

S P SETIA BERHAD (19698-X) ("S P SETIA" or "THE COMPANY")

- (1) MEMORANDUM OF UNDERSTANDING DATED 21 AUGUST 2007 ("MOU") MADE BETWEEN DATUK BANDAR KUALA LUMPUR AND PELITA DUNIA SDN BHD (NOW KNOWN AS KL ECO CITY SDN BHD)**
- (2) PRIVATISATION AGREEMENT BETWEEN KL ECO CITY SDN BHD AND DATUK BANDAR KUALA LUMPUR FOR THE DEVELOPMENT OF APPROXIMATELY 24.88 ACRES OF LAND IN KAMPUNG HAJI ABDULLAH HUKUM, KUALA LUMPUR ("SAID LAND").**

1. INTRODUCTION

The Board of Directors of S P Setia ("**Board**") wishes to announce that pursuant to the MOU, KL Eco City Sdn Bhd ("**KLEC**" or "**Developer**"), a subsidiary of S P Setia, has on 24 October 2011, entered into a privatisation agreement ("**Privatisation Agreement**") with Datuk Bandar Kuala Lumpur ("**Datuk Bandar**") for the development of approximately 24.88 acres of land in Kampung Haji Abdullah Hukum, Kuala Lumpur ("**Said Land**").

2. INFORMATION ON KLEC

KLEC is a private limited company incorporated in Malaysia under the Companies Act, 1965 on 7 August 1989. The present authorized share capital is RM100,000.00 comprising 100,000 ordinary shares of RM1.00 each of which 100,000 shares are issued and fully paid up. 60% of KLEC's equity interest is held by S P Setia with the remaining 40% held by Yayasan Gerakbakti Kebangsaan (Company No. 118860-H) ("**YGK**"). The principal activities of KLEC are property development and property investment holding.

On 25 July 2011, the Board announced the proposed acquisition by S P Setia of 40% equity interest in KLEC from YGK, which is still pending the satisfaction of certain conditions precedent.

3. DETAILS OF THE PRIVATISATION AGREEMENT

3.1.1 Datuk Bandar's Consideration

In consideration of Datuk Bandar agreeing to allow the Developer to develop the Said Land into a mixed residential and commercial development in phases and in accordance with the approved layout plans ("**Proposed Development**" or "**KLEC Project**"), the Developer has agreed to pay Datuk Bandar the following (collectively "**Datuk Bandar's Consideration**"):

- (a) the sum of RM105,917,095.00 ("**Residual Land Value**"), being the market value of Plot A, Plot C, Plot D and Plot E of the DBKL Lands (defined below) less the premium already paid by the Developer for the alienation thereof to Datuk Bandar, which shall be paid on a progressive and deferred basis over a

maximum period of 36 months from the date of the Privatisation Agreement;

- (b) the sum of RM191,962,019.00, being the minimum guaranteed profit for the Proposed Development, which shall be paid proportionately within 1 month from the date of the issuance of the certificate of practical completion of each component of the Proposed Development; and
- (c) additional profit (if any) representing the difference between 20% of the actual profit before tax and the minimum guaranteed profit, which shall be paid within 1 month from the date of the final audited account of each phase of the Proposed Development.

3.1.2 Conditions Precedent

The Privatisation Agreement is conditional upon the following being fulfilled within 3 months from the date of the Privatisation Agreement:-

- (a) the presentation of the memorandum of transfer of the Private Lands (as defined below) in favour of Datuk Bandar;
- (b) the payment by the Developer to Datuk Bandar of the following sums:-
 - (i) RM11,400,000.00, being the difference between the actual construction costs of the low medium cost Apartment Abdullah Hukum 1 and the purchase price offered to the squatter families on the DBKL Lands;
 - (ii) RM10,591,710.00, being 10% of the Residual Land Value; and
 - (iii) RM1,615,396.00, being the land value for Plot F of the DBKL Lands;
- (c) the deposit of a performance bond for the due performance of the first component of the Proposed Development for the value of RM10,544,996.00 with Datuk Bandar;
- (d) the submission by the Developer to Datuk Bandar of relevant documents evidencing that the Developer has secured the project financing in respect of the Proposed Development; and
- (e) the deposit with Railway Asset Corporation (“**RAC**”) of a land bond for RM42,090,000.00, to secure the performance of the Developer’s obligation to construct a new KTM Commuter Station in exchange for Plot B originally belonging to the RAC, which was previously reserved for railway purposes pursuant to the Railway Act.

4. INFORMATION ON THE SAID LAND AND PROPOSED DEVELOPMENT

The Said Land measuring approximately 24.88 acres is made out of approximately 4.38 acres of land belonging to the S P Setia Bhd Group (“**Private Lands**”) and approximately 20.5 acres of land belonging to Datuk Bandar (“**DBKL Lands**”). The Said Land has been cleared and is currently vacant.

Please refer to the attached plan for details of the Private Lands and DBKL Lands.

The Developer proposes to develop the Said Land into an integrated commercial and residential development with a Net Saleable Area of approximately 5.7 million square feet. The Proposed Development consists of a retail podium; 3 boutique office blocks; strata-titled office suites; 3 office towers; 3 residential towers and a service apartment tower. The Proposed Development will also include a new KTM Commuter train station, to be built by the Developer, which will be integrated with and complementary to the existing Abdullah Hukum LRT Station.

The Proposed Development has a projected Gross Development Value (“**GDV**”) of approximately RM6 billion and projected Gross Development Cost of approximately RM5 billion. The KLEC Project is expected to be funded via internally generated funds and bank borrowings.

The Proposed Development shall be completed within a period of 12 years from the construction commencement date for the first component of the Proposed Development, which is currently targeted for early 2012.

5. ECONOMIC OUTLOOK AND PROSPECTS

Inflows of foreign direct investment have regained momentum. Foreign direct investment increased six-fold to RM29 billion in 2010, the highest growth in Asia. In the first half of 2011, it surged further by 75% to RM21.2 billion compared with RM12.1 billion for the same period in 2010. Private investment is expected to expand 15.9% in 2012, supported by the increase in foreign and domestic direct investments.

Malaysia’s economic fundamentals remain strong. The banking and financial system remains intact with the risk-weighted capital ratio at 14.8%, far exceeding the international requirements of 8%. International reserves remains strong, registering RM414.5 billion in 15 September 2011, sufficient to finance 9.5 months of retained imports as well as 4.5 times of short-term external debt. Income per capita is estimated to increase to RM28,725 in 2011 compared with RM26,175 in 2010.

Despite uncertainties in the global economy, moderation in external trade, increased inflationary pressures as well as geopolitical unrest, the country’s economic performance registered 4.4% in the first half of 2011. This growth is driven by expansion in the domestic economy, which remained robust. This growth momentum is expected to increase in the second half of 2011, spurred by a more vibrant private consumption and investment. Growth in 2011 is, therefore, estimated to expand between 5% and 5.5%.

In 2012, the global economic prospect is expected to be more challenging. The International Monetary Fund revised downwards the world economic growth to 4% and the world trade to 5.8%. This is due to the economic slowdown in the United States, Europe and Japan, inflationary pressures due to rising commodity prices, European debt crisis as well as slower world trade. These global developments would certainly have a direct impact on the Malaysian economy.

With these developments, the Government will put in place measures to stimulate domestic economic activities, in particular public and private investments, as well as private consumption. Private and public investments are expected to increase 15.9% and 7%, respectively, supported by higher foreign direct investment, implementation of the ETP and Second Rolling Plan (RP2) projects under the Tenth Malaysia Plan (10MP). Private consumption is projected to increase 7.1% following higher disposable income and a more positive employment prospect. On the supply side, the services sector is expected to expand 6.5%, while the construction sector 7%. Therefore, economic growth in 2012 is projected between 5% and 6%.

(Source: 2012 Budget Speech, Prime Minister and Minister of Finance of Malaysia)

In light of the above, the management of S P Setia ("**Management**") is of the view that the prospects for property development activities in Malaysia remain positive and is not aware of any material risk factors arising from the Privatisation Agreement other than the usual market and global economic risks.

6. RATIONALE FOR THE PRIVATISATION AGREEMENT

The Privatisation Agreement is the culmination of more than a decade's work by S P Setia to secure this prime redevelopment site for which it has unveiled plans to develop a fully integrated and sustainable green commercial city. With the formalization of the privatization process, the Developer is now able to translate the strong registered interest for Phase 1 of the KLEC Project, comprising boutique and strata offices, into actual sales for FY2011 and FY2012.

Phase 2 of the Project, comprising bite-sized residential units with unique lifestyle-driven propositions to appeal to young urbanites, is targeted to be launched during the 1st half of 2012. Given the highly positive reception which the Project has received from this savvy target market group thus far, Management is optimistic that the eventual launch will be a success.

In view of the above, Management is of the view that the Privatisation Agreement augurs well for S P Setia.

7. EFFECTS OF THE PRIVATISATION AGREEMENT

7.1. Share Capital and Major Shareholders

Datuk Bandar's Consideration which will be satisfied entirely in cash will not have any effect on the share capital and major shareholders of S P Setia.

7.2. Earnings and Net Assets ("NA")

The Proposed Development is not expected to have any material effect on the S P Setia Group's earnings and NA for the financial year ending 31 October 2011. However, the Proposed Development is expected to contribute positively to the future earnings and NA of the S P Setia Bhd Group.

7.3. Gearing

The payment of Datuk Bandar's Consideration will not have a material effect on the gearing of S P Setia for the financial year ending 31 October 2011.

8. PERCENTAGE RATIOS

The highest percentage ratio applicable for the Privatisation Agreement, pursuant to Chapter 10 of the Main Market Listing Requirements of Bursa Securities is 7.12%.

9. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

None of the Directors or Substantial Shareholders of S P Setia or persons connected to them has any interest, direct or indirect, in the Privatisation Agreement.

10. DIRECTORS' STATEMENT

The Board after having considered all aspects of the Privatisation Agreement is of the opinion that it is in the best interest of S P Setia.

11. APPROVALS REQUIRED

The Privatisation Agreement is not subject to the approval of the shareholders of S P Setia.

12. DOCUMENT FOR INSPECTION

A copy of the Privatisation Agreement may be inspected at the registered office of S P Setia at Plaza 138, Suite 18.03, 18th Floor, 138 Jalan Ampang, 50450 Kuala Lumpur during normal office hours on Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

This announcement is dated 24 October 2011.

DETAILS OF THE PRIVATE LANDS AND DBKL LANDS

LEGEND

20.5ac DBKL LANDS

4.38ac PRIVATE LANDS

	PT NO.	NO. H.S.(D)	ACRES	SEKSYEN	MUKIM/BANDAR & DAERAH	NEGERI
Plot A	22	117435	15.84	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
Plot B	72	117933	2.04	98	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
Plot B	23	117935	1.84	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
Plot C	24	117934	0.15	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
Plot D	73	117939	0.24	98	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
Plot E	74	117938	0.22	98	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
Plot F	Plot F		0.14	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL

	LOT	GERAN MUKIM / GERAN NO.	SEKSYEN	MUKIM/BANDAR & DAERAH	NEGERI
P1	215	2506	98	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
P2	42	25790	0098	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
P3	29	27157	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
P4	30	27156	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
P5	5	24355	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL
P6	16	29879	95A	KUALA LUMPUR	WILAYAH PERSEKUTUAN KL

