EASTERN & ORIENTAL BERHAD ("E&O" or "COMPANY")

SHAREHOLDERS' AGREEMENT BETWEEN GALAXY PRESTIGE SDN BHD, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF EASTERN & ORIENTAL BERHAD ON THE ONE PART AND PULAU INDAH VENTURES SDN BHD, A 50:50 JOINT VENTURE BETWEEN SUBSIDIARIES OF KHAZANAH NASIONAL BERHAD AND TEMASEK HOLDINGS (PRIVATE) LIMITED ON THE OTHER PART, FOR THE ESTABLISHMENT OF A JOINT VENTURE COMPANY, NURI MERDU SDN BHD

1. INTRODUCTION

The Board of Directors of E&O is pleased to announce that Galaxy Prestige Sdn Bhd ("Galaxy Prestige") has on 28 June 2011 entered into the Shareholders' Agreement for Joint Venture Company ("Shareholders' Agreement") with Pulau Indah Ventures Sdn Bhd ("Pulau Indah Ventures") to establish a 50:50 joint venture company ("JVC") named Nuri Merdu Sdn Bhd ("Proposal").

Galaxy Prestige is an indirect wholly-owned subsidiary of E&O.

Pulau Indah Ventures is a 50:50 commercial joint venture between Teluk Rubiah Ventures Sdn Bhd ("Teluk Rubiah Ventures") and Aneto Investments Pte. Ltd. ("Aneto Investments") to undertake the development of an iconic wellness township project in Iskandar Malaysia.

Teluk Rubiah Ventures is a wholly-owned subsidiary of Khazanah Nasional Berhad.

Aneto Investments is an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited.

2. DETAILS OF THE PROPOSAL

2.1 Salient terms of the Shareholders' Agreement

The salient terms of the Shareholders' Agreement are as follows:-

2.1.1 The business of the JVC shall be to acquire the lease over the land measuring approximately 210 acres held under title no. HS(D) 453632, PTD 154499, Mukim Pulai, Daerah Johor Bahru and identified as Zone E of a development known as Medini Iskandar Malaysia, Nusajaya ("Land") or part(s) thereof, whether all at once or otherwise free from encumbrances, and to undertake the development of the same, which may include wellness-related offerings ("Proposed Development");

2.1.2 Galaxy Prestige and Pulau Indah Ventures shall contribute capital up to RM93.00 million in their respective shareholding proportions, via equity and/or shareholders' loans/other forms of securities, to fund the working capital and such other needs of JVC, including acquisition costs for the lease in respect of the Phase 1 Land (as defined in Section 2.3 below);

2.1.3 Galaxy Prestige and Pulau Indah Ventures cannot sell their shares in JVC to unrelated parties for as long as development is ongoing;

2.1.4 JVC shall have four Directors; two each to be nominated by Galaxy Prestige and Pulau Indah Ventures respectively;

2.1.5 a Management Committee shall be established to attend to operational matters;

2.1.6 E&O Group will provide project management services and sales and marketing consultancy services to JVC; and

2.1.7 some shareholders' Reserved Matters requiring unanimity of vote of Galaxy Prestige and Pulau Indah Ventures are as follows:

(i) approval and changes to the Revised Master Development Plan (as defined in Section 2.3.4 below);

(ii) changes to the Memorandum and Articles of Association, share capital and business of JVC;

(iii) borrowings, creating charges, acquisitions and disposals above certain thresholds; and

(iv) listing and other corporate proposals.

With regard to the Land, JVC will subsequent to the execution of the Shareholders' Agreement and the establishment of JVC, enter into a conditional Lease Purchase Agreement with Pulau Sibu Ventures Sdn Bhd ("Vendor") to purchase the lease over the Land ("LPA").

2.2 Background information on the Land

Iskandar Investment Berhad ("IIB"), a 60% owned subsidiary of Khazanah Nasional Berhad, is the registered proprietor of the freehold Land.

Medini Iskandar Malaysia Sdn Bhd ("MIM") has been appointed as the project development vehicle in respect of the Land and has been authorised by IIB to facilitate matters relating to the Approved Master Development Plan for the Land. Towards this end MIM was, inter alia, granted a lease over the Land by IIB.

Medini Central Sdn Bhd (formerly known as Cultural Cluster Sdn Bhd) ("MCSB") acquired a lease over the Land and the right to develop the same. The lease over the Land has a total permitted gross floor area of 14,000,000 square feet under the current Approved Master Development Plan.

The Vendor has entered into a principal lease purchase agreement dated 27 June 2011 with MCSB to acquire the lease over the Land and the transferable right to develop the same. Presently the lease over the Land has a tenure of 99 years from 15 February 2008 with a three- (3) year extension thereof.

2.3 Salient terms of the LPA

The salient terms of the LPA will be as follows:-

2.3.1 the LPA sets out:-

(i) the sale and transfer of the lease over such part(s) of the Land to constitute the first phase of the Proposed Development ("Phase 1 Land") for a minimum consideration of RM90.00 million ("Phase 1 Lease Purchase Consideration);

(ii) the grant of an option in favour of JVC ("Phase 2 Option") to acquire the lease over such part(s) of the Land to constitute the second phase of the Proposed Development ("Phase 2 Land"); and upon exercise of the Phase 2 Option, the sale and transfer of the lease over the Phase 2 Land for a minimum consideration of RM135.00 million ("Phase 2 Lease Purchase Consideration"); and

(iii) the grant of an option in favour of JVC ("Phase 3 Option") to acquire the lease over such part(s) of the Land to constitute the third phase of the Proposed Development ("Phase 3 Land"); and upon exercise of the Phase 3 Option, the sale and transfer of the lease over the Phase 3 Land for the product of RM350.00 million minus the aggregate of the Phase 1 Lease Purchase Consideration and the Phase 2 Lease Purchase Consideration.

The total lease purchase consideration for the entire Land is RM350.00 million ("Lease Purchase Consideration");

2.3.2 The Phase 2 Option and Phase 3 Option are to be exercised by JVC within 54 months and 78 months respectively from the date the Phase 1 Lease Purchase Consideration is paid in full. In the event JVC fails to exercise the Phase 2 Option within the stipulated timeframe, JVC shall have no right to exercise the Phase 3 Option;

2.3.3 The Phase 2 Option and Phase 3 Option carry holding cost of 7% per annum on the respective lease purchase consideration pursuant to the Deed of Undertakings executed between the Vendor and Galaxy Prestige and Pulau Indah Ventures respectively and such holding costs are payable by Galaxy Prestige and Pulau Indah Ventures to the Vendor according to their shareholding proportions in JVC. Such holding cost shall commence on the date the Phase 1 Lease Purchase Consideration is paid in full, to be compounded annually, until the date the respective Phase 2 Option and Phase 3 Option is terminated, repudiated, expires or if exercised, the date of completion of the purchase pursuant to the exercise of the Phase 2 Option and/or the Phase 3 Option;

2.3.4 The purchase of the lease over the Phase 1 Land is subject to the following conditions precedent being fulfilled within twelve (12) months from the date of the LPA with an automatic extension of six (6) months thereafter:-

(i) the Vendor shall have been registered as the lessee of the Land;

(ii) revision to the Approved Master Development Plan ("Revised Master Development Plan") shall have been approved by the relevant authorities upon terms and conditions, if any, which do not substantially deviate from the Revised Master Development Plan as submitted by JVC;

(iii) JVC and the Vendor shall have identified and demarcated the Land into Phase 1 Land, Phase 2 Land and Phase 3 Land based on the approved Revised Master Development Plan;

(iv) the Vendor shall have procured IIB to apply for and obtain the approval from the relevant authorities for the conversion of the category of land use for the Phase 1 Land from "agriculture" to "building" with the expressed conditions as per the approved Revised Master Development Plan;

(v) the Vendor shall have on behalf of JVC, procured IIB to apply for sub-division of the Land to result in separate title(s) for Phase 1 Land and issuance of the Phase 1 Land titles as per the Revised Master Development Plan;

(vi) The Vendor shall procure the registration of the lease in its favour on the Phase 1 Land titles; and

(vii) JVC's application for approved developer status in the Iskandar Development Region shall have been approved.

2.4 Basis of Lease Purchase Consideration

The Lease Purchase Consideration was arrived at on a willing buyer-willing seller basis between JVC and the Vendor after taking into account, inter-alia, the development potential and prospects of the Land as set out in Sections 7 and 9 below.

2.5 Liabilities to be assumed

E&O will not assume any liabilities arising from the Proposal.

2.6 Source of funds

Galaxy Prestige will fund its portion of investments in JVC via internally generated funds, advance from its shareholder(s) and/or external borrowings.

3. INFORMATION ON GALAXY PRESTIGE

Galaxy Prestige, an indirect wholly-owned subsidiary of E&O, was incorporated in Malaysia on 31 October 1997 under the Companies Act 1965 as a private limited company. The principal activity of Galaxy Prestige is investment holding. The present authorised share capital of Galaxy Prestige is RM1,000,000.00 comprising 1,000,000 ordinary shares of RM1.00 each. The issued and paid-up capital is RM250,000.00 comprising 250,000 ordinary shares of RM1.00 each.

4. INFORMATION ON PULAU INDAH VENTURES

Pulau Indah Ventures was incorporated in Malaysia on 3 June 2011 under the Companies Act 1965 as a private limited company. Pulau Indah Ventures is a 50:50 joint venture between subsidiaries of Khazanah Nasional Berhad and Temasek Holdings (Private) Limited. The principal activity of Pulau Indah Ventures is investment holding. The present authorised share capital of Pulau Indah Ventures is RM10,000,000.00 divided into 5,500,000 ordinary shares of RM1.00 each and 450,000,000 redeemable preference shares of RM0.01 each. The issued and paid-up capital is RM2,000.00 comprising 2,000 ordinary shares of RM1.00 each

5. INFORMATION ON JVC

JVC was incorporated in Malaysia on 5 May 2011 under the Companies Act 1965 as a private limited company. The principal activity of JVC is investment holding. The present authorised share capital of JVC is RM100,000.00 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up capital is RM2.00 comprising 2 ordinary shares of RM1.00 each.

The eventual issued and paid-up share capital of JVC will depend on, amongst others, the amount of funding required for the Proposed Development and other needs of JVC, and the proportions of sources of funds between shareholders' equity capital and external financing obtained, which cannot be determined at this juncture.

The capital of JVC shall also be in the form of redeemable convertible preference shares ("RCPS"). The RCPS may be redeemed after the completion of the Proposed Development at the sole option of JVC. The redemption price for each RCPS shall be no less than the issue price of RM1.00 each and no more than RM10.00 each, to be determined at the discretion of JVC. The RCPS may also be converted into ordinary shares of RM1.00 each in JVC at the sole option of JVC at such time or times and in such manner as may be determined by the Board of Directors of JVC.

6. INFORMATION ON THE VENDOR

The Vendor was incorporated in Malaysia on 3 May 2011 under the Companies Act 1965 as a private limited company. The Vendor is a wholly-owned subsidiary of Khazanah Nasional Berhad. The principal activity of the Vendor is investment holding. The present authorised share capital of the Vendor is RM100,000.00 comprising 100,000 ordinary shares of RM1.00 each. The issued and paid-up capital is RM2.00 comprising 2 ordinary shares of RM1.00 each.

7. INFORMATION ON THE LAND AND THE PROPOSED DEVELOPMENT

The Land is a piece of freehold land. The current category of land use for the Land is “Agriculture”.

The Land is located within Medini Iskandar Malaysia (“Medini’), which is located within the Nusajaya flagship zone (“Nusajaya”) and is one of the five (5) key flagship zones under the Iskandar Development Region.

Nusajaya is intended to be one of the largest integrated urban developments in South East Asia with 24,000 acres of contiguous development-ready land. It is located west of Johor Bahru, in close proximity to the Port of Tanjong Pelepas and Gelang Patah. It is also strategically located within a 45-minute drive from Singapore’s Changi International Airport and a 20-minute drive from Johor’s Senai International Airport.

The Land is zoned within the Medini Central development cluster, which is one of the 4 major development clusters planned under the Medini, namely Medini Lifestyle, Medini Business District, Medini Central and Medini Living.

No valuation on the Land has been carried out for purpose of the LPA.

The proposed development on the Land shall be mixed, to comprise of, amongst others, terraced and semi-detached houses, bungalows, serviced apartments and condominiums, wellness centre(s), and retail and commercial properties. The Proposed Development, however, is subject to the Revised Master Development Plan being approved by the relevant authorities.

The expected development cost and development profits arising therefrom are subject to various factors including amongst others, the actual number of units and development type to be developed, contract sum(s) to be awarded for the proposed development and pricing of units, which at this juncture is difficult to ascertain with reasonable accuracy.

Development costs and working capital needs for the Proposed Development shall be funded by shareholders’ equity capital/loans, external borrowings and/or internally generated funds.

The Proposed Development is expected to commence after the completion of the purchase of lease over the Phase 1 Land by the JVC subject to all approvals from the relevant authorities being obtained. The Proposed Development is envisaged to be a long term development and the completion date cannot be determined at this juncture.

8. RATIONALE FOR THE PROPOSAL

The Proposal is in line with E&O Group's continuous effort in sourcing new landbank and property development opportunities to improve and sustain its earnings growth. The Proposed Development to be undertaken by way of joint venture represents E&O Group's first foray into a property development project in Nusajaya and as such, the Proposal will allow for further product and income stream diversification to the E&O Group.

9. FUTURE PROSPECTS OF THE LAND AND THE PROPOSED DEVELOPMENT

The Malaysian property market in general is expected to remain promising, following the Malaysia recovery from the global economic crisis due to Government's proactive measures, successful implementation of the two Economic Stimulus Packages amounting to RM67 billion, implementation of development projects under the Economic Transformation Programme and the 10th Malaysian Plan.

In year 2010, both local residential property sector and commercial property sector recorded increase in volume and value as compared to year 2009. The growth rates were underpinned by still-accommodative interest rates, ample liquidity in the local banking system, innovative payment plans and attractive financing packages employed by developers. [*Source: National Property Information Center, Malaysia Property Market 2010 Report, 20 April 2011*]

Johor Bahru's property market continued to show signs of sustainable demand and the market prices of the commercial and residential properties recorded an increase in market prices, underpinned by improving investors' interest and the impending implementation of major developments and key infrastructure within the Iskandar Malaysia by end 2011 and 2012. [*Source: Jones Lang Wootton Malaysia's Overview of the Johor Bahru Property Market in 1st Quarter 2011*]

The evidence of improved investor's interest in Iskandar Malaysia was seen in the higher than expected cumulative investment. The overall reception towards Iskandar Malaysia from around the world has been very encouraging with 51% of the investments coming from the local sector and the remaining 49% coming from foreign investment. As at 31 December 2009, the cumulative domestic and foreign direct investments in Iskandar Malaysia have summed up to RM55.56 billion, which is 18% higher than the total investment target of RM47 billion for the period of year 2006 to 2010. [*Source: Iskandar Regional Development Authority Annual Report 2009*].

As of 1st quarter 2011, this amount further increased to RM73.2 billion of which foreign investment forms 40.6% of the total investment in Iskandar Malaysia.

Year 2012 is expected to be the tipping year for Iskandar Malaysia as various high profile projects would have been completed, amongst others, the 15-km long Coastal Highway which connects Danga Bay to Nusajaya (expected to be completed in December 2011), the Lifestyle Retail Mall which will be launched in conjunction with the grand opening of the 76-acre LEGOLAND themepark (expected to launch in 2012) and the 305-acre regional education hub (EduCity) with a stadium and sports complex of international tournament standards (expected to complete by 2012). [*Source: Nusajaya Progress Issue 3/2010, April 2010 to January 2011*]

10. RISK FACTORS

The Proposed Development to be undertaken by JVC is subject to inherent risks in the property development and construction industries which include, inter alia competition risks, changes in global and domestic economy with currency risks and interest rate risks which may affect the demand for property in Nusajaya, construction industry related risks such as shortages in labour and building materials, increases in the cost of labour and building materials and other risks arising from changes in political, economic and legal framework within the property industry.

Although E&O Group via JVC will take necessary efforts to mitigate the various risks identified, no assurance can be given that any change in these factors will not materially affect JVC's business operations and financial performance, and hence the share of profit accruing to Galaxy Prestige and Pulau Indah Ventures.

11. FINANCIAL EFFECTS OF THE PROPOSAL

11.1 Share capital and shareholdings of substantial shareholders

The Proposal will not have any effect on the issued and paid-up share capital and substantial shareholders' shareholdings of the Company as the Proposal does not involve any issuance of E&O shares.

11.2 Earnings and earnings per share ("EPS")

The Proposal is not expected to have any material effect on E&O's consolidated earnings and EPS for the financial year ending 31 March 2012. The Proposed Development, however, is expected to contribute positively to the future earnings of the E&O Group.

11.3 Net assets attributable to ordinary equity holders of the Company ("NA")

The Proposal is not expected to have any material effect on E&O's consolidated NA and NA per share for the financial year ending 31 March 2012.

11.4 Gearing

The Proposal is not expected to have any material effect on E&O's consolidated gearing for the financial year ending 31 March 2012.

12. APPROVALS REQUIRED

The Proposal is not subject to approval being obtained from the shareholders of E&O. The Proposal is also not conditional upon any corporate proposal/ exercise of E&O.

13. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSON CONNECTED.

None of the Directors and major shareholders of E&O and/or persons connected to them have any interest, direct or indirect, in the Proposal.

14. EXPECTED TIME FRAME FOR COMPLETION OF THE PROPOSAL

Barring any unforeseen circumstances, the purchase of the lease over the Phase 1 Land by JVC is expected to complete by the second half of 2012.

15. DIRECTORS' STATEMENT

After taking into consideration all aspects of the Proposal, the Directors of E&O are of the opinion that the terms and conditions of the Proposal are fair and reasonable and are in the best interest of the Company.

16. HIGHEST PERCENTAGE RATIO APPLICABLE

Assuming that paragraph 10.02(g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad were applicable to the Proposal, the highest percentage ratio would be approximately 4.94% based on Galaxy Prestige's proportion of capital contributions.

This announcement is dated 28 June 2011