

## BERTAM ALLIANCE BERHAD (“BERTAM” OR THE “COMPANY”)

PROPOSED VARIATION TO THE UTILISATION OF PROCEEDS ARISING FROM THE DISPOSAL OF TWO (2) PARCELS OF FREEHOLD LAND HELD UNDER GERAN MUKIM 563, LOT 809 AND GERAN MUKIM 415, LOT 810, BOTH LOCATED IN MUKIM CHERAS, DAERAH HULU LANGAT, NEGERI SELANGOR BY MV PROPERTIES SDN BHD, AN INDIRECT WHOLLY-OWNED SUBSIDIARY OF BERTAM, TO TUJUAN OPTIMA SDN BHD WHICH WAS COMPLETED ON 24 MARCH 2017 (“PROPOSED VARIATION”)

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### 1. INTRODUCTION

The board of directors of Bertam (“**Board**”) wishes to announce that the Company proposes to vary the utilisation of proceeds arising from the disposal of two (2) parcels of freehold land held under Geran Mukim 563, Lot 809 and Geran Mukim 415, Lot 810, both located in Mukim Cheras, Daerah Hulu Langat, Negeri Selangor (“**Cheras Lands**”) by MV Properties Sdn Bhd (“**MV Properties**”), an indirect wholly-owned subsidiary of Bertam, to Tujuan Optima Sdn Bhd which was completed on 24 March 2017 (“**Cheras Lands Disposal**”) (“**Proposed Variation**”).

### 2. DETAILS OF THE PROPOSED VARIATION

Reference is made to the proposed utilisation of proceeds of RM128.0 million derived from the Cheras Lands Disposal (“**Cheras Lands Disposal Consideration**”) as disclosed in the circular to shareholders dated 28 September 2016.

The Cheras Lands Disposal has been completed on 24 March 2017 and raised a total gross proceeds of RM128.0 million. As at 21 April 2017, being the latest practicable date (“**LPD**”) prior to this announcement, Bertam and its subsidiaries (“**Bertam Group**” or “**Group**”) has utilised approximately RM71.40 million out of the RM128.00 million gross proceeds raised from Cheras Lands Disposal.

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The Company intends to vary the utilisation of the Cheras Lands Disposal Consideration as follows:

Purpose of Utilisation	Approved Proposed Utilisation <sup>(1)</sup>	Actual Utilisation as at LPD	Unutilised Amount as at LPD	Proposed Variation	After Proposed Variation	
					Amount	Expected Timeframe for Utilisation from the date of EGM <sup>#</sup>
	RM million	RM million	RM million	RM million	RM million	RM million
Repayment of bank borrowings <sup>(2)</sup>	110.00	(60.15)	49.85	(33.85)	16.00	Within 18 months
Working capital <sup>(3)</sup>	17.00	(10.30)	6.70	8.85	15.55	Within 18 months
Estimated expenses of the Cheras Lands Disposal <sup>(4)</sup>	1.00	(0.95)	0.05	(0.05)	-	-
Estimated expenses of the Proposed Variation <sup>(4)</sup>	-	-	-	0.05	0.05	Within 18 months
Acquisition of land bank(s) <sup>(5)</sup>	-	-	-	25.00	25.00	Within 18 months
<b>Total</b>	<b>128.00</b>	<b>71.40</b>	<b>56.60</b>	<b>-</b>	<b>56.60</b>	

Note #: "EGM" denotes extraordinary general meeting

**Notes:**

- (1) *As disclosed in Bertam's circular to shareholders dated 28 September 2016 and approved by the shareholders of Bertam during the EGM held on 14 October 2016.*
- (2) *Approximately RM45.15 million was used to repay bank borrowings (inclusive of interests) and RM15.00 million was placed into a debt service reserve account as an additional security for one of the term loan facilities granted by a financial institution to Bertam's subsidiary. The repayment of the bank borrowings was mainly made to OCBC involving a settlement amount of approximately RM42.65 million pursuant to the discharge and release of title deeds on the encumbered Cheras Lands to MV Properties in order to facilitate the Cheras Lands Disposal while the remaining amount of approximately RM2.50 million was made to Public Bank for the monthly installment payments and interest servicing.*

*As at the LPD, the outstanding bank borrowings owing by the Group to the financial institutions is approximately RM64.59 million. In view that Bertam had previously proposed to repay all the bank borrowings from the Cheras Lands Disposal Consideration which were made known to its lenders, the Company will discuss with its respective lenders on the arrangement to continue maintaining the banking facilities offered by them. The remaining unutilised fund in the repayment of bank borrowings account of approximately RM16 million serve as contingency for the Group to meet its current interest servicing and principal repayment during the gestation period before the Group generates income from its property development or construction businesses.*

- (3) *As at the LPD, the actual working capital utilised was approximately RM10.30 million for payments associated with the Cheras Lands Disposal such as payment to Inland Revenue Board of Malaysia for real property gain tax of approximately RM6.30 million and realtor commission fee of approximately RM4.00 million.*

*The remaining unutilised working capital of approximately RM6.7 million together with the additional working capital of RM8.85 million pursuant to the Proposed Variation resulting in an aggregate working capital fund of RM15.55 million shall be used to support our Group's day-to-day operations which shall include, but not limited to, the payment to suppliers, contractors, consultants, contingent claims and other property development related expenses. The other property development related expenses include amongst others, contributions in respect of joint developments of land such as capital or equity investment outlay and payment of landowner(s)' entitlements; pre-development feasibility expenses and costs including contribution payments to the relevant authorities in respect of property development projects undertaken or to be undertaken; premium on conversion of land use; and any ancillary costs associated with securing land banks for acquisition and property development. The exact breakdown of the utilisation for each specific purpose of the working capital cannot be determined at this juncture as the actual amount used for each specific purpose may differ at the time of utilisation which hinges on the then operating requirements.*

- (4) *The actual expenses incurred for the corporate exercise in relation to the Cheras Lands Disposal was lower than that estimated. The remaining unutilised balance of approximately RM50,000 shall be allocated for*

*expenses incurred or to be incurred for the corporate exercise relating to the Proposed Variation which comprises professional fees, fees payable to the relevant authorities, expenses incurred in convening the EGM, printing advertisement and other ancillary expenses.*

- (5) *Bertam Group may undertake land bank acquisitions which are currently under evaluation.*

Notwithstanding the indicated estimated time frame for the utilisation of each allocated fund account stated in the above table, should there be at any point of time our Group experience any shortfall in either of the above four (4) allocated fund accounts namely, repayment of bank borrowings, working capital, estimated expenses of the Proposed Variation and acquisition of land banks (collectively known as “Allocated Fund Accounts”), to meet the Group’s financial obligations as they fall due, the Board shall has the discretion to vary the proposed allocation of the utilisation between the Allocated Fund Accounts irrespective of the quantum and based on priority needs without having to obtain shareholders approval so long as the purpose of the usage conforms with the Allocated Fund Accounts. Such interchangeability of funds usage is essential for the Group to exploit the favorable market condition and to undertake profitable projects without any disruption in funding shortage.

Pending utilisation of the funds allocated for the above purposes, the funds are currently placed in money market deposit accounts with financial institutions, earning an interest rate of 2.95% per annum. The interest income derived from the fixed deposits placed with the financial institutions will be either used as additional working capital or to fund the acquisition of land banks or repayment of bank borrowings based on the Board’s discretion.

Consequential to the Proposed Variation, the estimated timeframe for the utilization of the remaining proceeds raised from the Cheras Lands Disposal of RM56.6 million is proposed to be extended to eighteen (18) months from the date of the forthcoming EGM to be convened.

### **3. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSED VARIATION**

As at the LPD, Bertam and its group of subsidiaries (“**Bertam Group**” or the “**Group**”) has a total of approximately 34.77 acres of undeveloped land banks (excluding the agricultural land at Gemencheh, Tampin, Negeri Sembilan measuring 485.06 acres which has been sold and is pending completion as announced by the Board on 25 October 2016). Bertam Group intends to build up its land banks in strategic locations with future development potential in order to ensure continuous long-term growth and sustainability of earnings. In consequence thereof, the Group continually search for strategic land banks and are presently in the midst of evaluating the feasibility of the identified land banks for acquisition. Since the availability of strategic or prime land is scarce, it is imminent for the Group to conserve cash in order to place us in a stronger negotiating power with the vendors of the lands apart from quicker turnaround in decision-making amongst others, without having to depend on the availability of external financing. Bertam shall release the appropriate announcement to Bursa Securities should the Group decides to acquire any of the identified lands and to seek its shareholders’ approval, if required.

In addition to the above, it is important to maintain sufficient working capital level for our day-to-day running of the business and property development projects to ensure liquidity, smoothness and profitability taking into account of the construction business

gestation period of between two (2) to four (4) years. A higher level of working capital is usually required in the early stages of any project development as it involves infrastructure costs such as earthworks, road, sewerage and drainage systems, electricity and water supplies as well as landscaping works. A property development project will only generate the desired cash flows and returns when the construction of the property is completed and is ready for sale.

In view of the above, the Board opines that the Proposed Variation will provide the Group with readily available fund to capitalise on any opportunity to acquire and to expand its land banks should the opportunity arises; and to meet the Group's immediate needs for our day-to-day running of the business and development of the property. The Board has also taken into account of the followings in recommending for the Proposed Variation:

- (i) The Group's business nature in property development which is deemed capital intensive will invariably requires financing for land banks acquisition and property development. Going forward, it is likely that bank's credit condition will be tighter and stricter limits will be imposed on the borrowers. Hence, it could be difficult for the Group to secure new bank borrowings at a favourable interest rate in the future to fund the Group's land banks acquisition and property development projects. Based on the respective lending rates imposed on the present banking facilities extended by the financial institutions of between 5.55% per annum to 8.45% per annum and assuming a prevailing base lending rate or cost of fund of between 3.55% and 6.72%, the Group is currently enjoying an attractive average effective interest rate on bank borrowings of approximately 6.72% per annum;
- (ii) As at 31 December 2016, Bertam Group's unaudited shareholders' equity stood at approximately RM144.2 million and outstanding bank borrowings recorded at RM105.1 million. Subsequent to the repayment of bank borrowings of approximately RM45.15 million as set out in Note<sup>(2)</sup> of Section 2 of this Circular, the Group's outstanding bank borrowings are reduced to about RM59.6 million as at the LPD which translated into approximately 45% gearing ratio. This is a fairly balanced capital structure and it will be more beneficial for the Group to leverage on the present debt financing facilities extended by the respective financial institutions in order to maximise value to shareholders. Moreover, the type of the existing loan facilities are all term loans with tenures maturing between 2020 to 2030 except for one overdraft facility which is subject to annual review by the lender bank;
- (iii) The net impact on the Group's profitability due to the opportunity loss in interest savings from the non-repayment of the remaining unutilised proceeds raised from Cheras Lands Disposal of RM49.85 million to the financial institutions is immaterial as the loss in interest savings is cushioned off by the interest income earned on the said RM49.85 million which is currently being placed in money market deposit account with financial institution pending utilisation, at an interest rate of 2.95% per annum. For illustration purpose, based on our average effective bank borrowings rate of 6.72% per annum and against the interest earned on money market deposits of 2.95%, the net interest expense is 3.77% per annum which translates into opportunity loss in net interest savings of approximately RM1.88 million or 0.91 sen per Bertam share for the first year based on the above RM49.85 million.

In summary, the Proposed Variation will enable Bertam Group to exploit the favorable market condition and to undertake profitable projects without any disruption in funding shortage.

## **4. EFFECTS**

### **4.1 Share capital and substantial shareholders' shareholding**

The Proposed Variation will not have any effect on the share capital and substantial shareholders' shareholdings in Bertam as the Proposed Variation does not involve any issuance of new ordinary share in Bertam.

### **4.2 Net assets per share and gearing**

The Proposed Variation will not have any material effect on the consolidated net assets per share and gearing of Bertam for the financial year ended 31 December 2016 based on the assumption that the Proposed Variation had been effected on that date.

### **4.3 Earnings and earnings per share**

The Proposed Variation is not expected to have a material effect on the consolidated earnings and earnings per share of Bertam for the financial year ending 31 December 2017 but is expected to be earnings accretive and will contribute positively to the future earnings or earnings per share of Bertam in the long run.

## **5. APPROVAL REQUIRED**

The Proposed Variation is subject to the approval of Bertam's shareholders at the forthcoming EGM to be convened.

The Proposed Variation is not conditional upon any other corporate proposal or scheme undertaken by Bertam which has been announced but pending completion.

## **6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS**

None of the Directors and/or major shareholders of Bertam and/or persons connected to them have any interests, whether direct or indirect, in the Proposed Variation.

## **7. BOARD'S STATEMENT AND RECOMMENDATION**

The Board after having considered all aspects of the Proposed Variation, including but not limited to the rationale as set out in Section 3 of this Circular, is of the opinion that the Proposed Variation is in the best interest of Bertam Group.

## **8. SUBMISSION TO THE AUTHORITY AND ESTIMATED TIMEFRAME FOR COMPLETION**

The draft circular to shareholders in relation to the Proposed Variation is expected to be submitted to Bursa Securities for clearance within one (1) week from the date of this announcement.

The Proposed Variation is expected to be completed by the second quarter of 2017.

This announcement is dated 21 April 2017.