MESB BERHAD ("MESB" or the "Company")
Proposed disposal of Maintenance Engineering Sdn Bhd for a total cash consideration of RM4,500,000

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 Tepat Pesona Sdn Bhd ("**TPSB**") in relation to the Proposed ME Disposal (as defined in Section 2.1 below).

2. THE PROPOSED DISPOSAL

2.1 The Proposed Disposal

MESB is proposing to dispose of its 100% equity interest in Maintenance Engineering Sdn Bhd ("**ME**") comprising 8,000,000 ordinary shares of RM1.00 each ("**Sale Shares**") to TPSB for a total cash consideration of RM4,500,000 **("Proposed ME Disposal")**.

2.2 Basis and justification for the sale consideration

The sale consideration of RM4,500,000 for the Proposed ME Disposal was arrived at on a 'willing buyer-willing seller' basis after taking into account the earnings track record and capacity, the adjusted net assets ("**NA**") and the contingent liabilities relating to litigations and/or claims of ME as disclosed to TPSB pursuant to the Agreement.

Based on ME's audited financial statements for the financial year ended ("**FYE**") 31 December 2007, financial period ended ("**FPE**") 31 March 2009, FYE 31 March 2010 and 2011, the sale consideration of RM4,500,000 for a 100% equity interest in ME represents the following implied price to earnings ratio:

	FYE 31 December 2007	**(2)FPE 31 March 2009**	**FYE 31 March 2010**	**FYE 31 March 2011**
PATMI/LATMI(1) (RM'000)	134	(1,887)	(1,632)	(3)5,968
Price to earnings ratio (times)	33.58	(4)N/A	(4)N/A	0.75

Notes:
(1) PATMI is defined as profit after taxation and minority interest and LATMI is defined as loss after taxation and minority interest
(2) Covers a period of 15 months, from 1 January 2008 to 31 March 2009, due to a change in FYE
(3) Includes a non-recurring income, being compensation received on insurance claim
(4) Not applicable, due to ME's losses

The audited NA of ME based on its audited financial statements as at 31 March 2011 was approximately RM8,692,000. After taking into account certain asset transfers and disposals as set out in the table below, the adjusted NA of ME will be approximately RM8,196,000. Therefore, the sale consideration of RM0.56 per Sale Share represents a discount of RM0.46 or 45% below the adjusted NA per ordinary share of ME of RM1.02 as at 31 March 2011.

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	Notes	Net adjustments RM'000	As at 31 March 2011 RM'000
Audited NA			8,692
Less:			
• Loss arising from the transfer of club membership to its Director	(1)	(146)	
• Loss arising from the transfer of ME's subsidiary, Crystal United Sdn Bhd to MESB	(1)	(185)	
• Loss arising from the disposal of motor vehicles by ME to MESB	(2)	(165)	(496)
Adjusted NA			8,196

Notes:

(1) Pursuant to the transfers made prior to the Proposed ME Disposal

(2) Pursuant to the transfers made pursuant to the Agreement

The sale consideration of RM4,500,000 shall be settled in accordance with the terms of the Agreement, as set out in Section 3 (ii) and Section 3 (v) below.

2.3 Liabilities to be assumed

Save for the liabilities disclosed in the financial statements of ME, and the contingent liabilities relating to litigations and/or claims amounting to approximately RM7,915,000 as disclosed to TPSB pursuant to the Agreement, there are no other liabilities to be assumed by TPSB pursuant to the Proposed ME Disposal.

2.4 Information on ME

ME is a company limited by shares incorporated in Malaysia under the Companies Act 1965 since 18 March 1971. It has an issued and paid-up share capital of RM8,000,000 comprising 8,000,000 ordinary shares of RM1.00 each. ME is principally engaged in the supply of engineering equipments, spare parts and tools, and the undertaking of engineering and construction projects. ME is currently a wholly-owned subsidiary of MESB. Please refer to Appendix I for further information on ME.

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

Date	Cost of investment (RM)	No. of shares in ME
10/02/1996	16,079,103	2,375,000
30/06/2005	2,625,000	2,625,000
01/06/2006	3,000,000	3,000,000
	21,704,103	8,000,000

2.5 Information on TPSB

TPSB is a company limited by shares incorporated in Malaysia under the Companies Act 1965 since 21 October 2009. It has an issued and paid-up share capital of RM100 comprising 100 ordinary shares of RM1.00 each. Prior to the entry into the Agreement for the Proposed ME Disposal, TPSB has not commenced its business operations.

The Directors of TPSB are Mohammad Nor Bin Dolmat, Rosli Bin Abdul Aziz and Ainuddin Bin Abdul Hamid.

The substantial shareholders of TPSB are Mohammad Nor Bin Dolmat, Rosli Bin Abdul Aziz and Ainuddin Bin Abdul Hamid.

2.6 Proposed utilisation of proceeds

MESB is proposing to utilise the total cash proceeds from the Proposed ME Disposal amounting to RM4,500,000 as follows:

	Note	**Amount allocated**	**Timeframe for the proposed utilisation of proceeds**
		RM'000	
Repayment of amount owing by MESB to ME	(1)	1,969	Within 1 month from the receipt of the proceeds
Repayment of amount owing by related companies to ME	(2)	2,351	Within 1 month from the receipt of the proceeds
Estimated expenses to be incurred for the Proposed ME Disposal	(3)	180	Within 1 month from the receipt of the proceeds
Total		4,500	

Notes:
(1) ME provided financial support to MESB in previous years, the amount of which shall be paid and settled pursuant to the Agreement
(2) ME provided financial support to its related companies (all of which form part of the MESB group of companies) in previous years, the amount of which shall be paid and settled pursuant to the Agreement
(3) The estimated expenses include professional fees, fees payable to relevant authorities and other related expenses incurred on the Proposed ME Disposal. Any shortfall or excess in funds allocated for estimated expenses will be funded from its internally generated funds 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 ME

Subject to the terms and conditions of the Agreement, MESB ("**Vendor**") has agreed to sell and TPSB ("**Purchaser**") has agreed to purchase the Sale Shares free from all liens, pledges, charges and all other encumbrances whatsoever and with all rights attached thereto or accruing thereon from the date of the Agreement including without limitation, all bonuses, rights, dividends and other distributions declared, paid or made thereof.

(ii) Consideration

The consideration for the Sale Shares is RM4,500,000 ("**Purchase Price**") and shall be paid by the Purchaser to the Vendor in the manner as set out below:

(a) A sum of RM450,000 ("**Deposit**") shall be paid by the Purchaser to the Vendor upon the execution of the Agreement. The Deposit shall be refundable in full and free of interest to the Purchaser in the event the Conditions Precedent under Section 3 (iii) below are not fulfilled.

(b) The balance of the Purchase Price amounting to RM4,050,000 shall be payable upon the fulfilment of Section 3 (iii) and Section 3 (vi) below, and shall be payable in accordance with Section 3 (v) below.

(iii) Conditions Precedent

The sale of the Sale Shares to the Purchaser is conditional upon:

(a) The approval(s), if required, of the Securities Commission ("**SC**") and/or Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Approvals**") in relation to the Proposed ME Disposal within seventy (70) days from the date of the Agreement ("**Fulfilment Date**"); and

(b) The Vendor obtaining the approval of its shareholders at an extraordinary general meeting ("**EGM**") to be convened for the Proposed ME Disposal.

(iv) Due Diligence Audit

(a) Upon the execution of the Agreement, the Purchaser shall be entitled to make a full audit by auditors to be appointed by the Purchaser ("**Auditors**") of the components of the balance sheet items of ME including the financial statements and the stocks, the plant and machinery and the investments of ME ("**Due Diligence Audit**") and the Vendor undertakes to supply and grant access to the Purchaser or its representatives such information necessary for the Due Diligence Audit. The Due Diligence Audit shall be carried out and completed within twenty-one (21) working days from the date of the Agreement ("**Due Diligence Audit Period**"). Provided always that in the event that the documents requested for the Due Diligence Audit are not forwarded by the Vendor within 24 hours from the date of request, the Due Diligence Audit Period shall be extended accordingly by the numbers of days delayed.

(b) If the Purchaser fails to carry out the Due Diligence Audit or fails to give notice of any material adverse findings within the Due Diligence Audit Period then it is deemed that the Purchaser is satisfied with the findings of the Due Diligence Audit and shall proceed to complete the Proposed ME Disposal in accordance with and subject to the provisions of the Agreement.

(c) In the event the Due Diligence Audit reveals any material discrepancy(ies) in the accounts of ME, the Purchaser shall within seven (7) days from the expiry of the Due Diligence Audit Period notify the Vendors in writing itemising the material discrepancies. The Vendors shall within seven (7) days of receipt of the notice meet with the Purchaser to resolve the discrepancy(ies). In the event that the material discrepancy(ies) cannot be resolved, the Purchaser shall be entitled to terminate the Agreement and the Vendor shall refund to the Purchaser within fourteen (14) working days all monies paid to the Vendors free of interest. For purposes of this clause only, a material discrepancy shall mean any discrepancy that is in the excess of RM500,000.

(v) Special Condition

The Purchaser covenants, undertakes and agrees to pay the balance of the Purchase Price amounting to RM4,050,000 to the Vendor in the following manner:

(a) A sum of RM2,000,000 to ME on the Completion Date to set off the sum of monies due by the Vendor and/or the related companies of the Vendor; and

(b) The balance thereof amounting to a sum of RM2,050,000 shall be paid by the Purchaser to the Vendor on the Completion Date.

(c) Within three (3) working days from the date of the compliance by the Purchaser of Section 3 (v) (a) and (b), the Vendor shall pay and fully settle the amount due by the Vendor and/or the Vendor's related companies by depositing the said sum in a form of a cheque in favour of ME, to the Purchaser's solicitors as stakeholders and irrevocably authorised by the parties to release the said sum to ME.

(vi) Completion Date

Subject to the Approvals by all relevant authorities and/or bodies, completion of the Proposed ME Disposal shall take place on or before the expiry of thirty (30) days after the last of the Conditions Precedent referred to in Section 3 (iii) having been fulfilled.

4. RATIONALE FOR THE PROPOSED ME DISPOSAL

Due to the less than favourable earnings potential of ME and its inability to secure new sustainable construction projects in its sphere of expertise which is in the construction of transmission lines which have resulted in significant contraction in the year-on-year revenue of ME, the Board is of the view that the Proposed ME Disposal would provide an exit opportunity for the Group. The Proposed ME Disposal also represents a timely exit for MESB to divest its investment in ME which is expected to incur losses.

Further, the cash proceeds arising from the Proposed ME Disposal would enable the MESB Group to resolve and settle some of its liabilities owing to ME amounting to approximately RM5,196,000.

5. RISK FACTORS

5.1 Completion risk

The completion of the Proposed ME Disposal is conditional upon the Conditions 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 approvals will be obtained and/or satisfied. MESB will take all reasonable steps to ensure the satisfaction of the Conditions Precedent to ensure completion of the Proposed ME Disposal.

5.2 Contractual risk

MESB has given warranties, undertakings and/or indemnities as set out in the Agreement, in favour of TPSB. 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 ME DISPOSAL

6.1 Issued and paid-up share capital

The Proposed ME 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.

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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 ME Disposal had been affected on that date, the proforma effects, of the Proposed ME Disposal on the NA and gearing of the MESB Group are as follows:

		I	**II**	**III**
	Audited as at 31 March 2011 RM'000	**(1)After the Proposed DCLSB Disposal RM'000**	**(4)After internal transfers RM'000**	**After the Proposed ME Disposal RM'000**
Share capital	42,000	42,000	42,000	42,000
Share premium	5	5	5	5
Capital reserve	37	37	37	37
Retained profits	10,180	(2)24,476	24,330	(5)20,289
Shareholders funds/ NA	**52,222**	**66,518**	**66,372**	**62,331**
Number of shares ('000)	42,000	42,000	42,000	42,000
NA per share (RM)	**1.24**	**1.58**	**1.58**	**1.48**
Borrowings				
- Hire purchase payables	1,345	(3)1,341	1,341	(6)577
- Term loans	12,581	(3)4,554	4,554	(6)4,554
- Bank acceptance	7,687	7,687	7,687	7,687
- Bank overdrafts	312	312	312	312
Total borrowings	21,925	13,894	13,894	13,130
Gearing (times)	**0.420**	**0.21**	**0.21**	**0.21**

Notes:

*(1) On 1 December 2011, MESB had announced that the Company had entered into a share sale agreement with Touch Mindscape Sdn Bhd for the disposal of 275,000 ordinary shares of RM1.00 each, representing 55% equity interest in Dynamic Communication Link Sdn Bhd ("**DCLSB**"), for a total cash consideration of RM15,000,000 ("**Proposed DCLSB Disposal**")*

(2) For illustrative purposes, based on the audited consolidated financial statements of MESB as at 31 March 2011 and on the assumption that the Proposed DCLSB 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 DCLSB Disposal) of approximately RM14,297,000

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

(4) Taking into account the effects of the internal transfers since 31 March 2011 up to prior to the Proposed ME Disposal. The internal transfers involved the transfer of ME's subsidiary, Crystal United Sdn Bhd, to ME and the transfer of a club membership to its Director

(5) For illustrative purposes, based on the audited consolidated financial statements of MESB as at 31 March 2011 and on the assumption that the Proposed ME Disposal had been effected on that date, the MESB Group expects to realise a proforma non-recurring loss on disposal (after deducting the estimated expenses of RM180,000 to be incurred for the Proposed ME Disposal) of approximately RM3,876,000.

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

6.3 Shareholdings of the substantial shareholders

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

6.4 Earnings and Earnings per share ("EPS")

The Proposed ME 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 ME Disposal had been effected on that date, MESB expects to realise a proforma loss on disposal (after deducting the estimated expenses of RM180,000 to be incurred for the Proposed ME Disposal) of approximately RM3,876,000, which translates to a proforma non-recurring loss on disposal per MESB share of 9.2 sen.

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

		I	**II**	**III**
	Audited as at 31 March 2011	**After the Proposed DCLSB Disposal**	**After internal transfers**	**After the Proposed ME Disposal**
	sen	**sen**	**sen**	**sen**
EPS	18.6	52.7	52.7	43.5

Following the completion of the Proposed ME Disposal, MESB Group will cease to have any profit or loss contribution from ME.

7. APPROVALS

The Proposed ME 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 ME Disposal will be made within one (1) month 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 ME Disposal.

9. DIRECTORS' STATEMENT

The Board is of the opinion that the Proposed ME 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 ME Disposal.

11. ESTIMATED TIMEFRAME FOR THE COMPLETION OF THE PROPOSED ME DISPOSAL

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

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

The highest Percentage Ratio applicable to the Proposed ME Disposal pursuant to paragraph 10.02 (g) of Bursa Securities Main Market Listing Requirements ("**Listing Requirements**") is paragraph 10.02 (g) (ii), "net profits attributable to the assets compared with the net profits of the company", which is 76.25% based on the latest audited financial statements of MESB and ME 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 ME 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 9 January 2012.

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1. FINANCIAL INFORMATION

A summary of ME's audited results for the FPE 31 March 2009, FYE 31 March 2010 and 2011, and the unaudited results for the 6-month FPE 30 September 2011 are set out below:

	[1]FPE 31 March 2009	FYE 31 March 2010	FYE 31 March 2011	6-month FPE 30 September 2011
	Audited RM'000	Audited RM'000	Audited RM'000	Unaudited RM'000
Revenue	13,439	5,940	3,577	1,041
Profit before tax but after minority interest	(1,887)	(1,632)	5,968	(1,533)
Profit after tax and minority interest	(1,887)	(1,632)	5,968	(1,533)
NA/shareholders' funds	8,881	7,249	[2]8,692	7,159
Total borrowings (all interest-bearing debts)	2,088	823	764	660

Notes:

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

(2) An interim dividend of RM0.6375 per ordinary share, less 25% tax, amounting to RM3,825,000 was distributed to shareholders from the retained profits of ME 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 ME changing its FYE from 31 December to 31 March.

For the 15 months FPE 31 March 2009, ME posted a revenue of approximately RM13,439,000, an annualised revenue of approximately RM10,751,000 which is a decline of 76.8% as compared to the previous FYE 31 December 2007, where revenue was approximately RM46,424,000. The lower revenue was mainly attributed to the difficulty for ME to secure new projects.

Correspondingly, ME reported a pre-tax loss of approximately RM1,887,000 for the 15 months FPE 31 March 2009, an annualised pre-tax loss of approximately RM1,510,000, which is a decline of 1,224.1% as compared to the previous FYE 31 December 2007, where pre-tax profit was approximately RM134,000.

FYE 31 March 2010

For the FYE 31 March 2010, ME recorded a revenue of approximately RM5,940,000, a decline of 44.8% compared with the annualised revenue of approximately RM10,751,000 for the FPE 31 March 2009. The decrease in revenue was mainly due to the difficulty for ME to secure new projects.

ME reported a pre-tax loss of approximately RM1,632,000 for the FYE 31 March 2010, which is a further loss of 8.1% as compared to the previous FYE 31 December 2009, where the annualised pre-tax loss was approximately RM1,510,000. The pre-tax loss for the FYE 31 March 2010 declined by a lower percentage as compared to the decline in revenue due to a reduction in administration expenses and finance costs during the financial year.

FYE 31 March 2011

For the FYE 31 March 2011, ME posted a revenue of approximately RM3,577,000, representing a decrease of 39.8% against the previous financial year. The decrease in revenue was due to the difficulty for ME to secure new projects.

However, as a result of compensation received on insurance claim, ME achieved a pre-tax profit of approximately RM5,968,000, representing an increase of 465.7% as compared to the previous financial year (2009: Approximately RM(1,632,000)).

FPE 30 September 2011

For the 6-month FPE 30 September 2011, ME posted a revenue of approximately RM1,041,000, representing a decrease of 23.1% against the corresponding FPE 30 September 2010 of approximately RM1,353,000. The decrease in revenue was due to the inability of ME to secure new projects. Correspondingly, the pre-tax loss of ME decreased by approximately RM988,000, representing a decrease of 181.2%, as compared to the previous FPE 30 June 2010 where pre-tax loss was approximately RM545,000.

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