TITIJAYA LAND BERHAD ("TITIJAYA" OR THE "COMPANY")

PROPOSED VARIATION OF THE INTENDED DEVELOPMENT USE OF A PARCEL OF LEASEHOLD LAND HELD UNDER PN 4022, LOT NO. 12174, MUKIM 12, DAERAH BARAT DAYA, PULAU PINANG ("LAND") ("PROPOSED VARIATION")

1. INTRODUCTION

On 21 May 2014, TA Securities Holdings Berhad ("**TA Securities**") had on behalf of the Board of Titijaya ("**Board**") announced that City Meridian Development Sdn Bhd ("**CMD**" or the "**Purchaser**"), a wholly-owned subsidiary of Titijaya, had entered into a conditional sale and purchase agreement with Titijaya Group Sdn Bhd ("**TGSB**" or the "**Vendor**") dated 21 May 2014 for the acquisition of the Land from TGSB for a cash consideration of RM126,000,000 ("**SPA**") ("**Acquisition**"). On 19 January 2015, CMD and TGSB had further entered into a supplemental agreement to vary, amend, modify or alter certain provisions, terms and conditions of the SPA ("**Supplemental Agreement**").

A circular containing the details of the Acquisition and the Supplemental Agreement was issued to the shareholders of Titijaya on 5 May 2015 ("**Circular**"). As disclosed in the Circular, the Company (through CMD) had initially intended to develop a residential and commercial project on the Land, for which the relevant development order will be applied at a later stage once finalised. On 27 May 2015, Titijaya had obtained the approval in respect of the Acquisition from its shareholders at an extraordinary general meeting ("**EGM**"). On 9 January 2017, the Board had announced that the conditions precedent as stipulated in the SPA and the Supplemental Agreement had been fulfilled and the cash consideration of RM126,000,000 had been made by CMD to the Vendor on 30 September 2016, and that the Land title had been duly registered in the name of CMD following the settlement of the cash consideration.

The Land was initially intended to be utilised to develop a residential and commercial project, the details of which (i.e. exact product mix, total costs to complete the project and expected completion date) had yet to be determined as at the date of the Circular. Further information of the intended development is set out in **Section 3** of the Circular and an extract of the details of the Land has been set out in **Section 2.1** of this announcement.

However, upon further deliberation by the Board, the Company had decided to vary the intended development use of the Land to include the development of a DHL logistics commercial complex ("**Facility**") whereby DHL will subsequently lease the proposed Facility for a period of 10 years (subject to an extension period to be mutually agreed by DHL and Titijaya) as further illustrated in **Section 2.2** of this announcement. Accordingly, the Company intends to seek the approval of its shareholders in regards to the Proposed Variation at an EGM.

Details of the Proposed Variation are set out in the ensuing sections.

2. PROPOSED VARIATION

2.1 Background information on the Land

The Acquisition involved the acquisition of the Land by CMD from TGSB for a cash consideration of RM126,000,000. Following the settlement of the cash consideration on 30 September 2016, the Land title had been duly registered in the name of CMD.

A salient description of the Land is as follows:-

Type	:	A parcel of development land
Location	:	Along the eastern side of Lebuhraya Tun Dr Lim Chong Eu in the locality of Bayan Lepas/ Batu Maung, Penang
Title no.	:	PN 4022
Lot no.	:	12174, Mukim 12, South West District, Penang
Surveyed land area	:	82,643 sq. m. (or 8.264 hectares/ 20.42 acres)[*1]
Tenure	:	Leasehold 99 years expiring on 2 April 2095
Category of land use	:	Building

(Source: Circular to shareholders of Titijaya dated 5 May 2015)

Notes:

*1 *For information purposes, a portion of the Land measuring 2.48 acres had been surrendered to Jabatan Kerja Raya ("**JKR**") in 2016 for the purpose of compulsory land acquisition by JKR for the construction of Tun Dr. Lim Chong Eu Expressway ("**Surrendered Land**"). A further breakdown on the subdivision of the Land as follows:-*

	Land area (acres)	**Percentage of Land (%)**
Plot 1	10.88	53.28
Plot 2 (Facility)	7.06	34.57
Surrendered Land	2.48	12.15
Total	**20.42**	**100.00**

The Land is located in a well-developed area at the south-eastern portion of Penang Island and is within walking distance to the south of the Penang Second Bridge. In addition, the Land is conveniently accessible from the Penang First Bridge and the Penang Second Bridge via the Tun Dr Lim Chong Eu Expressway. The Land is also linked to other major towns in the northern region via the North-South Highway and the Butterworth-Kulim Expressway on the mainland.

The purchase consideration for the Acquisition of RM126,000,000 was arrived at on a "willing-buyer willing-seller" basis after taking into consideration, amongst others, the cost of investment of the Vendor and the development potential of the Land.

As disclosed in the Company's circular dated 5 May 2015 in relation to the Acquisition, the Company (through CMD) had initially intended to develop a residential and commercial project on the Land, for which the relevant development order will be applied at a later stage once finalised. On 27 May 2015, Titijaya had obtained the approval from its shareholders at an EGM in respect of the Acquisition.

On 9 January 2017, the Board had announced that the conditions precedent as stipulated in the SPA and the Supplemental Agreement had been fulfilled and the cash consideration of RM126,000,000 had been made by CMD to the Vendor on 30 September 2016. Following the settlement of the cash consideration, the Land title had been duly registered in the name of CMD in accordance with the issue document of title to the Land dated 4 November 2016.

2.2 Details of the Proposed Variation

As stated in **Section 1** of this announcement, the Company had initially intended to utilise the Land to develop a residential and commercial project, the details of which had yet to be determined. Subsequently, the Company had intended to vary the development of the Land to include the development of a purpose built DHL logistics commercial complex whereby DHL will subsequently lease the proposed Facility for a period of 10 years.

Pursuant thereto, the Board had announced on 27 March 2022 that CMD had entered into a letter of intent with DHL to negotiate in good faith the proposal for the Build-To-Suit ("**BTS**") and subsequent lease by DHL of a logistics commercial complex (otherwise referred to as the "**Facility**").

Subsequently, on 15 June 2022 and 20 June 2022, the Board had announced that Aman Duta Sdn Bhd ("**Aman Duta**"), an indirect wholly-owned subsidiary of Titijaya, entered into an agreement to build-and-let with DHL ("**Agreement**"). The Agreement set forth the terms and conditions in respect of the construction and letting of the Facility to be constructed on a portion of the Land, in accordance with the agreed architectural design, layout and building specification agreed by DHL and approved by the appropriate authorities. For avoidance of doubt, Aman Duta will be responsible for the building and letting of the Facility whilst CMD will remain as the registered owner of the Land.

For shareholders' information, the Land has been cleared/ levelled for development works. The development of the Facility will occupy 7.06 acres or approximately 34.57% of the Land which is located in the southern portion of the Land.

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

(i) Building Plan Approval

CMD shall, at its own cost and expense, submit an application to the appropriate authorities to obtain the building plan approval for the Facility, subject to the terms and conditions stipulated in the Agreement.

(ii) Construction Costs

Unless provided in the Agreement or additional works are requested by the tenant, the costs and expenses for the development and construction of the Facility on the Land shall be fully borne by Aman Duta and shall not only be limited to all infrastructural work of the development, additional infrastructural work required to strictly adhere to and comply with the relevant statutory rules, guidelines and regulations, the obtaining of all necessary and requisite approvals, consents and licences for the construction of the Facility and all costs related to removing and relocating the underground services including gas and water pipelines and electricity and telecommunication cables on the Land, if required by the appropriate authorities.

The infrastructural work for the development shall be limited only to the public access route to the drainage facilities supporting the Facility which are within the Land, if any ("**Infrastructure Works**").

Aman Duta shall maintain the Infrastructure Works and to ensure that the access routes to the Facility are accessible to the public upon delivery of vacant possession and prior to the same being handed over to the appropriate authorities, if any.

(iii) Term and Rental of Tenancy

The tenancy of the Facility shall commence on the rental commencement date and shall be for the guaranteed period unless otherwise terminated in accordance with the Agreement.

The tenure of the agreement is 10 years and the rent for the property and its assets is estimated at approximately from RM160.00 million to RM 210.00 million.

(iv) Termination

The Parties agree that the Agreement shall not be terminated for whatsoever reason prior to the rental commencement date unless otherwise provided in the Agreement.

The investment cost to be borne by Aman Duta is estimated at approximately RM200.00 million. For shareholders' information, Aman Duta had, on 25 April 2023, being the latest practicable date of this announcement ("**LPD**"), completed the earth and piling works of the development for the Facility.

In respect of Plot 1 measuring approximately 10.88 acres, or representing 53.28% of the entire Land, the Company intends to allocate such portion for the development of mixed commercial properties, pending approval from the relevant authorities. For avoidance of doubt, the Company had submitted an application to PLANMalaysia @ Pulau Pinang for the overall master plan for the Land on 14 October 2022 and is currently pending the clearance of the State Planning Committee ("**SPC**").

Premised thereto, and in accordance with Paragraph 8.22(1)(b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board wishes to seek the approval of the Company's shareholders for the Proposed Variation at an EGM to be convened.

3. RATIONALE AND JUSTIFICATIONS FOR THE PROPOSED VARIATION

The initial intention of the Company for the development of the Land was to undertake a residential and commercial development for the Group to derive a revenue stream to the Group. As disclosed in the Circular, the Company has yet to ascertain the exact product mix and total costs for the initial development. Additionally, as illustrated in **Section 2.1** of this announcement, the Board opines that the Land is in a prime location surrounded by the Penang Island and various infrastructure in the form of highways (i.e. Tun Dr Lim Chong Eu Expressway, North-South Highway and Butterworth-Kulim Expressway), which is expected to appeal towards a wide range of prospective investors/ tenants.

The initial development of the Land was originally intended to be completed over a gestation period of 15 years. The Board opined that the gestation period exposed the Group to the risk that the returns from the initial development project may have a longer payback period than expected or the investment in the development may not generate the expected rate of return.

Pursuant thereto, the Company secured an opportunity to enter into the Agreement with the Tenant to vary the development of the Land to include the development of a DHL logistics commercial complex, whereby DHL will subsequently lease for a period of 10 years (subject to an extension period to be mutually agreed by the Parties) as illustrated in **Section 2.2** of this announcement. Pursuant to the Agreement, and in line with the property market outlook as stated later in **Section 4.2** of this announcement, the Proposed Variation represents an opportunity for the Group to secure an additional stream of revenue in the form of a stable and recurrent rental income in the long-term. In addition, the recurrent rental income may allow the Group to further improve the financial performance of the Group whilst insulating it from fluctuations in relation to rental or property prices (in view of the 10 year rental period). For clarification purposes, the tenure of the agreement is 10 years (subject to an extension period to be mutually agreed by both DHL and Titijaya ("**Parties**") and the rent tenure for the Facility and its assets is estimated to be approximately from RM160.00 million to RM210.00 million.

As previously stated in **Section 2.2** of this announcement, the development of the Facility will occupy approximately 34.57% of the Land whereas the remaining portion has been dedicated towards the development of mixed commercial properties, pending approval from the relevant authorities.

As such, the Board opines that it is in the best interest of the Group to undertake the Proposed Variation and expand its income stream by varying the initial development of the Land to include the development of the Facility and provide the Group with a stable and recurrent income stream to its property development business, through rental income. Barring any unforeseen circumstances and premised on the above, the Board opines that the Proposed Variation is expected to contribute positively to the Group's financial performance moving forward.

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4. INDUSTRY OVERVIEW, OUTLOOK AND FUTURE PROSPECTS OF TITIJAYA GROUP

4.1 Overview and outlook of the Malaysian economy

The global gross domestic product ("**GDP**") growth in 2022 moderated to 3.4% reflecting the economic slowdown in advanced economies as well as emerging market and developing economies (EMDEs). Despite the softened global growth, Malaysia's economy recorded a strong growth of 8.7% in 2022, exceeding the initial projection of 6.5% - 7%, whereby real output value reached above the pre-pandemic level. The commendable performance was driven by domestic demand and improved labour market in line with the transition to endemic phase. These resulted from an increase in economic activities which include household spending, investment and tourism. Subsequently, encouraging expansion in all economic sectors primarily the services and manufacturing have also provided continuous impetus to the significant economic growth in 2022. Furthermore, the growth was attributed to robust external demand, especially among Malaysia's major trading partners.

Notwithstanding the growth, the economy in 2022 experienced several challenges with escalating inflationary pressures due to high commodity and food prices as well as softened global economic growth and trade. Therefore, the Government has taken various holistic and comprehensive measures to help the rakyat and businesses in dealing with inflationary pressures and higher cost of living.

In 2023, global growth is expected to further soften at 2.9% on the back of persistent pressures such as inflation, tightening global financial conditions and economic deceleration among major economies. Meanwhile, Malaysia's economic growth is projected to moderate amid the signs of weakness in the global growth momentum. The growth will be mainly supported by steady domestic demand primarily private expenditure initiatives as well as initiatives under the Budget 2023 and development expenditure under the Twelfth Malaysia Plan, 2021 – 2025 ("**12MP**"). However, a slowdown in external demand is expected to moderate exports growth, particularly in the electrical and electronic products and major commodities.

On the supply side, all economic sectors are expected to remain in the positive growth trajectory in 2023, driven by the services and manufacturing sectors. Other sectors, namely agriculture, mining and construction are also expected to grow further in line with the improvement in economic activities. However, downside risks such as prolonged geopolitical conflict, climate-related disasters and persistently high inflation are expected to further hampering the global economic growth, hence, affecting Malaysia's performance. Overall, the nation's GDP is forecast to grow approximately 4.5% in 2023.

(Source: Economic & Fiscal Outlook and Federal Government Revenue Estimates 2023, Ministry of Finance Malaysia)

4.2 Overview and outlook of the property market in Malaysia

The property market recorded an increase in 2022 supported by a better performance in all sectors compared to the previous year. In 2022, total transactions volume and value increased by 29.5% and 23.6%, respectively to 389,107 transactions and RM179.07 billion (2021: 300,497 transactions; RM144.87 billion). Total transactions volume in 2022 is the highest volume recorded within the period of 10 years (2012: 427,520 transactions) whilst total transactions value is higher than the previous record high in 2014 (162.97 billion).

The property market continued to record growth in 2022, supported by the implementation of various Government initiatives and assistance, improving labour market conditions and higher tourist arrivals.

Several initiatives which outlined under Budget 2022 by the Government to a certain extent helped improve property market activities. These are:

(i) RM1.5 billion allocation for low-income groups housing projects i.e. rumah mesra rakyat and maintenance assistance programmes;

(ii) lifting the imposition of Real Property Gains Tax on the disposal of properties in the 6th year onwards by Malaysian citizens, permanent residents and other than companies; and

(iii) guarantees of up to RM2 billion to banks via Skim Jaminan Kredit Perumahan in assisting gig works, small entrepreneurs and farmers in obtaining home financing.

The property market recorded a total of 389,107 transactions worth RM179.07 billion for 2022. This indicated an increase of 29.5% in volume and 23.6% in value compared to 2021. Of the total transactions recorded in the review year, 20.7% (80,373) and 76.5% (297,700) were transfers dated 2021 and 2022 respectively while the remaining percentage share was for prior years' transfer. Primary market formed 13.8% (53,698 transactions) of the total transactions (purchase from developers) while secondary market took up the remaining 86.2% (335,409 transactions).
Volume of transactions across the sub-sectors showed upward movements. Residential, commercial and industrial, agriculture and development land sub-sectors recorded year-on-year growths of 22.3%, 46.3%, 44.5%, 44.6% and 35.7% respectively.

Value of transactions moved in tandem with residential, commercial, industrial, agriculture and development land sub-sectors recorded an increase of 22.6%, 16.7%, 24.8%, 50.5% and 16.6% respectively.

The residential sub-sector led the overall property market, with 62.5% contribution in volume. This was followed by agriculture (21.1%), commercial (8.4%), development land and others (5.9%) and industrial (2.1%). In terms of value, residential led with 52.6% share, followed by commercial (18.2%), industrial (11.8%), agriculture (10.0%) and development land and others (7.4%).

The residential overhang situation improved as the numbers reduced compare to previous year. A total of 27,746 overhang units worth RM18.41 billion recorded in 2022, reduced by 24.7% and 19.2% in volume and value respectively against 2021 (36,863 units worth RM22.79 billion).

Condominium/apartment formed 61.9% (17,162 units) of the national total overhang, followed by terraced houses (20.3%; 5,636 units). By price range, those priced at RM500,001 to RM1.0 million formed 33.6% (9,323 units) of the total, higher than 30.2% in 2021. Price range between RM300,001 and RM500,000 came second, accounting for 29.3% (8,128 units). Meanwhile, houses in the affordable price range of below RM300,000 formed another 23.5% (6,509 units) of the total and followed by more than RM1.0 million price range formed 13.6% (3,786 units).

(Source: Property Market Report 2022, Valuation and Property Services Department Malaysia)

4.3 Future prospects of Titijaya Group

Presently, Titijaya Group operates primarily through its property development business, which has been the Group's key revenue contributor for the FYE 30 June 2022, contributing RM274.93 million to the Group.

Notwithstanding the above, the Group intends to capitalise on the Agreement to develop the Land and to provide the Group with an additional form of income in addition to its existing property development projects. The Proposed Variation will potentially enable the Group to generate additional income through obtaining rental income or leasing income from DHL. As illustrated in **Section 2** of this announcement, the Group has identified the Land which the Board opines is in a strategic location, being surrounded by established and mature townships in Penang, and is surrounded by highways and bridges, as well as other development and public facilities that may potentially increase the attractiveness of the remaining portion of the Land to potential tenants/ investors, which will potentially increase the Group's prospects of obtaining rental income/ leasing income.

Notwithstanding the above, and premised on the rationale for the Proposed Variation as set out in **Section 3** of this announcement, the Board opines that it is in the best interest of the Group to undertake the Proposed Variation to provide the Group with an additional form of revenue.

5. RISK FACTORS IN RELATION TO THE PROPOSED VARIATION

5.1 Risk of failure in or delays in obtaining requisite governmental approvals

The Proposed Variation of the intended development use of the Land will require various permits, licences, certificates and approvals from various governmental authorities at various stages of development. There is no assurance that all such permits, licences, certificates and approvals will be successfully obtained within the scheduled timeframe for the development/ construction of the Facility.

Nevertheless, the Company will seek to limit these risks through, inter alia, careful planning and proactive and close monitoring of the progress to obtain all the necessary permits, licences, certificates and approvals required for the development/ construction of the Facility.

5.2 Risk of delay in the development schedule resulting in cost overruns

The Facility may not be completed or that the vacant possession is not handed on time as completion of a development project is subject to various factors, such as the Company being unable to secure adequate funding for the development, contractors facing difficulties in completing their works according to schedule and shortfall of labour and/ or building materials and utilities supplies. Delays may result in cost overruns for the project which may in turn affect the profitability of the Group

Nevertheless, the Company will seek to mitigate this through, inter alia, careful planning and proactive and close monitoring of the progress of the development/ construction of the Facility.

5.3 Cost fluctuation and demand for properties

Titijaya being a property developer is subject to certain risks inherent to property development, such as changes in demand for types of residential and commercial properties, changes in the requirements of the customer, labour and material supply shortages. The Group’s profitability may also be affected by any increase in land acquisition costs and fluctuation of construction costs which are inherent to the property development industry. Higher cost of materials (including steel, cement and tiles), labour costs, contractor fees and overheads, will reduce the Group’s profit margin in the event the Group is unable to pass these increased costs to customers in the form of higher rental/ lease income.

There can be no assurance that any changes in development costs will not have any material impact on the Group's financial performance. Nevertheless, the Group seeks to limit this risk by continuing to closely monitor and manage the construction costs as well as leverage on its track record and experienced, capable and dedicated management team in place, to manage these risks closely while making all reasonable efforts to maintain the quality of the Group's products.

6. EFFECTS OF THE PROPOSED VARIATION

6.1 Issued share capital and substantial shareholders' shareholdings

The Proposed Variation will not have any effect on the issued share capital and the substantial shareholders' shareholdings in the Company as there is no issuance of new ordinary shares in Titijaya ("**Titijaya Shares**") involved.

6.2 Net assets ("NA") and gearing level

Barring any unforeseen circumstances, the Proposed Variation is not expected to have any immediate material effect on the NA and gearing level of Titijaya Group for the FYE 30 June 2023.

6.3 Earnings and Earnings per Share ("EPS")

The Proposed Variation is not expected to have any immediate material effect on the earnings of Titijaya Group for the FYE 30 June 2023. Nevertheless, barring any unforeseen circumstances, the Proposed Variation may contribute positively to the earnings and EPS of the Group in the future financial years, as and when the tenancy of the Facility takes effect.

7. APPROVALS REQUIRED

The Proposed Variation is subject to inter-alia the following approvals being obtained:-

i. the approval of shareholders of Titijaya at an EGM to be convened;

ii. any other relevant authorities and/ or parties, if required.

The Proposed Variation is not conditional or inter-conditional upon any other corporate exercises being or proposed to be undertaken by the Company.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVES AND/ OR PERSONS CONNECTED TO THEM

None of the Directors and/ or major shareholders and/ or chief executive of Titijaya and/ or persons connected to them have any interest, either direct or indirect, in the Proposed Variation.

9. DIRECTORS' STATEMENT

The Board, after having considered all aspects of the Proposed Variation including but not limited to the rationale, prospects and risk factors of the Proposed Variation, is of the opinion that the Proposed Variation is in the best interest of the Company.

10. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Variation is expected to take effect immediately upon the convening of the EGM.

11. APPLICATION TO THE AUTHORITIES

The application to the relevant authorities shall be made within 2 months from the date of this announcement.

12. ADVISER

UOBKH has been appointed as the Adviser for the Proposed Variation.

This announcement is dated 23 May 2023.