MESB BERHAD ("MESB" or the "Company")
Proposed disposal of Dynamic Communication Link Sdn Bhd for a total cash consideration of RM15,000,000

1. INTRODUCTION

On behalf of the Board of Directors of MESB ("**Board**"), HwangDBS Investment Bank Berhad wishes to announce that MESB has today, entered into a share sale agreement ("**Agreement**") with Touch Mindscape Sdn Bhd ("**TMSB**") in relation to the Proposed Disposal (as defined in Section 2.1 below). The Proposed Disposal represents a good opportunity for MESB to realise their investment and unlock the value of Dynamic Communication Link Sdn Bhd ("**DCLSB**").

2. THE PROPOSED DISPOSAL

2.1 The Proposed Disposal

MESB is proposing to dispose of its 55% equity interest in DCLSB comprising 275,000 ordinary shares of RM1.00 each ("**Sale Shares**") to TMSB for a total cash consideration of RM15,000,000 ("**Proposed Disposal**").

2.2 Basis and justification for the sale consideration

The sale consideration of RM15,000,000 for the Proposed Disposal was arrived at on a 'willing buyer-willing seller' basis after taking into account the earnings capacity and net assets ("**NA**") of DCLSB.

Based on DCLSB's audited financial statements for the financial year ended 31 March 2011, the profit after tax ("**PAT**") of DCLSB was approximately RM1,781,000. The sale consideration of RM15,000,000 for a 55% equity interest in DCLSB represents a price earnings ratio of 15.31 times based on the audited PAT of DCLSB for the financial year ended 31 March 2011.

The audited NA of DCLSB based on its audited financial statements as at 31 March 2011 was approximately RM6,188,000. Therefore, the sale consideration of RM54.55 per Sale Share represents a premium of RM42.17 or 341% above the audited NA per ordinary share of DCLSB of RM12.38 as at 31 March 2011.

The sale consideration of RM15,000,000 in cash shall be settled in accordance with the terms of the Agreement, as set out in Section 3 (ii) below.

2.3 Liabilities to be assumed

Save for the liabilities disclosed in the financial statements of DCLSB, there are no other liabilities to be assumed by TMSB pursuant to the Proposed Disposal.

2.4 Information on DCLSB

DCLSB (formerly known as Danau Ilham Sdn Bhd) is a company limited by shares incorporated in Malaysia under the Companies Act 1965 since 29 November 1995. It has an issued and paid-up share capital of RM500,000 comprising 500,000 ordinary shares of RM1.00 each. DCLSB is principally engaged in the business of project management, which includes the design, construction and maintenance of telecommunication towers and other related structures in the state of Melaka. DCLSB is currently a 55%-owned subsidiary of MESB. DCLSB is a joint venture company whose shareholders include MESB (55%), Melaka ICT Holdings Sdn Bhd (25%), Haruman Ulung Sdn Bhd (10%) and Darab Girang Sdn Bhd (10%). Please refer to Appendix I for further information on DCLSB.

MESB's date and original cost of investment in DCLSB are as below:

Date	Cost of investment (RM)	No. of shares in DCLSB
5 August 2004	2,302	2
25 January 2006	274,998	274,998
	277,300	275,000

2.5 Information on TMSB

TMSB is a company limited by shares incorporated in Malaysia under the Companies Act 1965 since 8 August 2006. It has an issued and paid-up share capital of 1,000,000 comprising 900,000 ordinary shares of RM1.00 each and 100,000 preference shares of RM1.00 each. TMSB is principally engaged in the provision of management services and construction.

The Directors of TMSB are Tengku Dato' Muhamad Mazlan Bin Tengku Putera Zainal Abidin, Raja Dato Mufik Affandi Bin Raja Khalid and Dato' Mohd Pathil Bin Ahmad.

The substantial shareholders of TMSB are KDYTM Tengku Abdullah Ibni Sultan Haji Ahmad Shah, Raja Dato Mufik Affandi Bin Raja Khalid, Tengku Dato' Muhamad Mazlan Bin Tengku Putera Zainal Abidin and Dato' Mohd Pathil Bin Ahmad.

2.6 Proposed utilisation of proceeds

MESB is proposing to utilise the total cash proceeds from the Proposed Disposal amounting to RM15,000,000 as follows:

	Note	Amount allocated	Timeframe for the proposed utilisation of proceeds
		RM'000	
Working capital	(1)	4,700	Within 2 years from the receipt of the proceeds
Future investments	(2)	10,000	Within 2 years from the receipt of the proceeds
Estimated expenses to be incurred for the Proposed Disposal	(3)	300	Within 1 month from the receipt of the proceeds
Total		15,000	

Notes:

*(1) The allocated proceeds for working capital requirements shall be utilised to fund the purchase of inventories, namely leather products, for the trading business of the MESB group of companies ("**MESB Group**" or "**Group**").*

(2) A portion of the proceeds is allocated for future investments, which the Board has yet to identify as at the date of this announcement. Pending the identification of the investments, the proceeds will be invested in short-term deposits, such as fixed deposits or repurchase agreements.

(3) The estimated expenses include professional fees, fees payable to relevant authorities and other related expenses incurred on the Proposed Disposal. Any shortfall or excess in funds allocated for estimated expenses will be funded from or used for working capital purposes.

3. SALIENT TERMS OF THE AGREEMENT

The salient terms of the Agreement include, amongst others, the following:

(i) Sale of DCLSB

Subject to the terms and conditions of the Agreement, MESB ("**Vendor**") has agreed to sell and TMSB ("**Purchaser**") has agreed to purchase the Sale Shares free from all claims, charges, liens, encumbrances and equities together with all rights attached thereto and all dividends and distributions declared paid or made in respect thereof.

(ii) Consideration

The consideration for the Sale Shares is RM15,000,000 and shall be paid by the Purchaser to the Vendor in the manner as set out below:

(a) the sum of RM3,000,000 ("**Deposit**") which sum represents 20% of the sale consideration shall be paid by the Purchaser to the Vendor within seven (7) business days from the date of the Agreement; and

(b) within three (3) months from the Unconditional Date, the Purchaser shall pay the balance of the sale consideration amounting to RM12,000,000 ("**Balance Purchase Sum**") provided always that from the Balance Purchase Sum a sum of RM1,500,000 shall be retained by the Purchaser's solicitors ("**Retention Sum**") which shall be dealt with in the following manner:

   (I) within six (6) months from the Unconditional Date ("**Retention Period**"), in the event that the Purchaser shall be obliged, compelled or required to dismantle or remove any of the ten (10) telecommunications towers as set out in the Agreement by reason that the rights to utilise the land upon which the telecommunications towers are erected cannot be secured to and for the benefit of the Purchaser, the Purchaser shall be entitled to deduct from the Retention Sum a sum of RM150,000 for each telecommunications tower dismantled or removed; and

   (II) upon the expiry of the Retention Period, the Purchaser's solicitors shall release the Retention Sum less any deductions pursuant to Section 3 (ii)(b)(I) above to the Vendor.

(c) in the event the Purchaser fails to pay the Balance Purchase Sum on or before the business day falling three (3) months from the date of the Agreement or three (3) months from the Unconditional Date, whichever is later ("**Completion Date**"), the Vendor shall grant to the Purchaser an automatic extension until the business day falling two (2) months after the Completion Date ("**Extended Completion Date**") to enable the Purchaser to settle the Balance Purchase Sum provided that simple interest at the rate of eight per centum (8.0%) per annum shall be payable by the Purchaser on the Balance Purchase Sum or any part thereof remaining outstanding from the day immediately after the Completion Date to the date the Balance Purchase Sum is paid in full and the interest shall be paid within fourteen (14) business days from the date of the payment of the Balance Purchase Sum.

(iii) Condition Precedent

The sale of the Sale Shares to the Purchaser is conditional upon the Vendor obtaining the approval of its shareholders at an extraordinary general meeting ("**EGM**") to be convened.

(iv) **Application for Approvals**

The Vendor shall within twenty one (21) days from the date of the Agreement take the necessary steps to submit the draft circular to the authorities for their perusal and to do all things necessary to obtain the required approvals. Save for the approval referred to in Section 3 (iii) above, the Vendor covenants that there are no regulatory and/or governmental approvals necessary for the Proposed Disposal.

(v) **Unconditional Date**

The date of fulfilment of the last of all the Conditions Precedent on or before the Cut Off Date (as defined in Section 3 (vi) below) shall be the Unconditional Date. The Purchaser shall be entitled to terminate the Agreement in the event of the Vendor's failure to fulfil the Condition Precedent on or before the Cut Off Date, in which case all monies paid by the Purchaser including the Deposit shall be returned to the Purchaser and neither party shall have any claim against the other party.

(vi) **Cut Off Date**

The Cut Off Date shall be the business day falling three (3) months from the date of the Agreement, or such other longer period after the said three (3) months' period as may be mutually agreed upon in writing between the Vendor and the Purchaser.

Notwithstanding any of the provisions contained in the Agreement, in the event of the approvals and/or consents and conditions mentioned in the Agreement not being obtained or fulfilled on the Cut Off Date despite all reasonable efforts by the Vendor and the Purchaser, then the Agreement shall lapse and be of no further effect whereupon the Vendor shall refund or cause to be refunded to the Purchaser all monies paid by the Purchaser to the Vendor and/or the Vendor's solicitors under and pursuant to the Agreement free of interest, and thereafter the Vendor and the Purchaser shall be released from all further obligations to each other unless any extensions in time are otherwise agreed by the Vendor and the Purchaser.

4. RATIONALE FOR THE PROPOSED DISPOSAL

The Board is of the view that the Proposed Disposal would provide a good opportunity for the Group to unlock the value and realise its investment in DCLSB.

Further, the cash proceeds would provide additional funds for the working capital of the Group, as well as future investments. The proceeds for working capital and future investments will be utilised to fund the expansion of the Group's existing businesses as well as to finance the acquisition or investment into synergistic or new viable ventures for the Group, in order to enhance the earnings of the Group.

5. RISK FACTORS

5.1 Completion risk

The completion of the Proposed Disposal is conditional upon the Condition Precedent as set out in Section 3 (iii) above being satisfied in accordance with the terms of the Agreement. There can be no assurance that such approval will be obtained and/or satisfied. MESB will continue to take all reasonable steps to ensure the satisfaction of the Condition Precedent to ensure completion of the Proposed Disposal.

5.2 Contractual risk

MESB has given warranties, undertakings and/or indemnities as set out in the Agreement, in favour of TMSB. In this respect, MESB may be subject to claim for the breach of any warranties, undertakings and/or indemnities given.

The Board and the management of MESB will endeavour to ensure compliance with its obligations under the Agreement in order to minimise the risk of any breach of the warranties, undertaking and/or indemnities given.

6. EFFECTS OF THE PROPOSED DISPOSAL

6.1 Issued and paid-up share capital

The Proposed Disposal will not have any effect on the share capital of MESB as it does not involve any issuance of new ordinary shares of MESB.

6.2 NA and gearing

Based on the audited consolidated financial statements of MESB as at 31 March 2011 and on the assumption that the Proposed Disposal had been affected on that date, the proforma effects, of the Proposed Disposal on the NA and gearing of the MESB Group are as follows:

	Audited as at 31 March 2011	After the Proposed Disposal
	RM'000	**RM'000**
Share capital	42,000	42,000
Share premium	5	5
Capital reserve	37	37
Retained profits	10,180	21,562
Shareholders funds/ NA	**52,222**	**[1]63,604**
Number of shares ('000)	42,000	42,000
NA per share (RM)	**1.24**	**1.51**
Borrowings		
- Hire purchase payables	1,345	[2]1,341
- Term loans	12,581	[2]4,554
- Bank acceptance	7,687	7,687
- Bank overdrafts	312	312
Total borrowings	21,925	13,894
Gearing (times)	**0.420**	**0.218**

Notes:

(1) For illustrative purposes, based on the audited consolidated financial statements of MESB as at 31 March 2011 and on the assumption that the Proposed Disposal had been effected on that date, the MESB Group expects to realise a proforma non-recurring gain on disposal (after deducting the estimated expenses of RM300,000 to be incurred for the Proposed Disposal) of approximately RM11,382,000.

(2) Borrowings would be reduced following the deconsolidation of DCLSB's borrowings from the Group's borrowings.

6.3 Shareholdings of the substantial shareholders

The Proposed Disposal will not have any effect on the substantial shareholders' shareholdings.

6.4 Earnings and Earnings per share ("EPS")

The Proposed Disposal is expected to be completed by the first quarter of 2012. For illustrative purposes, based on the audited consolidated financial statements of MESB as at 31 March 2011 and on the assumption that the Proposed Disposal had been effected on that date, MESB expects to realise a proforma gain on disposal (after deducting the estimated expenses of RM300,000 to be incurred for the Proposed Disposal) of approximately RM11,382,000, which translates to a proforma non-recurring gain on disposal per MESB share of 27.1 sen, increasing EPS from 18.6 sen to a proforma EPS of 45.7 sen.

However, following the completion of the Proposed Disposal, MESB Group will cease to have any profit contribution from DCLSB.

7. APPROVALS

The Proposed Disposal is subject to the approval of the shareholders of MESB at an EGM to be convened.

Barring any unforeseen circumstances, the submission of the draft circular to shareholders to Bursa Malaysia Securities Berhad ("**Bursa Securities**") on the Proposed Disposal will be made within twenty one (21) days from the date of this announcement.

8. DIRECTORS' AND/OR MAJOR SHAREHOLDERS' INTERESTS AND/OR PERSONS CONNECTED TO THEM

None of the Directors and/or major shareholders of MESB and/or persons connected with the said Directors or major shareholders, has any interest, direct or indirect, in the Proposed Disposal.

9. DIRECTORS' STATEMENT

The Board is of the opinion that the Proposed Disposal is in the best interest of MESB.

10. ADVISERS

HwangDBS Investment Bank Berhad has been appointed as the Principal Adviser to MESB for the Proposed Disposal.

11. ESTIMATED TIMEFRAME FOR THE COMPLETION OF THE PROPOSED DISPOSAL

Subject to all the required approvals being obtained, the Proposed Disposal is expected to be completed by the first quarter of 2012.

12. HIGHEST PERCENTAGE RATIO APPLICABLE TO THE PROPOSED DISPOSAL PURSUANT TO PARAGRAPH 10.02(G) OF THE LISTING REQUIREMENTS ("PERCENTAGE RATIO")

The highest Percentage Ratio applicable to the Proposed Disposal pursuant to paragraph 10.02 (g) of Bursa Securities Main Market Listing Requirements ("**Listing Requirements**") is paragraph 10.02 (g) (iii), "the aggregate value of the consideration given or received in relation to the transaction, compared with the net assets of the listed issuer", which is 28.72% based on the latest audited financial statements of MESB and DCLSB as at 31 March 2011.

Therefore, based on paragraph 10.07 of the Listing Requirements, MESB must issue a circular setting out the required information pursuant to the Listing Requirements to its shareholders, and seek shareholders' approval on the Proposed Disposal in a general meeting.

13. DOCUMENT FOR INSPECTION

The Agreement is available for inspection at MESB's registered office at 10th Floor Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur during normal office hours from Mondays to Fridays (except for public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 1 December 2011.

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INFORMATION ON DCLSB

1. FINANCIAL INFORMATION

A summary of DCLSB's audited results for the financial period ended ("**FPE**") 31 March 2009, and the financial year ended ("**FYE**") 31 March 2010 and 31 March 2011, and the unaudited results for the 3-month FPE 30 June 2011 are set out below:

	[1]FPE 31 March 2009	FYE 31 March 2010	FYE 31 March 2011	3-month FPE 30 June 2011
	Audited RM'000	Audited RM'000	Audited RM'000	Unaudited RM'000
Revenue	7,520	6,410	6,819	1,697
Profit before tax but after minority interest	3,089	2,028	2,686	733
Profit after tax and minority interest	2,279	1,470	1,781	733
NA/shareholders' funds	3,376	4,847	[2]6,188	6,921
Total borrowings (all interest-bearing debts)	14,231	11,672	8,032	6,865

Notes:

(1) Covers a period of 15 months, from 1 January 2008 to 31 March 2009, due to a change in FYE.

(2) A dividend of RM2.00 per ordinary share amounting to RM1,000.000 was distributed to shareholders from the retained profits of DCLSB during the FYE 31 March 2011.

FPE 31 March 2009

The financial period under review for the FPE 31 March 2009 is from 1 January 2008 to 31 March 2009, as a result of DCLSB changing its FYE from 31 December to 31 March.

For the 15 months FPE 31 March 2009, DCLSB posted a revenue of approximately RM7,520,000, an annualised revenue of approximately RM6,016,000, which is a growth of 28.5% as compared to the previous FYE 31 December 2007, where revenue was approximately RM4,681,000. The higher revenue was mainly attributed to an increase in project management fee pursuant to the project management agreement dated 10 June 2005 entered into between Melaka ICT Holdings Sdn Bhd and Danau Ilham Sdn Bhd (now known as DCLSB) ("**Project Management Agreement**"). The increase in project management fee was due to the increased number of towers built and leased to telecommunication service providers. Owing also to the reduction in operating overheads, DCLSB managed to achieve a pre-tax profit of approximately RM3,090,000 for the 15 months FPE 31 March 2009, an annualised pre-tax profit of approximately RM2,472,000, which is a growth of 133.4% as compared to the previous FYE 31 December 2007, where pre-tax profit was approximately RM1,059,000.

FYE 31 March 2010

For the FYE 31 March 2010, DCLSB recorded a revenue of approximately RM6,410,000, a growth of 6.5% compared with the annualised revenue of approximately RM6,016,000 for the FPE 31 March 2009. The increase in revenue was mainly due to the increase in project management fee pursuant to the Project Management Agreement. The increase in project management fee was due to the increased number of towers built and leased to telecommunication service providers. The incremental rate was lower as compared to the FPE 31 March 2009 as fewer new towers were built during this financial period.

During the financial year, DCLSB made a provision of RM600,000 on allowance for doubtful debts, which largely accounted for the decline on pre-tax profit of 18.0% as compared to the annualised pre-tax profit for the FPE 31 March 2009 (2010: Approximately RM2,028,000, 2009: Annualised amount of approximately RM2,472,000).

FYE 31 March 2011

For the FYE 31 March 2011, DCLSB posted a revenue of approximately RM6,820,000, representing an increase of 6.4% against the previous financial year. The increase in revenue was due to the increased number of towers built and leased to telecommunication service providers. As a result of the growth in revenue, DCLSB achieved a pre-tax profit of approximately RM2,686,000, representing an increase of 32.4% as compared to the previous financial year.

FPE 30 June 2011

For the 3-month FPE 30 June 2011, DCLSB posted a revenue of approximately RM1,700,000, representing an increase of 2.9% against the corresponding FPE 30 June 2010 of approximately RM1,652,000. The increase in revenue as compared to the corresponding FPE 30 June 2010 was mainly due to the increase in project management fee pursuant to the Project Management Agreement. The increase in project management fee was due to the increased number of towers built and leased to telecommunication service providers. The pre-tax profit of DCLSB increased by approximately RM70,000, representing an increase of 10.5% as compared to the previous FPE 30 June 2010 of approximately RM665,000.

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