

COMPUGATES HOLDINGS BERHAD (669287-H)

(Incorporated in Malaysia)

COMPUGATES HOLDINGS BERHAD (“COMPUGATES” or “Company”)

PROPOSED JOINT VENTURE BETWEEN COMPUGATES DEVELOPMENT AND MINING SDN BHD, A 70%-OWNED SUB-SUBSIDIARY OF COMPUGATES, AND MAIN UPTOWN SDN BHD, TO JOINTLY DEVELOP A PARCEL OF LEASEHOLD LAND IDENTIFIED AS H.S.(D) 13828, PT 26800, MUKIM OF DENGKIL, DISTRICT OF SEPANG, SELANGOR DARUL EHSAN, MEASURING APPROXIMATELY 154,990 SQUARE METRES (“LAND”) INTO A MIXED DEVELOPMENT (“PROPOSED JOINT VENTURE”)

1. INTRODUCTION

The Board of Directors of Compugates Holdings Berhad (“**Compugates**” or “**the Company**”) wishes to announce that its sub-subsidiary, Compugates Development And Mining Sdn Bhd (hereinafter “**CDMSB**”) had on 18 August 2015 entered into a Joint Venture Agreement (“**JV Agreement**”) with Main Uptown Sdn Bhd (“**MUSB**”), as the Developer, for the proposed joint development the Land located in Dengkil into a mixed development comprising service apartment or small office/home office/virtual office/flexible office, or other accommodations of the same nature or characteristic (“**Project**”).

To facilitate the Proposed Joint Venture, the Power of Attorney was executed on 19 August 2015 by CDMSB granting in favour of MUSB certain powers as stipulated in the Power of Attorney to deal in the Land in respect of the development of the Proposed Joint Venture.

2. INFORMATION OF THE LAND

(a) CDMSB is the registered proprietor and beneficial owner of all that parcel of land held under 99-year leasehold title: H.S.(D): 13828, PT 26800, Mukim Dengkil, Daerah Sepang, Negeri Selangor, expiring on 21 May 2103, measuring in area approximately 154,990 square metres (38.30 acres).

(b) The Land is currently free from all charges and encumbrances whatsoever.

(c) The Land is at present subject to the category of use, restriction-in-interest, and expression condition as follows:-

Category of Use : *Bangunan*

Restriction-in-Interest : *Tanah yang diberi milik ini tidak boleh dipindah milik, dipajak atau digadai melainkan dengan kebenaran Pihak Berkuasa Negeri*

Express Condition : *Bangunan Perniagaan*

(d) The carrying value of the Land as at 31 December 2014 was RM100,000,000.

3. INFORMATION ON MUSB

MUSB (Company No. 1146841-V), is a private limited company incorporated in Malaysia under the Companies Act, 1965 having its registered address and a place of business at Plot 30 Hilir Sungai Kluang Satu, Bayan Lepas Industrial Park, Phase 4, 11900 Pulau Pinang. The authorised share capital of MUSB is RM400,000 comprising 400,000 ordinary shares of RM1.00 each of which RM2 comprising 2 ordinary shares of RM1.00 each are fully paid-up.

The principal activities of MUSB are to carry on the business of, inter alia, carrying out, developing, and constructing development projects, and has the technical expertise, knowledge and experience in carrying out and completing development projects.

The directors and shareholders of MUSB are Dato' Koay Hean Eng and Ng Tiat Seng.

Dato' Koay Hean Eng, aged 57, who has completed his SPVM in 1976 and has ventured into manufacturing industries for more than 30 years and property development for more than 25 years.

Dato' Koay began his property development business back in 1991. He has completed various type of development projects ranging from medium cost residential house to high end condominium and commercial unit located in Penang island and also Main Land. He has vast experience in manufacturing industries as well as property development industries.

The list of development projects under his leadership within the Kobay group of companies are as below:-

Completed Projects

- Taman Mesra Indah, Butterworth, 2000
 - 120 units of Apartment & 12 units of 3 storey shop
- Taman Permatang Indah, Penang, 2005
- Taman Industri Ringan Idaman, Penang, 2005
- Wisma Kobay, Penang, 2005
- Scotland Homes, Penang, 2008
- South Homes, Penang, 2013
 - 56 units of Shop and 3 storey Residential

Current Projects

- The 8 @ Desa Heights, Kuala Lumpur
 - exclusive 3-storey bungalow villas at Desa Heights
- The Palms Residence, Lumut
- Prima Hills, Kajang

Proposed Planned Projects

- Future Development in Jelutong, approved building plan for a total 600,000 sq ft of commercial and residential
- Future Development in Tanjung Bunga, Penang, proposed plan for a 300,000 sq ft of commercial SOHO

4. INFORMATION ON CDMSB

CDMSB is a private limited company incorporated in Malaysia under the Companies Act, 1965. CDMSB is a 70%-owned sub-subsidiary of Compugates, held via Compugates Marketing Sdn Bhd, a wholly-owned subsidiary of Compugates. The remaining 30% shareholder of CDMSB is Datin Sabariah Binti Dahlan. The authorised share capital of CDMSB is RM100,000 comprising 100,000 ordinary shares of RM1.00 each, of which RM100 comprising 100 ordinary shares of RM1.00 each are fully paid-up.

The principal activities of CDMSB is currently dormant.

5. SALIENT TERMS OF THE JOINT-VENTURE AGREEMENT

5.1 Agreement for joint venture development of the Land

CDMSB has agreed to appoint and grant MUSB the exclusive right to develop the Land and MUSB has agreed to undertake and carry out the overall development, construction, and completion on the Land into a commercial development scheme together with such facilities, infrastructure and amenities to be developed and completed by MUSB at its own cost and expense in accordance with the provisions of the JV Agreement.

5.2 Conditions precedent

The JV Agreement is subject to and conditional upon the fulfillment of the following conditions precedent:

- (a) MUSB obtaining the subdivision approval for the subdivision of the Land into subdivided individual lots for purposes of the Project;
- (b) MUSB obtaining the layout plan approval for the layout plan for the purposes of the Project;
- (c) MUSB obtaining the building plans approval of the Project or where the Project is to be developed in phases, the first building plan approval for the phases;
- (d) MUSB obtaining the Development Order for the development of the Project;
- (e) MUSB obtaining the consent in writing from the relevant authority or

authorities, or the owner or the occupier of the neighbouring land, to the access road which provides ingress and egress from and to the Land as shall be proposed MUSB;

- (f) MUSB obtaining all such other consents, permits and approvals of the appropriate authorities as hereafter become necessary for the carrying out of the Project;
- (g) CDMSB has the full power and authority under its memorandum and articles of association to enter into the JV Agreement and to do all the acts and things on it part to be done and performed under the JV Agreement;
- (h) CDMSB procuring and obtaining, in its best effort, within thirty (30) days from the date of the JV Agreement, the approval of its Board of Directors. CDMSB shall also procure the approval of its shareholders in a general meeting, if applicable, to undertake the joint-venture within reasonable time frame as per any written laws and/or listing requirements;
- (i) MUSB procuring and obtaining, in its best effort, within thirty (30) days from the date of the JV Agreement, the approval of its Board of Directors, as well as the approval of its shareholders in a general meeting, if applicable, to undertake the joint-venture; and
- (j) due compliance by CDMSB or its parent company, on best effort basis, within one (1) year from the date of the JV Agreement, with all regulations, rules and requirements for purpose of entering into the JV Agreement

5.3 Gross Development Value (“GDV”)

MUSB warrants that based on the market values of the commercial properties in vicinity of the Project, barring any unforeseen circumstances, the combined GDVs of all phases of the Project upon completion shall not be less than RM1,000,000,000 but MUSB shall use all commercially reasonable effort to achieve a targeted combined GDVs of RM1,500,000,000 more or less.

5.4 Completion date

The Project shall be completed by MUSB within a period of ten (10) years from the date of MUSB obtaining the first building plan approval in respect of first phase of the Project (“**1st BP Approval Date**”).

5.5 CDMSB’s entitlement

MUSB shall pay CDMSB entitlements of a minimum of RM220,000,000 or equivalent to 22% of the combined GDVs of RM1,000,000,000, or RM330,000,000 equivalent to 22% of the targeted combined GDVs of RM1,500,000,000 within such periods of time and subject to the terms and conditions as set out in the JV Agreement.

MUSB shall be entitled at its sole discretion to settle any one of CDMSB's entitlements either in cash, or by allocating to CDMSB such number of lots (or units) in the relevant phase or phases as shall equal in value the entitlement, or by such combination of cash and lots (or units) as shall equal in value. and for the avoidance of doubt, the values of the said lots (or units) to be allocated to CDMSB shall be the actual selling prices then determined by MUSB for other similar lots (or units),

5.6 Initial payments

MUSB shall pay CDMSB the sums as follows:-

- (a) upon the execution of JV Agreement, MUSB shall pay to CDMSB a sum of RM5,000,000.00 ('**1st Payment**'); and
- (b) within two (2) months of the 1st BP Approval Date, MUSB shall pay CDMSB a further sum of RM5,000,000.00 ('**2nd Payment**').

The 1st Payment and 2nd Payment ("**Initial Payments**") shall be refunded to MUSB, free of interest, within fourteen (14) days of receipt a demand following the issuance of the final completion certificate to the last phase of the Project, failing which MUSB shall be at entitled to deduct the same from CDMSB's entitlement then due and payable.

5.7 Termination

Upon the occurrence of any of the following events:

- (i) if any party hereto shall fail, refuse or neglect to take all necessary action to completely and or fully remedy and or cure any breach or default of the JV Agreement within thirty (30) days from the date of service of any written notice by the other party complaining of such breach and or default; or
- (ii) if any party go into voluntary liquidation otherwise than for the purpose of reconstruction or amalgamation, or a petition or an order or resolution is made for its winding-up or compulsory liquidation, or enter into any composition or arrangement with its creditors or a receiver or receiver and manager is appointed over the whole or any part of its undertaking or assets; or
- (iii) if a distress or execution is levied or issued against any asset or property of any party,

then and in any event, subject to clause 9.15 of the JV Agreement in relation to specific performance, the other party shall have the right to give not less than thirty (30) days' written notice terminating the JV Agreement.

6. BASIS AND JUSTIFICATION OF CDMSB'S ENTITLEMENT

CDMSB's entitlement was arrived at between CDMSB and MUSB on a "willing buyer-willing seller" basis after taking consideration the following:

- (i) the market value of the Land of RM100,000,000 as appraised by Irhamy & Co, an independent registered valuer via their update valuation dated 31 December 2014; and
- (ii) the development potential and prospects of the Land.

CDMSB's entitlement of a minimum of RM220,000,000 represents a premium of at least RM120,000,000 to the market value of the Land of RM100,000,000 as appraised by the valuer.

7. RATIONALE FOR THE PROPOSED JOINT VENTURE

CDMSB is desirous to develop the Land into a commercial development scheme and MUSB has the technical expertise, knowledge and experience in carrying out and completing development project.

The parties seek to optimise the strengths of each partner in their respective fields.

The Company intends to diversify the business of the Group to enhance the income/revenue by unlocking the value of the commercial Land owned by CDMSB through a joint venture with MUSB. CDMSB will minimize its risk as the Land will not be charged for this development and all funding for the development will be from MUSB.

Compugates sees the potential to unlock the value of the Land valued at RM100 million for a minimum return of RM220 million, with a targeted return of RM330 million or more depending on the GDV upon completion of the Project which Compugates is entitled to 22% as the land owner. This will take place over a period of 10 years once authority approvals have been obtained.

By entering into this JV Agreement and working together with MUSB, Compugates sees a very high potential as it will create long term recurring income to the Company.

8. LIABILITIES TO BE ASSUMED

There are no liabilities to be assumed by Compugates arising from the Proposed Joint Venture.

9. PROSPECTS

The Company sees very high prospects in this Proposed Joint Venture as its surrounding developments have begun to take place such as MCT Berhad's projected RM6.5billion Cybersouth project located in very close proximity to the Land.

10. RISKS

The Proposed Joint Venture will be subjected to risk associated to the property development industry which includes:-

- (a) Business risks;
- (b) Operation risks;
- (c) Default risks;
- (d) Dependency on key management personnel;
- (e) Project risks; and
- (f) Political, economic and regulatory risks.

In addition, the Proposed Joint Venture is subject to the risk of non-completion or delays in the execution of the Joint Venture Agreement. The completion of the Proposed Joint Venture is conditional upon the realisation of the conditions precedent in the Joint Venture Agreement.

There can be no assurance that the abovesaid risk may have a material impact on Compugates. However, Compugates will take and continue to take all reasonable steps to ensure satisfaction and/or waiver, as the case may be, to ensure successful implementation of the Proposed Joint Venture.

11. EFFECTS OF THE PROPOSED JOINT VENTURE

The Proposed Joint Venture is not expected to have a material effect on the net assets and gearing of Group for the financial year ending 31 December 2015. However, the Proposed Joint Venture is expected to contribute to the earnings of the Group after the financial year ending 31 December 2015.

The Proposed Joint Venture will not have any effects on the issued and paid-up share capital of Compugates, as well as its substantial shareholders' shareholdings.

12. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTEREST

None of the Directors and substantial shareholders of Compugates and/or person(s) connected to them have any interest, direct or indirect in the Proposed Joint Venture.

13. APPROVALS REQUIRED

The Proposed Joint Venture is subject to the approval of shareholders of the Company.

14. STATEMENT OF THE DIRECTORS

The Board, having considered all aspects of the Proposed Joint Venture, is of the opinion that the Proposed Joint Venture is in the best interest of Compugates.

Compugates Holdings Berhad

Announcement dated 19 August 2015

15. DOCUMENTS AVAILABLE FOR INSPECTION

The JV Agreement is available for inspection at the registered office of the Company at No. 2-1, Jalan Sri Hartamas 8, Sri Hartamas, 50480 Kuala Lumpur during normal business days from Mondays to Fridays (except public holidays) for a period of three months from the date of this announcement.

This announcement is dated 19 August 2015.