

EASTERN & ORIENTAL BERHAD (“E&O” OR “COMPANY”)

PROPOSED JOINT VENTURE BETWEEN KCB HOLDINGS SDN. BHD. (“KCB HOLDINGS”), AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF E&O AND SEA INVESTMENT THREE PTE. LTD. (“SEAI3”), A WHOLLY-OWNED SUBSIDIARY OF MITSUI FUDOSAN RESIDENTIAL CO., LTD. (“MITSUI RESIDENTIAL”), WHICH IN TURN IS A WHOLLY-OWNED SUBSIDIARY OF MITSUI FUDOSAN CO., LTD. (“MITSUI”) VIA KCB TRADING SDN. BHD. (“KCBT”), A WHOLLY-OWNED SUBSIDIARY OF KCB HOLDINGS FOR THE DEVELOPMENT OF A PIECE OF LAND MEASURING APPROXIMATELY 5221 SQUARE METERS HELD BY KCBT (“LAND”)

1. INTRODUCTION

The Board of Directors of E&O wishes to announce that its indirect wholly-owned subsidiary, KCB Holdings had on 20 March 2013 entered into a shareholders’ agreement with SEAI3 and KCBT (“**Shareholders’ Agreement**”) with a view to regulating KCB Holdings’ and SEAI3’s equity participation in KCBT, their relationship *inter se* as shareholders of KCBT and generally the conduct and affairs of KCBT, in particular the joint development of the residential project known as “The Mews” over the Land owned by KCBT.

The Shareholders’ Agreement was executed simultaneously with the execution of a sale and purchase agreement dated 20 March 2013 between KCB Holdings and SEAI3 (“**SPA**”) for the disposal by KCB Holdings to SEAI3 of 2,450,000 of its ordinary shares of RM1.00 each (“**Sale Shares**”) in KCBT representing forty-nine per cent (49%) of the issued and paid-up share capital in KCBT for a total cash consideration of RM41,288,608.00 (“**Total Consideration**”) comprising RM5,075,389.00 being consideration for the sale of the Sale Shares (“**Sale Price**”) and RM36,213,219.00 being the shareholder’s loan to be advanced by SEAI3 to KCBT (“**SEAI3 Loan**”) pursuant to the terms and conditions of the Shareholders’ Agreement at closing of the SPA.

It is intended that the Shareholders’ Agreement takes effect from the date of closing of the SPA, which is to take place on 21 March 2013 (“**Closing**”).

The Shareholders’ Agreement and the SPA are hereinafter referred to as the “**Proposal**”.

2. DETAILS OF THE PROPOSAL

2.1 The SPA

2.1.1 Salient Terms of the SPA

The salient terms of the SPA are as follows:-

- (i) KCB Holdings shall sell and SEAI3 shall purchase the Sale Shares at the Sale Price which is to be paid on Closing;

- (ii) The payment terms on Closing are as follows:-
 - (a) SEAI3 shall make payment in the sum of RM5,075,389.00 to KCB Holdings as consideration for the transfer of forty-nine per cent (49%) equity interest in KCBT; and
 - (b) SEAI3 shall provide the SEAI3 Loan in the sum of RM36,213,219.00 to KCBT which shall be used to repay forty-nine per cent (49%) of the existing loan granted by KCB Holdings to KCBT;
- (iii) On Closing, KCB Holdings shall continue to provide the balance fifty-one per cent (51%) of its existing loan amounting to RM37,691,308.73 to KCBT; and
- (iv) On Closing, KCB Holdings and SEAI3 shall respectively hold fifty-one per cent (51%) and forty-nine per cent (49%) of the issued and paid-up share capital in KCBT.

2.1.2 Basis and justification of arriving at the Total Consideration

The Total Consideration was arrived at on a willing buyer-willing seller basis after taking into consideration the market value of the Land of RM85,000,000.00 as appraised by Raine & Horne International Zaki + Partners Sdn Bhd, an independent firm of professional valuer, as set out in their valuation certificate dated 18 March 2013 using the comparison method of valuation.

2.1.3 Liability to be assumed

Save for SEAI3's loans to be provided by SEAI3 to KCBT (including the SEAI3 Loan) and the Guarantee & Indemnity to be provided by Mitsui Residential pursuant to the terms of the Shareholders' Agreement, SEAI3 will not assume any liability including contingent liabilities and guarantees pursuant to the Proposal.

2.1.4 Original cost of investment

KCB Holdings' original cost of investment in the Sale Shares was RM1,180,510.00 made on 17 June 1997.

The net asset of KCBT as at 31 March 2012 was RM3,322,558.00.

2.1.5 Gain on the proposed disposal of the Sale Shares

The E&O Group expects to realize an estimated one-off gain of approximately RM3,450,000.00 from the proposed disposal of the Sale Shares to SEAI3 as at 20 March 2013.

2.2 The Shareholders' Agreement

Simultaneously with the signing of the SPA, KCB Holdings, SEAI3 and KCBT have entered into the Shareholders' Agreement to govern KCB Holdings' and SEAI3's respective rights and obligations in relation to KCBT and the operations of KCBT in particular the joint development of the Land as outlined in Section 3 below.

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

- (i) The Shareholders' Agreement is conditional upon and shall come into effect on the Closing;
- (ii) The objectives of KCBT shall be to carry on the business of developing, constructing and selling residential properties to be constructed on the Land in the development known as "The Mews" in Kuala Lumpur;
- (iii) Any additional funding required by KCBT shall be in the form of credit facilities from banks/financial institutions and/or additional shareholders' loan. The parties agree that the additional funding to be provided by the shareholders of KCBT whether by way of loans or equity subscription is limited up to RM20,000,000.00;
- (iv) KCBT shall have five (5) Directors, three (3) of which are to be nominated by KCB Holdings and two (2) by SEAI3;
- (v) A management committee shall be established to attend to operational matters of KCBT;
- (vi) E&O Group to provide project management and administrative services and marketing and sales consultancy services to KCBT;
- (vii) E&O to provide letters of guarantee & indemnity in favour of SEAI3 and/or KCBT to, among others, guarantee the performance of its indirect wholly-owned subsidiaries, KCB Holdings, E&O Properties Sdn Bhd and E&O Sales & Marketing Sdn Bhd in respect of their respective obligations under, among others, the Shareholders' Agreement, the project management and administrative services agreement and the marketing and sales consultancy services agreement; and
- (viii) Some of the Board Reserved Matters requiring affirmative vote of the directors appointed by KCB Holdings and SEAI3 respectively are as follows:-
 - (a) increase in the maximum amount of additional funding;
 - (b) variation to the business plan and budget as agreed between the shareholders; and
 - (c) approval of any capital expenditure, borrowing, creation of charge, acquisitions and disposal above certain thresholds.

2.3 Source of funds

KCB Holdings will fund its portion of investment in KCBT via internally generated funds, advance from its shareholders and/or external borrowings.

3. DETAILS OF THE LAND AND THE PROPOSED DEVELOPMENT

The Land is held under the document of title Geran 63251, Lot 287 Seksyen 43, Bandar and Daerah Kuala Lumpur measuring 5221 square meters. It is a vacant freehold land held by KCBT and the current category of land use for the Land is “building” subject to the express condition for residential purposes. KCBT has procured relevant approvals from the relevant authority to convert the Land usage from “residential” to “commercial”.

The Land is situated in the city center of Kuala Lumpur in Jalan Yap Kwan Seng which is a direct path to Kuala Lumpur Convention Center (“**KLCC**”). It is within walking distance to KLCC through Avenue K’s underground pass.

The Land is proposed to be developed into 256 units of serviced apartment. KCBT had on 11 May 2012 obtained the development order from the relevant authority for the said development.

The Land is currently charged to a financial institution for credit facilities granted to KCBT. The credit facilities, however, have been fully settled. Based on the audited consolidated financial statements of E&O as at 31 March 2012, the net book value of the Land is RM59,553,630.00.

The expected development cost and profits arising therefrom are subject to various factors which at this juncture cannot be ascertained with reasonable accuracy. The proposed development is expected to commence in the second (2nd) quarter of 2013 and complete within four (4) years.

4. INFORMATION ON THE SHAREHOLDERS

4.1 Information on KCBT, the joint venture company

KCBT is a private limited company incorporated on 23 June 1975 under the Malaysian Companies Act 1965 (“**Act**”). KCBT is currently a wholly-owned subsidiary of KCB Holdings. The present authorised share capital of KCBT is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each (“**KCBT Shares**”), and the total issued and paid-up share capital of KCBT is RM5,000,000 comprising 5,000,000 KCBT Shares. The principal activity of KCBT is that of property development and property investment.

The eventual issued and paid-up share capital of KCBT will depend on, amongst others, the amount of funding required for the proposed development and other needs of KCBT, and the proportion of sources of funds in shareholders’ equity capital, shareholders’ loan and external financing obtained, which cannot be determined at this juncture.

4.2 Information on KCB Holdings

KCB Holdings is a private limited company incorporated on 10 August 1989 under the Act. KCB Holdings is a wholly-owned subsidiary of E&O Property Development Berhad, which in turn is a wholly-owned subsidiary of E&O. The present authorised share capital of KCB Holdings is RM25,000 comprising 25,000 ordinary shares of RM1 each (“**KCB Holdings Shares**”), and the total issued and paid-up share capital of KCB Holdings is RM2 comprising 2 KCB Holdings Shares. KCB Holdings is an investment holding company.

4.3 Information on SEAI3 and Mitsui

SEAI3 is a company incorporated on 5 November 2012 under the laws of Singapore and is a wholly-owned subsidiary of Mitsui Residential which in turn is a wholly-owned subsidiary of Mitsui.

The present authorised share capital of SEAI3 is S\$50,000 and RM9,875,000 comprising 50,000 ordinary shares of S\$1.00 each and 9,875,000 ordinary shares of RM1.00 each (“**SEAI3 Shares**”), and the total paid-up share capital of SEAI3 is S\$50,000 and RM9,875,000 comprising 9,925,000 SEAI3 Shares in total. The principal activity of SEAI3 is to make investments and hold financial instruments in subsidiaries and affiliates.

Mitsui was incorporated on 15 July 1941 under the laws of Japan and is currently listed on the Tokyo Stock Exchange. The present authorised share capital of Mitsui is 3,290,000,000 ordinary shares. The total issued and paid-up share capital of Mitsui is 881,424,727 ordinary shares. Mitsui is a real estate company.

5. RATIONALE

The rationale for the Proposal is as follows:-

- (i) The Proposal shall free up the cash flow of the E&O Group whereby the cash shall be utilized by the Group for, amongst others, reinvestment in other projects and working capital purposes;
- (ii) The partnership with Mitsui, one of the top property players in Japan, is expected to increase the E&O Group’s exposure to the Japanese property market thereby attracting Japanese purchasers in The Mews as well as other projects within the E&O Group; and
- (iii) The Proposal is expected to pave the way for future collaboration between the E&O Group and Mitsui.

6. EFFECTS OF THE PROPOSAL

6.1 Stock capital and stockholding of substantial stockholders

The Proposal will not have any effect on the issued and paid-up stock capital and substantial stockholders' stockholdings of the Company as the Proposal does not involve any issuance of E&O stocks.

6.2 Earnings and earnings per stock ("EPS")

The Proposal is not expected to have any material effect on the consolidated earnings and EPS of the E&O Group for the financial year ending 31 March 2013. The proposed development on the Land, however, is expected to contribute positively to the future earnings of the E&O Group.

6.3 Net assets ("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 2013.

6.4 Gearing

The Proposal is not expected to have any material effect on E&O's consolidated gearing for the financial year ending 31 March 2013.

7. APPROVALS REQUIRED

The Proposal is not subject to the approval of the stockholders of E&O and any other government authority. The Proposal is also not conditional upon any corporate proposal/exercise of E&O.

8. INTEREST OF DIRECTORS, MAJOR STOCKHOLDERS AND PERSONS CONNECTED WITH THEM

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

9. DIRECTORS' STATEMENT

After having taken into consideration all aspects of the Proposal, the Board is of the opinion that the Proposal is in the best interest of the E&O Group.

10. ESTIMATED TIME FRAME FOR COMPLETION OF THE PROPOSAL

Barring any unforeseen circumstances, the proposed development on the Land under the Proposal is expected to be completed within four (4) years from the second (2nd) quarter of 2013.

11. PERCENTAGE RATIO UNDER PARAGRAPH 10.02(G) OF THE BURSA MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS (“MAIN MARKET LR”)

The highest percentage ratio applicable to the SPA pursuant to the Main Market LR is 3.20%, being the value of the Total Consideration compared to the NA of the E&O Group based on the Company’s consolidated audited financial statements as at 31 March 2012.

The percentage ratio applicable to the Shareholders’ Agreement is 0.79% based on KCB Holdings’ proportion of capital commitment.

12. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of E&O at Level 3A (Annexe), Menara Milenium, 8 Jalan Damanlela, Damansara Heights, 50490 Kuala Lumpur, Malaysia, during business hours from 9.00 a.m. to 6.00 p.m. from Mondays to Fridays (except public holidays) for a period of three (3) months from the date of this announcement:

- (i) SPA; and
- (ii) Shareholders’ Agreement.

This announcement is dated 20 March 2013.