

Type : **Announcement**

Subject

**MELATI EHSAN HOLDINGS BERHAD ("MELATI" or "THE COMPANY")  
JOINT VENTURE AGREEMENT ENTERED INTO BY BAYU MELATI SDN. BHD., A  
WHOLLY-OWNED SUBSIDIARY OF MELATI AND PKNS HOLDINGS SDN. BHD. FOR  
THE PROPOSED DEVELOPMENT OF THREE PIECES OF FREEHOLD COMMERCIAL  
LANDS LOCATED AT KELANA JAYA, SELANGOR**

Contents :

**1. INTRODUCTION**

The Board of Directors of Melati wishes to announce that Bayu Melati Sdn. Bhd. (Company No. 415653-V) ("BMSB" or "the Developer"), a wholly-owned subsidiary of Melati, had on 28 January 2011 entered into a Joint Venture Agreement ("JVA") with PKNS Holdings Sdn. Bhd. (Company No. 190684-D) ("PKNS Holdings"), a subsidiary of Perbadanan Kemajuan Negeri Selangor ("PKNS") for the proposed development of three pieces of freehold commercial lands collectively having a land area of 75,473 square metres with a Sports Complex known as "Kompleks Sukan PKNS" ("the Land") located at Kelana Jaya, Selangor into a mixed commercial development in accordance with the approved plans and specifications subject to the terms and conditions contained in the JVA ("Proposed Joint Venture").

**2. DETAILS OF THE PROPOSED JOINT VENTURE**

**2.1 BACKGROUND INFORMATION AND DETAILS OF THE PROPOSED JOINT VENTURE**

PKNS Holdings was incorporated in Malaysia under the Companies Act, 1965 on 11 December 1989 as a private limited company. PKNS Holdings is involved in the business of construction, property development and investment holding and is a wholly-owned subsidiary of PERBADANAN KEMAJUAN NEGERI SELANGOR ("PKNS"), a statutory body incorporated under the Selangor State Development Corporation Enactment 1964, and is an economic development arm of the state of Selangor.

PKNS is the registered owner of the Land which comprises three pieces of freehold commercial lands held under the following title nos:-

- (i) Geran 102862, Lot 36473, Seksyen 40, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor measuring approximately 14,689 square metres;
- (ii) HS(D) 245808, PT 235, Seksyen 40, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor measuring approximately 57,541 square metres; and
- (iii) Geran 90689, Lot 36471, Seksyen 40, Bandar Petaling Jaya, Daerah Petaling, Negeri Selangor measuring approximately 3,243 square metres

and collectively having a land area of 75,473 square metres currently with a Sports Complex known as "Kompleks Sukan PKNS".

By a Development Return Agreement and a Power of Attorney both dated 28 January 2011 made between PKNS Holdings and PKNS, and in consideration of PKNS Holdings paying returns to PKNS, PKNS as the registered owner has delivered a Power of Attorney in favour of PKNS Holdings or any of its nominees to allow PKNS Holdings or its nominees to develop the Land subject to the terms and conditions as set out in the Development Return Agreement.

PKNS Holdings and BMSB have entered into the JVA for the purposes of carrying out the proposed development on the Land in accordance with the approved plans and specifications subject to the terms and conditions contained in the JVA and to the extent where applicable, to the Development Return Agreement, the funding of the development costs by BMSB and the sale of the properties contained in the proposed development.

The proposed development entails the construction, completion and sale of 2 blocks of Service Apartments, 1 block of Soho Offices, 1 Sports Complex, 2 blocks of Office Tower, 1 Shopping Mall, 1 Hotel, 1 Performing Arts Centre and car park lots on the Land together with infrastructure and landscaping to be carried out by BMSB in accordance with the terms and conditions of the JVA (“the Development”).

The projected gross sales value of the Development is estimated at approximately RM1.623 billion subject to revision depending on market supply and demand conditions. The projected gross costs value of the Development is estimated at RM1.070 billion subject to changes as BMSB may propose improvements to the building and layout plans, design, building works and other features of the Development.

## **2.2 SALIENT TERMS OF THE JVA**

The salient terms of the JVA are as follows:-

### **2.2.1 BMSB’S Duties and Obligations**

Subject to the terms and conditions of the JVA and in consideration of and in exchange for the obligations of PKNS Holdings under the JVA, BMSB shall carry out the implementation, construction and completion of all works in connection with the Development at its own sole costs and expenses and be entitled to sell and deal with (save and except the Sports Complex and Performing Arts Centre which shall be surrendered to PKNS Holdings upon completion thereof) and receive the sale proceeds thereof. BMSB shall be fully responsible for obtaining all financing required to carry out the Development without any recourse to PKNS Holdings. BMSB shall cause its directors and its holding company, Melati, (collectively “the Guarantors”) to provide PKNS Holdings with a directors’ guarantee (“Directors’ Guarantee”) and corporate guarantee (“Corporate Guarantee”) for a sum equivalent to 100% of PKNS Holdings’ Entitlement (as hereinafter defined) before the launching of the Development. BMSB shall undertake to pay PKNS Holdings’ Entitlement to PKNS Holdings as set out in the terms of payment of the Land and in the JVA.

### **2.2.2 PKNS Holdings’ Warranty as to the Land**

PKNS Holdings warrants that as at the date of the JVA, there are no outstanding claims, demands, notices or liabilities of any kind (including the payment of the relevant conversion and subdivision premium which has been borne and paid by PKNS Holdings to the State Authority) whether arising by statute or otherwise in respect of the Land. PKNS Holdings warrants that it is the beneficial owner of the Land and that it has the full power to enter into the JVA and to give effect thereto by virtue of the Power of Attorney and Development Return Agreement. PKNS Holdings further warrants that the category of land use of the Land is “Building” for commercial purposes and the premiums for the conversion thereof have been paid by PKNS Holdings and shall not form part of the development costs.

### **2.2.3 PKNS Holdings' Entitlement and Method of Payment**

- (a) As consideration to PKNS Holdings for the Land, BMSB shall pay to PKNS Holdings out of its own financial resources and/or financing, seventy per centum (70%) of the total projected gross profits from the actual sales value of the Development as determined by the terms of the JVA or Ringgit Malaysia Three Hundred Eighty Seven Million Forty Six Thousand Five Hundred and Seventy Eight and Sen Fifty Two (RM387,046,578.52) whichever is higher and the surrender of the Sports Complex and Performing Arts Centre to PKNS Holdings upon completion, in the following manner as stipulated in the JVA ("PKNS Holdings' Entitlement"):-
- (i) the initial payment of Ringgit Malaysia Five Million (RM5,000,000.00) only to be paid upon execution of the JVA;
  - (ii) the balance of PKNS Holdings' Entitlement shall be paid in accordance with the payment schedule as follows:-
    - a) Ringgit Malaysia Ten Million (RM10,000,000.00) only shall be paid on or before 31 December 2012;
    - b) Ringgit Malaysia Ten Million (RM10,000,000.00) only shall be paid on or before 31 December 2013;
    - c) Ringgit Malaysia Fifty Million (RM50,000,000.00) only shall be paid on or before 31 December 2014;
    - d) Ringgit Malaysia Fifty Million (RM50,000,000.00) only shall be paid on or before 31 December 2015;
    - e) Ringgit Malaysia Fifty Million (RM50,000,000.00) only shall be paid on or before 31 December 2016;
    - f) Ringgit Malaysia Sixty Million (RM60,000,000.00) only shall be paid on or before 31 December 2017;
    - g) Ringgit Malaysia Sixty Five Million (RM65,000,000.00) only shall be paid on or before 31 December 2018;
    - h) Ringgit Malaysia Eighty Seven Million Forty Six Thousand Five Hundred Seventy Eight and Sen Fifty Two (RM87,046,578.52) only shall be paid upon completion of the Development or on or before 31 December 2019 whichever is the earlier and the surrender of the Sports Complex and Performing Arts Centre to PKNS Holdings.
  - (iii) BMSB shall make full payment of PKNS Holdings' Entitlement for each phase of the Development within twelve (12) months from the date of issuance of the Certificate of Completion and Compliance for each phase of the Development.
- (b) Without prejudice to PKNS Holdings' rights to receive payment under the JVA, if BMSB fails to complete the Development within the Completion Date for Development, BMSB shall first pay the entire balance of PKNS Holdings' Entitlement outstanding as at the Completion Date for Development before it can resume completion of the Development failing which BMSB shall pay interest on such entire balance due from the date of such failure to the date of actual payment on such entire balance outstanding (including after judgment) at the rate of ten per centum (10%) per annum and such interest shall be payable on demand.

- (c) The veracity of the whole PKNS Holding's Entitlement under the JVA shall be subject to the final sales revenue accounts of the phases of the Development to be submitted by BMSB for PKNS Holdings' approval whether the sales revenue shall be secured during the Completion Date for Development or the Extension Period of Completion Date, as the case may be.
- (d) PROVIDED ALWAYS that if the actual sales income of each phase of the Development is less than the Projected Gross Sales Value of each phase of the Development, then the shortfall shall be borne solely by BMSB without affecting PKNS Holdings' Entitlement for each phase. BMSB shall not utilise any surplus earned from any earlier phase(s) of the Development to off-set any shortfall from the later phase(s) of the Development.
- (e) BMSB shall within twelve (12) months from the date of completion and issuance of Certificate of Completion and Compliance for each phase of the Development prepare and finalise the final account for each completed phase in the Development for PKNS Holdings' verification and approval.
- (f) As security for the payment of PKNS Holdings' Entitlement, BMSB shall cause the Guarantors to execute the Directors' Guarantee and Corporate Guarantee.

### **2.3 Conditions Precedent**

The JVA is subject to the fulfillment and satisfaction of the following conditions precedent:-

- (a) the JVA and the Development Return Agreement shall have been duly executed and stamped;
- (b) PKNS Holdings' solicitors shall have received a certified true copy of the BMSB's Board of Directors' Resolution authorising the acceptance and the execution of the JVA;
- (c) PKNS Holdings' solicitors shall have received a certified true copy of the Memorandum and Articles of Associations and all the incorporation documents including the latest and up to-date Forms 24 and 49 of BMSB and PKNS Holdings' solicitors are satisfied that BMSB has the necessary powers to issue and execute deliver and perform its obligations under the JVA; and
- (d) PKNS Holdings shall have received the duly executed and stamped Directors' Guarantee from the directors of BMSB and the Corporate Guarantee.

In the event of non fulfilment or satisfaction of the conditions precedents within a period of three (3) month from the date of the JVA and unless extended by mutual agreement of both parties, PKNS Holdings shall be entitled to terminate the JVA and refund to BMSB without interest whatsoever the money paid by BMSB to PKNS Holdings under the JVA and thereafter the JVA shall become null and void and shall have no further legal effect whatsoever and BMSB shall have no claim of whatsoever nature against PKNS Holdings notwithstanding that all relevant approval may have been obtained within the aforesaid period.

## **2.4 Commencement And Completion of Development**

BMSB shall mobilise and execute the Development of the Land within six (6) months from the overall layout approval and the Phase 1 building plan approval being obtained for the Development from the relevant authority provided that vacant possession of the Land has been delivered to BMSB by PKNS Holdings. BMSB shall carry out the Development in phases and the completion date for the Development of the Land shall be seven (7) years commencing from the overall layout approval and Phase 1 building plan approval for the Development from the relevant authority.

## **3. SOURCES OF FUNDING**

The development costs are expected to be funded by Melati's internally generated funds and/or borrowings. The eventual mix of internally generated funds and bank borrowings will be decided later after taking into consideration the total development costs, its interest cost, appropriate gearing level and future cashflow requirements.

## **4. RATIONALE FOR THE PROPOSED JOINT VENTURE**

The Proposed Joint Venture is an excellent opportunity for Melati to embark on a new mixed commercial development to capitalise on the existing demand for such properties within the popular Kelana Jaya area where it does not possess any land bank. The track record and corporate image of the joint venture partner and its holding company is expected to enhance the saleability of the properties in the Development project. The Proposed Joint Venture is expected to contribute to the medium and long term profitability of the Group.

## **5. EFFECTS OF THE PROPOSED JOINT VENTURE**

The effects of the Proposed Joint Venture are as follows:-

### **5.1 Share Capital and Substantial Shareholders' Shareholding**

The Proposed Joint Venture will not have any effect on the share capital and substantial shareholders' shareholding of Melati as the construction cost shall be satisfied in cash.

### **5.2 Earnings and Net Assets Per Share**

The Proposed Joint Venture is not expected to have any material impact on the earnings and net assets per share of the Group for the financial year ending 31 August 2011.

However, the Proposed Joint Venture is expected to contribute positively to the future earnings of the Group. In view of the potential future profit contribution arising from the proposed development of the Land, the net assets of the Group are expected to be enhanced over time.

### **5.3 Gearing**

The Proposed Joint Venture is expected to be funded by Melati's internally generated funds and/or borrowings. The eventual mix of internally generated funds and bank borrowings will be decided later after taking into consideration the total development costs, its interest cost, appropriate gearing level and future cashflow requirements. However, bank borrowings, if any, are not expected to have a significant financial effect on the gearing of the Group for the financial year ending 31 August 2011.

## **6. APPROVAL REQUIRED**

Other than the approvals from the relevant authorities for the proposed Development and fulfilment of the Conditions Precedent as set out above, the Proposed Joint Venture is not subject to approval from any other authority.

As the Proposed Joint Venture is of a revenue nature in the ordinary course of business, it is not subject to the approval of the shareholders of Melati.

## **7. RISK FACTORS AND PROSPECTS OF THE PROPOSED JOINT VENTURE**

The overall economic conditions and governmental policies of the country may have an impact on the property development industry in general. Apart from the normal property market and global economic risks, the Board is not aware of any risk factors arising from the Proposed Joint Venture.

The Land is strategically located at a prime location at Kelana Jaya which is accessible via an integrated good network of roads and infrastructure and within the vicinity of matured and thriving neighbourhoods in Petaling Jaya, Selangor. The prospects of the proposed Development are therefore considered as positive in view of its strategic location with positive commercial and residential property development potential.

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

None of the Directors and/or Major Shareholders of Melati and/or persons connected to them has any interest, direct or indirect, in the Proposed Joint Venture.

## **9. DIRECTORS' RECOMMENDATION**

The Board of Directors of Melati, after having considered all aspects of the Proposed Joint Venture, is of the opinion that the terms and conditions of the JVA are fair and reasonable and are in the best interests of the Group.

## **10. DOCUMENTS FOR INSPECTION**

A copy of the JVA is available for inspection at the Registered Office of Melati at No. 5, Jalan Titiwangsa, 53200 Kuala Lumpur during normal office hours between Monday and Friday (except public holidays).

The announcement is dated 28 January 2011.

c.c. to: The Securities Commission