Georgetown, Penang island and will be developed into a high end condominium with an estimated gross development value of approximately RM280million. Klassik Tropika will be procuring development order in respect of the proposed development from the relevant authorities for approval. Therefore, it is currently too preliminary to ascertain the total development cost and the expected profit to be derived from the proposed development. Subject to authorities’ approval, the proposed development is expected to commence in the second half of year 2010 and to be developed over a span of 3 years.

The acquisition is strategic as it allows the Group to tap on the success and spillover demand of Mah Sing’s Residence@Southbay project in Batu Maung. Residence@Southbay comprises superlink homes and the launched phases are currently 90% sold. The encouraging take-up reflects Mah Sing’s strong branding in Penang island and the Group is confident of replicating that success with the new condominium project.

### **2. THE PROPOSED ACQUISITION**

The details of the Proposed Acquisition are as follows:-

#### **2.1 Information on Klassik Tropika**

Klassik Tropika is a private limited company incorporated in Malaysia on 19 August 2009 under the Companies Act, 1965. The present authorised share capital of Klassik Tropika is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which 2 ordinary shares of RM1.00 each have been issued and fully paid-up. Presently, Klassik Tropika is dormant.

#### **2.2 Information on the Vendor**

The Vendor is a private limited company incorporated in Malaysia on 26 October 1979 under the Companies Act, 1965. It was incorporated under the name of Bian Hum Sdn Bhd and subsequently changed to its present name Khaw Bian Cheng Sdn Bhd on 1 September 1982. The present authorised share capital of the Vendor is

RM30,000,000 comprising 30,000,000 ordinary shares of RM1.00 each. The present authorised share capital of the Vendor is RM2,000,000 comprising 2,000,000 ordinary shares of RM1.00 each, which have been issued and fully paid-up. The Vendor is principally involved in property investment.

### **2.3 Information on the Land and its proposed development**

The Land is a first grade freehold land and its current category of land use is “none”. The Land is subject to two private caveats lodged by Gloria Bay Sdn Bhd and Khaw Cheng Bok (“**Private Caveat**”). Presently, there is a dilapidated unoccupied small bungalow erected on the Land. The Vendor shall transfer the Land free from all encumbrances and with vacant possession.

The land is located along Pykett Avenue and Westland Road, and is close to Burma Road and Anson Road. The Land is proposed to be developed into a high end condominium. The location is well established and is considered a high end area in Penang island. The Land is in a matured area and is surrounded by residential dwellings and some low rise condominiums.

It is also a stone throw away from major establishments such as Chinese Recreation Club and Penang Plaza along Burma Road, Wisma Persekutuan (Federal Government Building) and TNB Building along Anson Road.

Other landmarks nearby include KOMTAR, the State Administrative Centre which is about 1.5km away. The commercial and tourism areas of Gurney Drive and Pulau Tikus are also about 1.5 to 2km away and house hotels like Evergreen Laurel Hotel, G-Hotel, Gurney Hotel and Northam Hotel, shopping complexes such as Gurney Plaza and one of Penang island’s most famous tourist spot, the Gurney Hawker Centre.

The location ensures that the land is served by a comprehensive range of amenities and facilities, and there are also three schools adjacent to the land namely SMK Pykett Methodist, SMK Westland and SJKC Union.

### **2.4 Basis of purchase price for the Land**

The total purchase price for the Land amounting to RM38,651,118 (“**Purchase Price**”) was arrived at between the parties on a “willing-buyer willing-seller” basis after taking into consideration the development potential of the Land arising from its ready infrastructure and established location in the heart of Georgetown with good accessibility through some major roads and close proximity to comprehensive range of amenities and facilities. The development can also capitalise on the ready catchment of population from matured housing areas within Georgetown.

No valuation was carried out on the Land and Mah Sing is unable to disclose the net book value of the Land as Mah Sing is not privy to this information.

### **2.5 Salient terms of the SPA**

The salient terms of the SPA are as follows:

#### **2.5.1 Terms of payment of the Purchase Price**

The Purchase Price of the Land shall be paid in the following manner:

- (a) the deposit equivalent to 10% of the total Purchase Price amounting to RM3,865,111.80 shall be paid by Klassik Tropika to the Vendor’s solicitor as stakeholder upon execution of the SPA; and

- (b) the balance purchase price equivalent to 90% of the total Purchase Price amounting to RM34,786,006.20 ("**Balance Purchase Price**") shall be paid by Klassik Tropika to the Vendor within three (3) months from the date of SPA or one (1) month from the date of Klassik Tropika's solicitor being informed that the Private Caveat has been withdrawn or removed by order of court, whichever shall be later.

#### **2.5.2 Removal of Private Caveat**

The Vendor shall at its own cost and expense cause the Private Caveat being withdrawn or removed by an order of court within six (6) months from the SPA with an extension of three (3) months.

The Vendor shall transfer the Land free from encumbrances and with vacant possession pursuant to the date of SPA.

#### **2.6 Source of funding**

The Group intends to fund the Proposed Acquisition and the development cost of the Land through internally generated funds and/or bank borrowings. The exact mix of internally generated funds and bank borrowings will be decided by the management of the Group at a later stage. The management of the Group will choose the most optimum mix taking into consideration, its gearing level, interest costs as well as internal cash requirements for its business.

#### **2.7 Assumption of liabilities**

There are no other liabilities, including contingent liability and guarantee, to be assumed by the Group arising from the Proposed Acquisition.

### **3. RATIONALE FOR THE PROPOSED ACQUISITION**

Mah Sing Group's expansion strategy is to acquire choice land bank in multiple prime locations in Klang Valley, Kuala Lumpur, Penang and Johor Bahru for their Commercial, Legenda, Residence and Perdana series which targets different segments of the medium to high end property market. This would allow Mah Sing Group to capture a larger share of the market via simultaneous launches in matured areas and continue their high take-up rates.

Furthermore, rarely does a large piece of prime land become available in the heart of Georgetown. The Group will capitalize on the sea view to the Northeast and mountain view to the Southwest for the proposed development. The Proposed Acquisition further attests to Mah Sing's proven track record in implementing its landbanking strategy to achieve sustainable earnings growth and visibility.

The landbank fits the Group's immediate term strategy of focusing on niche medium to high end commercial and residential projects as it is profitable and cash generative. Furthermore, the Group has established a strong branding in Penang island with the success of Residence@Southbay in Batu Maung.

#### **4. PROSPECTS AND RISK FACTORS**

The Malaysian economy registered an improvement in the third quarter with a reduced contraction of 1.2% in the third quarter of 2009 (2Q 09: -3.9%) amidst positive growth in domestic demand and stabilisation of external demand. The growth impetus emanated mainly from domestic demand, as a result of stronger private consumption and higher public sector spending. Headline inflation rate, as measured by the change in the Consumer Price Index (CPI), declined by 2.3% on an annual basis in the third quarter (2Q 09: 1.3%).

The Overnight Policy Rate (OPR) was left unchanged at 2.00% in the third quarter, in line with the assessment that the accumulated monetary policy easing continued to provide support to economic activity over the medium term.

There have been increasing signs of improvements in international economic and financial conditions in the third quarter. Economic activity in the advanced economies continued to stabilise while several regional economies have recorded positive growth in the third quarter. This positive trend is expected to continue going into 2010. While these improvements are positive, the pace of recovery in the global economy is likely to be gradual and uneven, and the outlook remains uncertain, in particular once the effects of the significant policy support begins to diminish.

The Malaysian economy has exhibited stronger signs of improvement in the third quarter and evidence suggests that domestic economic activity is gaining strength. Domestic demand, particularly private consumption and public sector spending, has been the main impetus of growth. Going forward, the pace of economic recovery is expected to gain momentum, as business and consumer sentiment improve further in an environment of continued implementation of fiscal measures, accommodative monetary policy and continued access to financing. In addition, the gradual improvement in the global economy will continue to contribute positively to the recovery of the domestic economy.

(Source: Bank Negara Malaysia – Economic & Financial Developments in Malaysia in 3Q09 – 20 November 2009)

Outlook for residential properties in Penang is promising as the residential stock overhang in the state is the lowest of the big-3 markets (Klang Valley, Johor and Penang). Unsold residential property in Penang has nearly halved from five years ago (whereas for Malaysia as a whole, it was largely unchanged). (Source: Napic)

Furthermore, the government has liberalized the property sector to facilitate greater property transactions and investments. This augur well for the property sector and are expected to have a favourable broad-based impact to boost local and foreign demand given that property prices in Malaysia are still amongst the lowest in the region.

In view of the above, the management of Mah Sing is of the view that prospects for the proposed developments are positive and is not aware of any risk factors arising from the Proposed Acquisition other than the normal market and global economic risks.

#### **5. EFFECTS OF THE PROPOSED ACQUISITION**

##### **5.1 Share capital and shareholdings of substantial shareholders**

The Proposed Acquisition has no impact on the issued and paid-up share capital of Mah Sing and the shareholdings of the substantial shareholders of Mah Sing as the Purchase Price is to be satisfied wholly by cash and does not involve any issuance of new ordinary shares in Mah Sing.

## **5.2 Earnings**

The Proposed Acquisition is not expected to have any material impact on the earnings of the Group for the financial year ending 31 December 2009 as the development of the Land is expected to commence in the second half of year 2010. The development of the Land is expected to enhance the earnings of the Group in future years.

## **5.3 Net assets**

The Proposed Acquisition will not have any effect on the net assets per share of the Group. However, in view of the potential future profit contribution arising from the development of the Land, the net assets of the Group are expected to be enhanced over time.

## **5.4 Gearing**

As set out in section 2.6 herein, the Purchase Price is expected to be funded from the Group's internally generated funds and/or bank borrowings. The exact mix of internally generated funds and bank borrowings will be decided by the management of the Group at a later date.

However, for the purpose of this announcement and for illustrative purposes, based on the latest audited consolidated financial statements of Mah Sing as at 31 December 2008 and the assumption that RM30.9 million representing 80% of the Purchase Price is financed through external borrowings to be procured by the Group for the Proposed Acquisition, the proforma net gearing ratio is 0.13 times as compared with net gearing ratio of 0.07 times based on the audited consolidated financial statements of Mah Sing for the financial year ended 31 December 2008.

## **6. APPROVALS REQUIRED**

The Proposed Acquisition does not require approval from the shareholders of Mah Sing and not subject to any government authorities' approval.

The highest percentage ratio applicable to the transaction pursuant to paragraph 10.02(g) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements is 5.6%.

## **7. ESTIMATED TIME FRAME FOR COMPLETION OF THE PROPOSED ACQUISITION**

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed in the next financial year ending 31 December 2010.

## **8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST**

Insofar as the Directors are aware, none of the Directors and/or major shareholders of Mah Sing and/or persons connected to them have any interests, direct or indirect, in the Proposed Acquisition.

**9. DIRECTORS' RECOMMENDATION**

The Board of Mah Sing, having considered all aspect of the Proposed Acquisition, is of the opinion that the Proposed Acquisition is in the best interest of the Group.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

The SPA is available for inspection at the registered office of the Company at Penthouse Suite 1, Wisma Mah Sing, No. 163 Jalan Sungai Besi, 57100 Kuala Lumpur, during normal business hours from Mondays to Fridays (except for public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 2 December 2009.