

LTKM BERHAD (“LTKM” OR THE “COMPANY”)

▪ PROPOSED DIVERSIFICATION OF THE PRINCIPAL ACTIVITIES OF LTKM AND ITS SUBSIDIARIES TO INCLUDE PROPERTY DEVELOPMENT (“PROPOSED DIVERSIFICATION”)

1. INTRODUCTION

On behalf of the Board of Directors of LTKM (“**Board**”), Strategic Capital Advisory Sdn Bhd (“**SCA**”) wishes to announce that the Company proposes to undertake the Proposed Diversification and seek the approval from the shareholders of the Company at the forthcoming extraordinary general meeting (“**EGM**”) to be convened for the Proposed Diversification.

Pursuant to Paragraph 10.13(1) of the Main Market Listing Requirements (“**MMLR**”) of Bursa Malaysia Securities Berhad (“**Bursa Securities**”), a listed issuer must obtain its shareholders’ approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either:

- (a) the diversion of 25% or more of the net assets of the listed issuer to an operation which differs widely from those operations previously carried on by the listed issuer; or
- (b) the contribution from such an operation of 25% or more of the net profits of the listed issuer.

2. DETAILS OF THE PROPOSED DIVERSIFICATION

Currently LTKM and its subsidiaries (“**Group**”) are principally involved in poultry farming. The Group is one of the few leading egg producers in the country with a fully integrated poultry farming operation which involves feed processing, production of eggs, processing and trading of organic fertilisers. Based on the last audited financial statements of the Company as at 31 March 2015, the Group recorded a revenue and net profit after tax of RM192 million and RM46 million respectively.

The Group had previously undertaken a small scale property development project in Banting which was completed in year 2013. The segment did not contribute significantly to the Group’s revenue and profits as the operations were small relative to the Group’s core business. However, the Board views the property development activities under the Group to become more significant with the plan to develop a piece of land that was acquired in year 2010, measuring approximately 8.5237 hectares or 21.0625 acres located in Jenjarom, Selangor Darul Ehsan (“**Land**”), as detailed below.

*(The development of the Land is referred to as the “**Project**”)*

2.1 Information on the Land

The Land comprises four (4) adjoining parcels of freehold lands of almost equal size and are rectangular in shape with a total of 188 metres in width and 418 metres in length. It is generally flat in terrain and lies at almost the same level as the frontage road of Jalan Sungai Buaya. It is currently vacant with no fixed or permanent structures and is cultivated with palm oil. The Land is residential-zoned.

The Land is located along Jalan Sungai Buaya, Jenjarom and is approximately 65 kilometres (“**km**”) due south-west of Kuala Lumpur City Centre and 25 km due south of Klang town centre. The town of Jenjarom, situated approximately 1 km to the north of the Land, is the site to the famous Buddhist temple, Fo Guang Shan Don Zen Temple that occupies 16 acres of land and draws thousands of visitors annually, especially during Chinese festivals.

The Land is easily accessible from Kuala Lumpur City Centre via the KESAS Expressway exiting at the Jalan Langat Interchange on to Jalan Klang-Banting for a distance of about 18 km. Access thereafter is via Jalan Sungai Buaya leading to the Land.

The improved transportation infrastructures interconnecting the Klang Valley and the town of Jenjarom and the tourism industry have contributed significantly to the growth in economic activities in the surrounding vicinity of the Land.

A description of the Land is set out below:

Registered owner	: Jarom Firstville Sdn Bhd (“ JFSB ”)*
Location	: Mukim Tanjung Dua Belas, Kuala Langat, Selangor Darul Ehsan
Title	: Geran Mukim 2079, Lot 435; Geran Mukim 2080, Lot 436; Geran Mukim 2081, Lot 421 and Geran Mukim 2082, Lot 422
Category of land use	: Agriculture
Express Condition	: Not stated
Restriction in interest	: Not stated
Total land area	: 8.5237 hectares
Net book value	: RM22,950,000 based on the last audited consolidated financial statements of LTKM Berhad as at 31 March 2015

* *JFSB is a wholly-owned subsidiary of LTK Development Sdn Bhd (“**LTKDSB**”), which in turn is a wholly-owned subsidiary of LTKM*

2.2 Details of the Project

The information on the Project, which may be subject to further refinement, is set out as below:-

(a) Type of development and no. of units for each type

The Project comprises a total of 169 units of landed properties consisting of 25 units of bungalows, 96 units of semi-detached villas and 48 units of townhouses as part of *Rumah SelangorKu* with a guarded neighbourhood concept for added security and exclusivity.

The Project primarily targets local residents of Jenjarom and neighbouring residents of Banting, Telok Panglima Garang and Klang. The target market for the Project, however, can be expanded to include potential buyers from the greater Klang Valley as a result of the improved connectivity enabled by the transportation infrastructure such as the SKVE, the adjoining KESAS and the upcoming West Coast Expressway connecting Banting to Taiping.

(b) Expected commencement and completion of the Project

The Project is expected to commence in the first quarter of year 2017 and be developed over an estimated period of two (2) years.

(c) Estimated gross development value (“GDV**”) and gross development cost (“**GDC**”)**

The estimated GDV and GDC for the Project are RM130 million and RM90 million, respectively, over the development period.

(d) Status of approvals

An application for the conversion of the land use from agriculture to residential was submitted on 4 May 2016 and a letter of non-objection was obtained from the Jabatan Perancangan Bandar dan Desa, Selangor Darul Ehsan on 13 May 2016. After approval for the conversion has been obtained, JFSB will proceed with the submission of planning approvals, building plans and implementation of the Project subject to the approvals from the Company’s shareholders for the Proposed Diversification at an EGM to be held.

(e) Source of funding for the development cost

The Project funding shall be determined by the Company at a later stage after taking into consideration its gearing level, interest costs and internal cash requirements for its business operations.

2.3 Directors and key personnel

Although the Group does not have extensive historical track record in the property development business, the Proposed Diversification is expected to be spearheaded by the Company's Managing Director, Datuk Tan Kok. The Group will be able to leverage on his experience in property and land matters as well as property development. Datuk Tan Kok will be assisted by Mr Ng Seng Keong, the Chief Operating Officer of LTKDSB, being the property development division of the LTKM Group.

The profiles of Datuk Tan Kok and Mr Ng Seng Keong are as follows:

(a) Datuk Tan Kok, Managing Director

Datuk Tan Kok is the founder of LTKM Berhad. He is responsible for the founding of the farm from a small scale operator in its first farm in Kampung Jawa, Selangor Darul Ehsan to the country's largest and highly automated single layer farm spanning over 450 acres in Malacca. He has over 40 years of executive managerial experience through his involvement in the poultry industry. With a sound judgement and discerning business acumen, he has successfully acquired and managed a total of more than 700 acres of land for the purposes of farming and investment holding.

In terms of his experience in property development business, Datuk Tan Kok undertook and successfully completed a 20-acre residential development in Taman Sentosa, Klang with a GDV of RM42 million for 300 units of double-storey link houses, despite the unfavourable economic condition during the development period of the project between 2005 to 2008. The project was undertaken through a joint development in year 2005 in his private capacity. Datuk Tan Kok had also spearheaded the Group's maiden property project in year 2011 with the launch of 26 units of double-storey residence at Taman Seri Bunut, Banting ("**Banting Project**"). The Banting Project grossed a total revenue of approximately RM9 million and was undertaken by the Company's wholly-owned subsidiary, LTKDSB.

(b) Mr Ng Seng Keong, Chief Operating Officer of LTKDSB

Mr Ng Seng Keong joined LTKDSB in January 2016. He obtained his Bachelor of Science Degree majoring in Business Administration from the University of San Francisco in 1986 and a Master of Business Administration Degree majoring in Finance and Investment from the Golden Gate University, California in 1988.

Mr Ng Seng Keong is currently in charge of the execution and implementation of property development of the Group. Mr Ng Seng Keong was the former General Manager of a property development company, Magna Prima Berhad ("**MPB**"), where he led the corporate finance, business development and project management over a period of almost four (4) years.

He was also the team member involved in obtaining loans and fund raising through the capital market. In addition, he has successfully led the completion and settlement of MPB's overseas project, The Istana. The Istana is a 25-storey single tower residential apartment with an estimated GDV of AUS\$217 million, in the heart of Melbourne's central business district.

His involvement and exposure in local project developments and construction estimated to be at a GDV worth RM395 million, comprises the completion of 177 double-storey link houses in Shah Alam, 236 units of mixed development comprising of zero-lot bungalows, two-an-a-half storey super link terraces and shops with walk-up apartments in Selayang and 107 triple-storey super link terraces and semi-detached villas in Bukit Jalil.

Prior to his tenure at MPB, Mr Ng Seng Keong was one of the Senior Managers at Atlan Holdings Bhd (“**Atlan**”) where he was involved in special projects such as the implementation of Atlan’s enterprise resource planning business solutions, acquisition and disposal of properties and assets, and exercises of delisting a subsidiary from Bursa Malaysia and the subsequent listing of the same subsidiary on the Singapore Stock Exchange.

Upon commencement of the Project, the Group intends to recruit where deemed necessary suitably qualified and experienced personnel to oversee key areas of the Project such as on-site project supervision and marketing. Notwithstanding the above, the exact number of personnel to be recruited and the organisational structure to be implemented have not been determined at this juncture pending, *inter-alia*, the finalisation of the proposed development plan. Additionally, the appointed consultants such as the architects, engineers, surveyors, planners and contractors, will be providing the necessary support for the Project.

3. RATIONALE FOR THE PROPOSED DIVERSIFICATION

The Board believes that diversification into property development business will enhance the Group's ability to unlock the value of the Land and expand its revenue and income stream. The Project will enable the Group to expand its property development business and, when successfully completed, will provide a good track record for the Group in its property development segment. A strong credential and track record in the property development segment will be beneficial to the Group when it undertakes future property development projects on its other land bank.

As the Group embarks on the Project, the Board anticipates that the property development business of the Group may contribute more than 25% of the net profit of the Group and/or result in a diversion of 25% or more of the Group's net assets based on the GDC of the Project. As such, pursuant to Paragraph 10.13(1) of the MMLR, LTKM will have to seek its shareholders' approval at a general meeting for the Proposed Diversification.

4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

4.1 Overview and outlook of the Malaysian economy

In the first quarter of 2016, the global economy expanded moderately against a backdrop of high financial market volatility. The advanced economies continued to register modest improvements, as the pace of growth remained constrained by crisis-related legacies, including high indebtedness and labour market slack. In Asia, economic activity expanded at a more moderate pace due in part to the weakness in exports. Amid these developments, several economies adopted more stimulus to support growth.

The Malaysian economy expanded by 4.2% in the first quarter of 2016 (4Q 2015: 4.5%). The slight moderation in growth mainly reflected external shocks to the economy and cautious spending by the private sector. On the supply side, growth continued to be driven by the major economic sectors. On a quarter-on quarter seasonally-adjusted basis, the economy recorded a growth of 1.0% (4Q 2015: 1.2%).

(Source: Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2016, Bank Negara Malaysia (“BNM”))

The Malaysian economy grew by 5.0% in 2015 (2014: 6.0%), supported by the continued expansion of domestic demand (2015: 5.1%, 2014: 5.9%). Domestic demand was primarily driven by the private sector. Modest improvements in external demand in the second half of the year also provided additional impetus to economic growth.

Private consumption continued to expand, albeit at a more moderate pace as households adjusted their spending to the higher cost of living arising from the implementation of Goods and Services Tax (GST), adjustments in administrative prices, and the depreciation in the ringgit. Nevertheless, households received some support from the higher cash transfers under the Bantuan Rakyat 1Malaysia (BR1M) scheme, the reduction in individual income tax rates for the 2015 assessment year and savings derived from lower domestic fuel prices during the year. Household spending was also supported by continued income growth and stable labour market conditions. Public consumption recorded a sustained growth of 4.3% in 2015 (2014: 4.4%), reflecting the continued efforts by the Government to provide support to growth, while remaining committed to the steady reduction in the fiscal deficit.

(Source: Annual Report 2015, BNM)

4.2 Overview and outlook of the property development industry in Malaysia

Property Market Activity

Market volume recorded at 362,105 transactions worth RM149.9 billion in 2015, down by a marginal 5.7% in volume and 8.0% in value against 2014. Residential sub-sector continued to lead the overall market, with 65.2% contribution in volume and 49.0% in value. The sub-sector recorded a slight downturn by 4.6% in volume and correspondingly down in value by 10.5%. The commercial, industrial, agriculture and development land sub-sectors were also on moderating path, down by 10.6%, 13.0%, 7.5% and 2.4% respectively.

Residential Property

There were 235,967 transactions worth RM73.47 billion recorded in the review period, declined by 4.6% in volume and 10.5% in value. Performance by states was generally on a low tone. Major states namely Johor and Pulau Pinang recorded mark declines in market activity, down by 20.4% and 16.9% respectively whilst Kuala Lumpur and Selangor recorded moderate declines of 8.3% and 5.1% respectively.

In line with market softening and bleak households' sentiment, the primary market reacted accordingly as the number of new launches reduced to 70,273 units, down by 19.2% against 2014 (86,997 units). Most states particularly the major ones namely Johor and Pulau Pinang saw substantial declines in their new launches, each down by 42.8% (9,428 units) and 47.5% (2,348 units). The overall sales performance for the country hovered at 41.4% (29,089 units sold), lower than 45.4% (39,491 units sold) performance in 2014.

The residential overhang situation took a downturn as more units were recorded. There were 11,316 overhang units worth RM5.9 billion, up by 16.3% in volume and 56.0% in value. Johor which held 21.9% of the national overhang, saw its overhang increased to 2,483 units, up by 8.5% due to higher unsold in terrace and service apartment types. On similar trend, the unsold under construction recorded an increase of 28.6% to 68,760 units due to large numbers of unsold condominium and service apartment units. The fewer number of new launches partly helped contain the unsold not constructed, down by 20.5% to 10,704 units.

Commercial Property

There were 31,776 transactions worth RM26.4 billion recorded, down by 10.6% in volume and 17.1% in value. Major states recorded lacklustre performance with Johor recording the highest decrease of 21.9%, followed by Wilayah Persekutuan Kuala Lumpur at 15.0%, Selangor at 11.1% and Pulau Pinang at 10.7%. In terms of transactions value, only Pulau Pinang held strong with an increase of 19.0% despite fallen market activity whilst the other major states succumbed to double-digit declines.

2016 Outlook

The economic and financial environment, both local and global, will be even more challenging in 2016. This has led to the recalibration of 2016 Annual Budget in order to ensure that our country remain firm to brave the forthcoming uncertainties.

Residential Property Sub-sector

The residential sub-sector is expected to experience further softening in 2016 in view of the various internal and external uncertainties foreseeable in the coming year.

Issues on affordable housing and affordability of home purchasers will continue to top the national agenda. The measure announced in budget recalibration, that states all new housing projects priced up to RM300,000 be limited to first-time house buyers.

Commercial Property Sub-Sector

The commercial sub-sector is expected to be equally or more challenging in comparison to residential sub-sector.

The retail sector is likely to moderate as cautious sentiment on consumers' spending lingers at the onset of increasing costs of living. The performance of hypermarkets looks more positive due to nature of goods sold in these premises i.e. necessity goods.

The performance of office market is expected to plateau. Downward pressure on rental may be felt by buildings, particularly those with tenants that are related to oil and gas industry. At the same time, the ample office space supply should send some cautionary signals to the authority before approving new developments.

The leisure sub-sector is expected to remain positive. The allocation of RM1.2 billion to the Ministry of Tourism and Culture to implement programmes and events to achieve the targeted tourist at 30.5 million in 2016 may help support the sub-sector i.e. hotel industry.

Conclusion

Property sector will be able to endure this challenging period with adjustments and corrections expected from both the demand and supply side. Although property sector may see moderation in market activity, the slowdown would still be manageable.

Several infrastructure projects i.e. public transport networks are game-changers that would help boost values in areas where the networks run. These are:

Public Transport Network	Completion / Commencement
LRT line Ampang – Putra Height	Completion March 2016
LRT line Kelana Jaya – Putra Height	Completion Mid-2016
MRT Sg Buloh - Semantan	Completion December 2016
MRT II from Sg Buloh – Serdang - Putrajaya	Commence 2016 / Completion 2022
LRT 3 linking Bandar Utama to Shah Alam and Klang	Commence 2016 / Completion 2020
High-Speed Rail	In negotiation
Pan-Borneo	Completion 2021

(Source: Press Release, Malaysian Property Market 2015, National Property Information Centre (NAPIC), Valuation & Property Services Department (JPPH), Ministry of Finance Malaysia)

4.3 Prospects of the Proposed Diversification and the Project

Barring any unforeseen circumstances, and subject to the property market condition, the Board expects the Proposed Diversification and the Project to contribute positively to the future growth of the Company while providing the Company with an alternative source of income, in addition to the existing core business of the Group.

5. RISK FACTORS

5.1 Business risk

The Proposed Diversification is subject to certain risks inherent in the property development industry. These include, inter-alia, fluctuations in cost of equipment, availability of technical expertise, availability of financing, changes in general economic and business conditions in the property development industry.

The management seeks to limit these risks through, inter-alia, prudent financial policies, continuous review of operations to improve efficiency and to ensure proper due diligence are implemented during the period between planning, construction and the eventual delivery of properties. However, no assurance can be given that any change to the said risk factors will not have a material adverse effect on the property development business.

5.2 Business diversification risk

The Group has been involved in the property development business albeit in a smaller scale. Hence, the Group may be subjected to new challenges and risks arising from the property development business in which the Group does not have any track record to ensure the success of this venture. Nevertheless, the Group intends to bring on board key personnel with sufficient experience in the property development for this venture.

5.3 Project completion risk

The timely completion of the projects to be undertaken by the Group is dependent on many external factors including, inter-alia, the timely receipt of requisite licenses, permits or regulatory approvals, availability of construction/building materials, equipment and labour, availability of financing and satisfactory performance of any sub-contractors appointed. Adverse developments in respect of these factors can lead to interruptions or delays in completing a project, which can consequently result in cost overruns that affect the Group's profitability and cash flows. Any extensions in the projects would increase construction overheads and attract negative reputation and legal uncertainties. In addition, any delay in completion may give rise to additional costs and may adversely affect the Group's reputation and financial performance.

However, the Group will strive to manage the projects within the specified time through close project monitoring as well as the hiring of the necessary key personnel whom are experienced in the matter. At the same time, the Group will strive to appoint reliable and reputable suppliers and sub-contractors to ensure timely delivery of raw materials, and closely follow project completion deadlines. Nonetheless, there is no assurance that any change to the abovementioned factors will not result in delay in the completion of projects.

5.4 Political, economic and regulatory risk

The Group's property development projects in future will be affected by any changes in the political, economic and/or regulatory conditions environment including but not limited to including but not limited to risk of war, changes in political leadership and environment, unfavorable changes in government policies, nationalisation and changes in legislation pertaining to the industry.

While the Group is committed to take measures to mitigate these risks including close monitoring of the Government's masterplan in respect of long-term economic and development policies so that it can stay ahead as well as capitalised on regulatory changes in the industry in which the Group operates, there can be no assurance that any changes to the political, economic and regulatory factors will not have a material and adverse effect on the business and prospect of the Group.

5.5 Risk of dependence on third-party contractors

The Group's property development business will be dependent on the support of third party contractors to ensure the continuous supply of services and construction materials. Although the Group will not be dependent on any single third-party contractor, any substantial limitation or sub-standard performance of the third party contractors and their inability to supply sufficient labour, whether skilled or unskilled, and sufficient quality services and building materials will inevitably disrupt the progress and/or quality of the Group's operation and may cause an adverse effect. Thus, the Group will focus on its selection of third-party contractors engaged for its projects as well as implementing control procedures such as careful planning, closely monitoring of project progress and endeavour to deliver prompt actions to ensure the overall positive progress of the projects.

5.6 Competition risk

The Group's property development business faces competition from other companies operating in the same business. The competitiveness of the Group is dependent on the ability of its management to secure strategically located land bank for development as well as to price its products competitively, to provide quality and timely delivery of developments and to sell its properties. In addition, the Group may face some challenges as the Group is a new entrant in the property development industry and it lacks track record.

Nevertheless, the Group will continue to take measures inter-alia employing key personnel whom are experienced in the property development business in order to be competitive in the property development industry.

5.7 Dependence on key personnel

The ability of the Group in successfully delivering the Project and future property development projects depends largely on the abilities, skills, experience and competency of the directors and key personnel as highlighted in section 2.3 above. The loss of the relevant key personnel without suitable and timely replacement, or the inability of the Group to attract and retain other qualified personnel, could adversely affect its operations in the property development segment, and consequently the Group's revenue and profitability.

5.8 Financing risk

In addition to internally generated funds, the Group may be required to seek external financing to fund the working capital requirements and development costs of the Project. The Group's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including general economic and capital market conditions, interest rates, credit availability from banks or other lenders, investors' confidence in the Group or any restrictions imposed by the Government. There can be no assurance that the necessary financing will be available in amounts and/or on terms acceptable to the Group.

6. EFFECTS OF THE PROPOSED DIVERSIFICATION

6.1 Issued and paid-up share capital

The Proposed Diversification will not have any effect on the issued and paid-up share capital of LTKM as it does not involve any issuance of new shares by the Company.

6.2 Net Assets (“NA”) per share and gearing

The Proposed Diversification is not expected to have any material impact on the consolidated NA per share of the Group for the financial year ending (“FYE”) 31 March 2017.

The impact of the Proposed Diversification on the gearing of the Group in the future will depend on the manner of financing employed on the Project.

6.3 Earnings and earnings per share (“EPS”)

The Proposed Diversification is not expected to have any material effects on the consolidated earnings and EPS of the Group for the FYE 31 March 2017. However, barring unforeseen circumstances, the Project is expected to contribute positively to the consolidated earnings and EPS of the Group in the future.

6.4 Substantial shareholders’ shareholdings

The Proposed Diversification will not have any effect on the substantial shareholders’ shareholdings of LTKM.

7. APPROVALS REQUIRED

The Proposed Diversification is subject to the following approvals being obtained:

- (i) The shareholders of LTKM at the forthcoming EGM to be convened; and
- (ii) Any other relevant regulatory authorities, if required.

The Proposed Diversification is not conditional upon any other corporate exercises undertaken or to be undertaken by the Company

8. ADVISER

SCA has been appointed to act as the Adviser to the Company for the Proposed Diversification.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors and/or major shareholders of LTKM and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Diversification.

10. DIRECTORS’ RECOMMENDATION

The Board, having considered all relevant aspects of the Proposed Diversification, including but not limited to the rationale and benefits of the Proposed Diversification, is of the opinion that the Proposed Diversification is in the best interest of the Company.

11. EXPECTED COMPLETION DATE

Barring any unforeseen circumstances, the Proposed Diversification will take immediate effect upon obtaining the approval from the shareholders at the EGM to be convened.

This announcement is dated 27 June 2016