

BHS INDUSTRIES BERHAD (“BHS” OR THE “COMPANY”)

ACQUISITION OF A LEASEHOLD PROPERTY HELD UNDER INDIVIDUAL TITLE H.S. (M) 13154, P.T. 23675, MUKIM CHERAS, TEMPAT CHERAS JAYA, DAERAH HULU LANGAT, NEGERI SELANGOR BEARING POSTAL ADDRESS OF LOT 4, JALAN 1B, TAMAN CHERAS JAYA, 43200 CHERAS, SELANGOR DARUL EHSAN BY BHS BOOK PRINTING SDN. BHD., A WHOLLY-OWNED SUBSIDIARY OF BHS, FOR A PURCHASE CONSIDERATION OF RM15.6 MILLION

1.0 INTRODUCTION

The Board of Directors of BHS wishes to announce that on 31 December 2014, BHS Book Printing Sdn. Bhd. (“**BBP**” or the “**Purchaser**”), a wholly-owned subsidiary of BHS, had entered into a sale and purchase agreement (“**SPA**”) with Makmur Malaya Sdn. Bhd. (“**MMSB**” or the “**Vendor**”) to acquire all that piece of leasehold property held under individual title H.S. (M) 13154, P.T. 23675, Mukim Cheras, Tempat Cheras Jaya, Daerah Hulu Langat, Negeri Selangor bearing postal address of Lot 4, Jalan 1B, Taman Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan, measuring approximately 7,356 square meters (“**Property**”) for a purchase consideration of Ringgit Malaysia Fifteen Million and Six Hundred Thousand (RM15,600,000.00) (“**Purchase Consideration**”) (“**Acquisition**”)

2.0 INFORMATION ON THE PURCHASER

BBP was incorporated in Malaysia on 31 December 1982 with its registered office at B-13A-28, Kompleks Rimbun Scott Garden, 289, Jalan Kelang Lama, 58100 Kuala Lumpur and has an authorised share capital of RM5,000,000.00 comprising 5,000,000 ordinary shares of RM1.00 each of which 3,950,000 ordinary shares of RM1.00 each has been issued and fully paid-up. The principal activity of BBP is printing of books and magazines.

The present directors of BBP are Koo Thiam Yoong, Fong Swee Hin and Dato’ Dr. Koe Seng Kheng.

3.0 INFORMATION ON THE VENDOR

MMSB was incorporated in Malaysia on 9 September 1959 with its registered office at No. 3, Jalan Chan Sow Lin, 55200 Kuala Lumpur, Wilayah Persekutuan and has an authorised share capital of RM10,000,000.00 comprising 100,000 ordinary shares of RM100.00 each of which 60,000 ordinary shares of RM100.00 each has been issued and fully paid-up. The principal activity of MMSB is importation of chinese liquor, medicated wines, tea, canned foods and general foodstuffs.

The present directors of MMSB are Lee Kung Wah and Lee Chee Hian.

4.0 INFORMATION ON THE PROPERTY

The said leasehold Property is held under individual title H.S. (M) 13154, P.T. 23675, Mukim Cheras, Tempat Cheras Jaya, Daerah Hulu Langat, Negeri Selangor bearing postal address of Lot 4, Jalan 1B, Taman Cheras Jaya, 43200 Cheras, Selangor Darul Ehsan, measuring approximately 7,356 square meters, which 99 years lease expires on 30 December 2098. The Property is currently vacant.

The Property will be acquired free from all encumbrances and upon the terms and subject to the express and implied conditions contained in the issue document of title and upon the conditions contained in the SPA.

The information on net book value of the said Property was not made available by the Vendor to the Purchaser.

5.0 SALIENT TERMS OF THE SPA

5.1 Basis of sale

The said Property is sold:-

- 5.1.1 on an “as is where is basis”;
- 5.1.2 free from all encumbrances;
- 5.1.3 with vacant possession subject to the provision contained in the SPA;
- 5.1.4 subject to any express conditions of title and restrictions in interest registered on the issue document of title to the Property at the Land Registry; and
- 5.1.5 subject to the existing category of land use affecting the Property.

5.2 Satisfaction

The Purchase Consideration shall be paid as follows:-

- 5.2.1 a sum of Ringgit Malaysia Three Hundred Twelve Thousand (RM312,000.00) only equivalent to two per centum (2%) of the Purchase Consideration has been paid by the Purchaser to the Vendor prior to the execution of the SPA, the receipt of which the Vendor acknowledges and the aforesaid sums shall be treated as an earnest deposit (“**Earnest Deposit**”) and as part payment of the Purchase Consideration;
- 5.2.2 a sum of Ringgit Malaysia Three Hundred Twelve Thousand (RM312,000.00) only equivalent to two per centum (2%) of the Purchase Consideration shall be deposited to the Purchaser’s Solicitor for payment of the real property gains tax upon execution of the SPA, the receipt of which the Vendor acknowledges and the aforesaid sums shall be treated as the retention sum (“**Retention Sum**”) forming part of the Balance Deposit (as defined in item 5.2.3 below) and as part payment of the Purchase Consideration and to be dealt with in accordance with the relevant clause contained in the SPA in relation to Real Property Gains Tax;
- 5.2.3 a sum of Ringgit Malaysia Nine Hundred Thirty Six Thousand (RM936,000.00) only equivalent to six per centum (6%) of the Purchase Consideration shall be paid by the Purchaser to the Vendor’s Solicitors as stakeholder upon execution of the SPA, the receipt of which the Vendor acknowledges and the aforesaid sums shall be treated as the balance deposit (“**Balance Deposit**”) and as part payment of the Purchase Consideration;

(the Earnest Deposit and the Balance Deposit including the Retention Sum shall collectively be referred to as **the “Deposit”**)
- 5.2.4 the Purchaser shall pay a sum of Ringgit Malaysia Fourteen Million Forty Thousand (RM14,040,000.00) only (“**Balance Purchase Price**”) on or before the completion date which is the last day of the period of ninety (90) days commencing from the Unconditional Date (as defined in item 5.3.2 below) to the Vendor and/or the Vendor’s Financier

5.3 Conditions Precedent

5.3.1 Condition

The sale and purchase of the Property is conditional upon the Purchaser obtaining the State Authority's Consent.

5.3.2 Unconditional Date

The parties agree that the SPA shall become unconditional on the completion of the conditions as stated in 5.3.1 above (**"Unconditional Date"**).

5.3.3 Covenant

The parties hereto agree and covenant with each other as follows:-

- (a) that within fourteen (14) business days upon execution of the SPA, the Purchaser shall at their own cost and expenses file an application to the relevant authorities for consent to sell and transfer the Property to the Purchaser (**"State Authority's Consent"**); and
- (b) The Purchaser shall within seven (7) business days from the date request by the other party or its solicitors:-
 - (i) complete all relevant documentation and make all payments as may be necessary and required to obtain the State Authority's Consent; and
 - (ii) provide all such information and execute such documents as may be reasonably required by the Purchaser to obtain the State Authority's Consent; and
 - (iii) upon request by the Vendor forthwith inform the Vendor of the status of the State Authority's Consent.
- (c) The Vendor shall within seven (7) business days from the date request by the other party or its solicitors:-
 - (i) complete all relevant documentation and make payment for the cost of the State Authority's Consent as may be necessary and required to obtain the State Authority's Consent;
 - (ii) provide all such information and execute such documents as may be reasonably required by the Purchaser to obtain the State Authority's Consent.

5.3.4 Extension

If the State Authority's Consent shall not have been obtained within ninety (90) days from the date of the SPA, the parties hereby agree to extend the aforesaid period of ninety (90) days for another thirty (30) days therefrom, unless the parties agree to further extend the period for obtaining the said confirmation.

5.4.4 Default

In the event of failure to comply with the conditions stated in 5.3 above, the following consequences shall ensue:-

- (a) the SPA shall lapse;
- (b) the Vendor shall forthwith refund all monies paid by the Purchaser to the Vendor free of interest to the Purchaser; and
- (c) all documents relating to the Property and vacant possession of the Property (if delivered) shall be returned to the Vendor with the Vendor's interest intact; and
- (d) thereupon the parties hereto shall have no claim/s whatsoever against the other on any matter arising from or relating to the SPA.

6.0 BASIS AND JUSTIFICATION ON ARRIVING AT THE PURCHASE CONSIDERATION

The purchase consideration for the Acquisition was arrived at on a willing buyer-willing seller basis and after taking into consideration amongst others the prices of other similar properties available for sale in the vicinity.

The Acquisition will be financed via internally generated funds and/or bank borrowings, the breakdown of which cannot be ascertained at this juncture. The exact mix of internally generated funds and bank borrowings will be decided by the Management of BHS and BBP. The Management of BHS and BBP will choose the most optimum mix taking into consideration its gearing level, interest costs as well as internal cash requirements for its business.

7.0 ASSUMPTION OF CONTINGENT LIABILITIES AND GUARANTEES

There are no contingent liabilities and guarantees to be assumed by BHS and BBP pursuant to the Acquisition. The Board does not expect to incur any additional commitment for the Acquisition.

8.0 COMPLETION DATE

Barring any unforeseen circumstances, the Acquisition is expected to be completed within four (4) months from the date of the SPA.

9.0 RATIONALE FOR THE ACQUISITION

BBP is currently operating its business activities from a rented factory lots located at Bersatu Industrial Park, Jalan Bersatu, Cheras Jaya, Selangor Darul. The Acquisition would enable BBP to save a total rental of RM39,500.00 a month. This is computed using the current monthly rental paid by BBP of about RM55,000.00 less the amortisation of lease of the Property of RM15,500.00 a month based on the remaining unexpired lease term of 84 years. Interest on investible fund has been ignored for this computation.

The Acquisition would also enable the Company and BBP to plan the production flow in a more orderly and efficient manner which would result in higher productivity in the business operation.

10.0 PROSPECTS OF THE PROPERTY

Over the past number of years, the prices of the property have been increasing. In tandem with the rise in the property prices, the rental has also been rising. The investment in a factory would enable the Company to enjoy the rise in the property price in future and at the same time to provide a fixed place for the Company to plan its business without the burden of facing the risk of discontinuance of tenancy or increase in rental.

11.0 RISK FACTORS

11.1 Borrowing risks

BHS intends to finance the Acquisition via internally-generated funds and/or bank borrowings. As such, in the event any borrowing is taken to finance the Acquisition, fluctuation in interest rates could materially affect the interest expense borne by BHS and hence affecting BHS's profitability.

11.2 Completion risks

The Acquisition is subject to the execution and completion of the SPA. There can be no assurance that the SPA will ultimately be completed within the timeframe set out therein. Any non-fulfilment of the conditions precedent therein, prolonged delay or non-completion of the SPA leading to termination of the SPA may result in the loss of the Deposit (as defined in item 5.2.3 above).

11.3 Compulsory acquisition by the Government

Pursuant to the Land Acquisition Act, 1960, the Government has the power to compulsorily acquire any land in Malaysia in accordance with the aforesaid Act. In the event of any compulsory acquisition of land, the amount of compensation to be awarded shall be computed under the provisions of the Land Acquisition Act, 1960.

12.0 EFFECTS OF THE ACQUISITION

12.1 Share Capital and Substantial Shareholders' Shareholding

The Acquisition does not involve any issuance of new shares in the Company and therefore will not have any effect on the share capital and substantial shareholders' shareholding.

12.2 Earnings and Earnings Per Share

The Acquisition is not expected to have a material impact on the earnings or earnings per share of BHS for the financial year ending 30 June 2015.

12.3 Gearing

The Proposed Acquisition will be funded from the Group's internally generated funds and/or bank borrowings.

For illustrative purposes, assuming approximately 51% of the Purchase Consideration which amounts to RM8,000,000.00 is funded by bank borrowings, the gearing ratio of BHS will increase from nil to 0.11 times based on the audited financial statements of the Group for the financial year ended 30 June 2014.

13.0 APPROVALS REQUIRED

The Acquisition is not subject to the approval of BHS's shareholders.

14.0 PERCENTAGE RATIOS

The highest percentage ratio applicable to the Acquisition pursuant to paragraph 10.02 (g) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad is 21.08% based on the latest audited financial statements for the financial year ended 30 June 2014.

15.0 DIRECTORS AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and/or major shareholders and/or persons connected with the Directors and/or the major shareholders of the Company has any interest, direct or indirect, in the Acquisition.

16.0 DIRECTORS' STATEMENT

The Board of Directors of the Company, having considered all aspects of the Acquisition, including but not limited to the rationale, financial effects and risks associated with the Acquisition, is of the opinion that the Acquisition is in the best interest of the Group.

17.0 DOCUMENTS AVAILABLE FOR INSPECTION

The SPA is available for inspection at the Registered Office of the Company during normal office hours from Monday to Friday (except public holidays) at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan.

This announcement is dated 31 December 2014.