Type : **General Announcement**
Subject : **Others**
Description : **Sunsuria Berhad ("Sunsuria" or "Company") – Proposed Diversification of the Existing Principal Activities of Sunsuria and Its Subsidiaries ("Sunsuria Group" or "Group") to Include Construction and Related Businesses**

1. INTRODUCTION

The Board of Directors of Sunsuria ("Board") wishes to announce that Sunsuria Group are proposing to diversify its existing principal activities of property development to include construction and related businesses ("Proposed Diversification").

2. PROPOSED DIVERSIFICATION

Presently, Sunsuria Group is principally involved in the business of investment holding, property development, property investment, landscape and nursery, and service management.

Sunsuria Group intends to diversify into construction and related businesses by way of securing construction projects.

As announced by the Company on 26 April 2017, Sunsuria Builders Sdn Bhd (formerly known as Goodwill Atlas Sdn Bhd) ("SBSB"), a wholly-owned subsidiary of Sunsuria, had entered into a conditional shares sale and purchase agreement ("SSA") for the acquisition by SBSB of 51% equity interest in Sunsuria Asas Sdn Bhd (formerly known as Prosperspan Construction Sdn Bhd) ("SASB"). SASB, a private limited company incorporated in Malaysia, is a construction company holding the Construction Industry Development Board (CIDB) Grade 7 License issued by the Construction Industry Development Board to undertake construction work within Malaysia. SASB become a 51% indirect subsidiary of Sunsuria following the completion of the SSA on 14 July 2017. The remaining 49% equity interest in SASB is owned by Spanway Construction Sdn Bhd ("Spanway").

Further, as announced by the Company on 28 June 2017, SBSB had entered into a shareholders' agreement with Citicc International Investment Ltd ("CITIC") to establish a private company in Malaysia, now known as Citic Sunsuria Sdn Bhd ("CSSB"), as the vehicle through which SBSB and CITIC shall undertake and carry out the business of infrastructure, construction work, property development and related activities in Malaysia. As at the date of this announcement, the shareholdings in CSSB is as follows:

Shareholder	Number of Shares Held	Shareholding
CITIC	510,000	51%
SBSB	490,000	49%
Total	1,000,000	100%

CITIC is a company incorporated under the law of Hong Kong, Special Administrative Region of China and is a wholly-owned subsidiary of CITIC Construction Co., Ltd ("CITIC Construction"), which in turn is a tier one wholly owned subsidiary of CITIC Limited. CITIC Construction is a renowned world class comprehensive engineering service provider with a reputation for their expertise in international engineering and contracting. It has the expertise and technical know-how in construction, engineering, consultancy and general contracting of building projects.

As at the date of this announcement, the construction contracts awarded to SASB are for various construction works in relation to "Sunsuria City" project, the flagship development located at Salak Tinggi, Putrajaya South of Sunsuria City Sdn Bhd ("SCSB") (a 99.99% indirect subsidiary of Sunsuria). Details of the on-going construction projects undertaken by SASB are as follows:

	Project Name	**Project Description**	**Project Type**	**Project Owner**	**Contract Value (RM'000)**	**Commencement / Expected Completion Date**
1.	The Olive	Construct and complete main building works for 3 blocks of condominium (663 units)	Residential	SCSB	121,759	April 2017 / July 2019
2.	Monet Springtime	Construct and complete main building works for 308 units of terrace house	Residential	SCSB	91,618	April 2018 / August 2019
3.	Monet Garden	Construct and complete main building works for 360 units of town house	Residential	SCSB	89,957	November 2017 / July 2019
4.	Monet Lily	Construct and complete main building works for 211 units of terrace house	Residential	SCSB	57,821	October 2017 / July 2019
5.	Bell Suites	Construct and complete main building works for car park podium	Residential	SCSB	11,314	June 2017 / February 2018
	Total				**372,469**	

Premised on the above, the Board anticipates the construction and related businesses may in the future contribute 25% or more of the net profits of Sunsuria Group and/or result in a diversion of more than 25% of the net assets of Sunsuria Group. In this regard, the Board proposes to seek the approval of the shareholders of Sunsuria for the Proposed Diversification pursuant to Paragraph 10.13(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, at an annual general meeting ("AGM") to be convened.

Notwithstanding the Proposed Diversification, Sunsuria Group intends to continue with its existing businesses of property development in largely the same manner. If the Proposed Diversification is approved by the shareholders of the Company, Sunsuria Group will be principally involved in its existing businesses of property development and construction and related businesses.

Dato' Tan Tian Meng ("Dato' Tan"), the Executive Director and Chief Executive Officer of CSSB, who has vast experience in the construction and property development activities, will be instrumental in the Company's foray into the Proposed Diversification.

Dato' Tan, aged 54, a Malaysian, graduated from the University of Malaya in 1988 with a Bachelor of Civil Engineering (Honours) degree. He has had more than 25 years of work experience and professional practice careers in the industries related to construction and property development.

Dato' Tan has involved in, amongst others, the following construction projects:

	Project Name	Project Description
1.	Universiti Sains Malaysia	Construction of one incubator block (9-storey)
2.	Pusat Perubatan Universiti Malaya	Renovation of Level 2 (Main Tower), Level 4 (East Tower), and Level 2 (South Tower) at existing hospital facility Construction of Trauma Centre & Emergency Blocks
3.	Airforce Based at Sendayan, Negeri Sembilan (awarded by Lembaga Tabung Angkatan Tentera)	Construction of building and external works of airforce base
4.	Putrajaya Holdings	Design, build and completion of commercial shopping complex at Parcel Z, Putrajaya
5.	Hospital Batu Gajah, Perak (awarded by Ministry of Health Malaysia)	Construction of Central Sterile Supply Department and Operating Theatres, Integration Stores and Upgrading of Emergency Unit
6.	University Putra Malaysia, Serdang	Design, build and completion of Medical & Science Faculty Buildings

The Board believes that Dato' Tan has sufficient expertise and experience to assist Sunsuria Group to spearhead and expand into the construction and related businesses. In addition, Dato' Tan will be supported by the other management personnel as well as external consultants such as the architects, engineers, surveyors, subcontractors and other consultants in the operations for the new businesses.

As the construction and related businesses would be a new additional principal activity for Sunsuria Group, the Board will ensure that Sunsuria Group has the adequate capabilities and resources to diversify into the new businesses. The management of the Group is in the midst of recruiting qualified and experienced personnel to support the operations of the new businesses.

3. RATIONALE FOR THE PROPOSED DIVERSIFICATION

Sunsuria Group intends to diversify into the construction and related businesses to provide for greater business expansion and sound financial growth for the Group.

The Proposed Diversification enables Sunsuria Group to diversify its existing principal activities by venturing into the construction and related businesses which would provide additional revenue and income streams to enhance the profitability and prospects of the Group. The additional new businesses are expected to contribute positively to Sunsuria Group's future earnings, improve Sunsuria Group's financial position and consequently enhance the shareholders' value.

The Proposed Diversification will be undertaken through SASB and CSSB wherein Sunsuria will be able to leverage on the proven track record, engineering expertise, technical sophistication and resources of the strategic partners (i.e. Spanway and CITIC), in executing the construction projects as well as in identifying additional business opportunities and winning over large-scale infrastructure and property projects.

The Board believes that the Proposed Diversification would provide an opportunity for the Group to enhance its credentials in the construction segment and open up new opportunities which would be in the Group's best interest.

4. INDUSTRY OUTLOOK AND PROSPECTS OF THE PROPOSED DIVERSIFICATION

4.1 Overview and outlook for Malaysian economy

The Malaysian economy recorded a stronger growth of 6.2% in the third quarter of 2017 (2Q 2017: 5.8%). Private sector spending continued to be main driver of growth. The external sector also contributed positively to growth as real exports expanded at a faster pace of 11.8% in the third quarter (2Q 2017: 9.6%), supported by stronger demand from major trading partners. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.8% (2Q 2017: 1.3%).

Domestic demand grew by 6.6% in the third quarter of the year (2Q 2017: 5.7%), supported by continued expansion in both private sector expenditure (7.3%; 2Q 2017: 7.2%) and public-sector spending (4.1%; 2Q 2017: 0.2%). Private consumption expanded by 7.2% (2Q 2017: 7.1%), underpinned by better labour market conditions. In particular, private sector wages were sustained amid stronger employment growth.

For 2018, domestic demand is expected to remain the key source of growth. Private consumption will remain the largest driver of growth, supported by continued improvements in income and overall labour market conditions. Investment will be sustained by infrastructure projects and higher capital investment in the manufacturing and services sectors. The external sector will provide additional impetus to the economy, benefitting from the improvement in global growth. Overall, the assessment is for growth to remain strong in 2018.

(Source : Economic and Financial Developments in the Malaysian Economy in the 3rd Quarter of 2017, Bank Negara Malaysia)

Malaysia's economic growth was markedly stronger in the third quarter with real GDP expanding by 6.2% (Q3 2016: 4.3%) supported by higher domestic demand and exports. On the domestic front, growth was underpinned by strong private sector spending. Meanwhile, on the supply side, all sectors recorded positive growth, led by services and manufacturing sectors.

Domestic demand recorded a robust growth of 6.6% (Q3 2016: 4.5%) mainly led by the favourable performance of private sector expenditure which expanded 7.3% (Q3 2016: 5.9%). Private consumption rose 7.2% (Q3 2016: 6.3%) largely in communication, food and beverages as well as tourism-related segments, supported by job market stability and steady income growth. Consumer spending also benefitted from higher commodity prices.

The services sector strengthened further by 6.6% during the third quarter of 2017, accounting for 54.4% of total GDP (Q3 2016: 6.2%; 54.3%). Growth was driven by final services group which rose 6.7% (Q3 2016: 6.4%) attributed to robust wholesale and retail trade as well as food & beverage and accommodation subsectors. Likewise, the intermediate services group increased 6.5% (Q3 2016: 6.2%) supported by stronger performance in information and communication subsector.

The real estate and business services subsector increased 7.4% (Q3 2016: 7%). The business services segment expanded at a higher rate of 8.6% (Q3 2016: 8%) supported by civil engineering and accounting services. Meanwhile, the real estate segment grew 4.8% (Q3 2016: 5%) in line with slower construction activities in the residential and non-residential subsectors.

The other services subsector increased 5.6% (Q3 2016: 5%) driven by private education and health segments. Private education expanded 6.5% (Q3 2016: 6.7%) following new enrolments in private higher education institutions while private health increased 5.7% (Q3 2016: 5.4%). Meanwhile, the government services subsector increased 6.3% (Q3 2016: 5.5%).

Value-added of the manufacturing sector registered a strong growth of 7% (Q3 2016: 4.3%) underpinned by the robust performance of both export- and domestic-oriented industries. Likewise, output increased significantly by 7.1% (Q3 2016: 4%) during the period. Meanwhile, sales registered a double-digit growth of 16.2% to RM194.4 billion (Q3 2016: -0.9%; RM167.2 billion). Export-oriented industries expanded 5.9% (Q3 2016: 4%) driven by higher production in the E&E cluster. The growth of the industry was also supported by the higher production of chemicals and chemical products; plastic products; off-estate processing; and textiles, wearing apparel, leather products and footwear. However, the output of wood products and furniture declined in line with slower logging activities.

Meanwhile, domestic-oriented industries increased further by 7.8% (Q3 2016: 3.8%) backed by higher production of food products and beverages following stronger demand during major sporting events and school holidays. The output of fabricated metal and non-metallic mineral and other related products expanded further mainly driven by demand from transport-related construction activity. Likewise, increase in production of basic metals amid rising exports to China and transport equipment for shipbuilding activities supported the growth of the industry.

(Source : Quarterly Update on Malaysian Economy – 3rd Quarter 2017, Ministry of Finance Malaysia)

The Malaysian economy is projected to continue its strong growth momentum with real GDP expanding between 5% and 5.5% in 2018 (2017: 5.2% and 5.7%). Growth will be mainly driven by resilient domestic demand amid favourable external sector. Given the robust economic development, GNI per capital is estimated to increase 5.1% to RM42,777 (2017: 7.7%; RM40,713). Despite the strong growth momentum, Malaysia as an open economy is not immune to external headwinds. These include rising protectionism; policy uncertainties in the advanced countries; and volatility in the financial markets. Nevertheless, structural reforms undertaken over the years to diversify the economy and strengthen the financial system have provided sufficient buffer to weather these external challenges.

(Source: Economic report 2017/2018, Ministry of Finance Malaysia)

4.2 Overview of the construction industry in Malaysia

The construction sector grew 6.1% during the quarter (Q3 2016: 7.9%). The growth was primarily attributed to civil engineering and specialised construction activities which grew 13.7% and 8.6%, respectively (Q3 2016: 16.2%; 5.4%). Transportation- and utility-related projects supported the growth of the civil engineering subsector. The non-residential subsector rebounded 0.6% (Q3 2016: -4.2%) primarily supported by Government projects. However, the residential subsector moderated 0.5% (Q3 2016: 13%) as developers were cautious in launching new projects following high overhang.

During the quarter, the total value of construction work done recorded a steady growth of 8.1% to register RM34.5 billion covering 8,844 projects (Q3 2016: 10.7%; RM31.9 billion; 9,725 projects). The increase in total value of construction work done was driven largely by civil engineering (18%) and special trade activities (10.5%). In terms of project ownership, the private sector continues to lead the construction activity accounting for 62.6% of the total value of work done.

(Source : Quarterly Update on Malaysian Economy – 3rd Quarter 2017, Ministry of Finance Malaysia)

Value added of the construction sector recorded a robust growth of 7.4% during the first half of 2017 (January – June 2016: 8.5%), primarily attributed to strong civil engineering activities. Accordingly, total value of completed construction works increased 10.4% to RM68.9 billion involving 18,977 projects (January – June 2016: 11.4%; RM62.4 billion; 20,026 projects). The private sector contributed 63.6% of the total value of construction works. The civil engineering subsector was the major contribution to the total value of construction works constituting 35.3%, followed by non-residential (31%), residential (28.8%) and specialised construction activities (4.8%) subsectors. In 2017, construction sector is expected to expand 7.6% (2016: 7.4%) mainly underpinned by new and existing civil engineering projects, particularly in utilities, transportation and petrochemical segments.

The civil engineering subsector continued to record a double-digit growth of 13.7% (January – June 2016: 17.7%) supported by major infrastructure projects under the Eleventh Malaysia Plan. Among the rail projects were Mass Rapid Transit (MRT) Sungai Buloh – Serdang – Putrajaya (SSP) line and Electrified Double Track Gemas – Johor Bahru. In addition, growth of the subsector was further supported by construction and upgrading of roads such as Setiawangsa – Pantai Expressway (SPE) and Pan Borneo Highway. The subsector also benefited from the construction of combined cycle gas turbine power plant in Melaka.

The residential subsector continued to expand 4.7% (January – June 2016: 6.7%) supported by firm demand for affordable housing in choice locations with easy access. Housing starts rebounded significantly by 12.1% to 67,662 units (January – June 2016: -40%; 60378 units). Condominiums and apartments accounted for 42.9% of total housing starts in line with the increasing demand, especially for high-rise units in major cities. However, the increase was offset by a decline in incoming supply at 3.4% to 483,433 units (January – June 2016; 14.1%; 502,345 units) as developers were cautious in launching new projects to prevent accumulation of unsold properties. Likewise, new approvals declined 2.8% to 43,133 units (January – June 2016; - 33.5%; 44,389 units) as developers reviewed their future plans in response to market situation.

In terms of demand, the take-up rate for residential units grew 23.9% with 6,775 units during the period (January – June 2016: 22.7%; 3,289 units) amid continued access to housing loans, especially for first-time house buyers. Accordingly, transaction value improved with smaller contraction of 0.3% to RM32.9 billion (January- June 2016: -9.6%; RM33 billion). However, total properties transacted declined 6.9% to 95,010 (January – June 2016: -14.5%; 102,096 transactions) mainly due to the adoption of macroprudential measures to deter market speculation and ensure only those who are credit-worthy are eligible for financing. The residential overhang increased 55.4% to 20,876 units with a total value of RM12.3 billion during the period (January – June 2016: 28.3%; 13,438 units; RM7.6 billion) with Kedah accounting for the higher overhang at 20.9%, followed by Johor (18.2%) and Selangor (17.6%). However, the property market is expected to adjust accordingly in the long-run given the robust economic growth prospects.

The construction sector is projected to grow 7.5% (2017:7.6%), primarily supported by the ongoing civil engineering infrastructure projects such as East Coast Rail Link, MRT SSP Line, Electrified Double Track Gemas – Johor Bahru, SPE, Pan Borneo Highway and Bokor Central Processing Platform. Meanwhile, the residential subsector is expected to expand further with several new planned townships by private developers. In addition, the subsector will also benefit from various affordable housing programmes by the Government such as PPA1M, MyBeautiful New Home and 1Malaysia People-Friendly Houses. On the contrary, the non-residential subsector is forecasted to grow moderately following property overhang, particularly in the shops segment.

(Source: Economic report 2017/2018, Ministry of Finance Malaysia)

4.3 Prospects of the Proposed Diversification

The Proposed Diversification represents an opportunity for Sunsuria Group to diversify its existing businesses into the construction and related businesses which the Board anticipates to be viable and profitable. The Proposed Diversification will provide Sunsuria Group with additional sources of income and enhance the profitability of the Group.

The investment in SASB and the joint venture with CITIC through CSSB by Sunsuria Group serve as the entry point and is part of the Group's expansion efforts into the construction and related businesses. After obtaining approval from the Company's shareholders for the Proposed Diversification, Sunsuria Group will strive to identify and assess new opportunities to secure more contracts by leveraging on the vast engineering and technical expertise and experiences of the strategic partners in the construction businesses.

In addition, Sunsuria Group intends to establish a team of personnel through hiring an experienced team with diverse experiences in construction activities to enhance the construction and related businesses of the Group and to better manage the on-going projects and future projects to be undertaken by Sunsuria Group.

Premised on the positive outlook for the Malaysian economy and construction industry, the Board is positive on the outlook of the construction and related businesses which is expected to enhance Sunsuria Group's financial performance and shareholders' value. The Board is of the view that the diversification into the new businesses augurs well for the Group. Upon obtaining the approval of the Company's shareholders on the Proposed Diversification, it is the intention of the Group to expand and bolster the construction and related businesses including potential listing of the construction division of the Group when appropriate.

5. RISK FACTORS IN RELATION TO THE PROPOSED DIVERSIFICATION

5.1 Operational / business risks

The Proposed Diversification will subject Sunsuria Group to certain risks inherent to the construction business. These may include construction schedule risk (i.e. late completion or primarily risks associated with the completion of the construction works within planned schedules), economic downturn globally and regionally, occurrence of force majeure events such as adverse weather conditions and natural disaster, dependency on operating licences, permits and approvals, availability and cost fluctuations of building materials and labour and changes in the regulatory framework within the construction industry.

Nevertheless, Sunsuria Group will seek to mitigate these risks through, amongst others, by venturing onto the construction activity via SASB and CSSB with strategic partners who have extensive and established engineering contractor-ship track records to diligently monitoring the performance and changes within the Malaysian construction industry as well as careful planning and proactive and close monitoring of the operations and performance of the construction businesses.

5.2 Competition / business diversification risks

Pursuant to the Proposed Diversification, Sunsuria Group will face direct competition from both new entrants and existing companies involved in the construction industry. Sunsuria Group may also be disadvantaged as a new entrant in the construction industry as it lacks the relevant track record and brand name compared to existing construction companies which may enjoy established brand names and entrenched reputation in the industry.

Nevertheless, Sunsuria Group will continue to take proactive measures to be competitive in the construction industry by being cost efficient through effective project management and cost control policies, providing quality products and competitive pricing as well as actively seeking new opportunities in the construction industry.

5.3 Dependency on key personnel

Being a new player in the market, Sunsuria Group's involvement in the construction industry will depend on the provision of talent and management resources in implementing the project's engineering, procurement and construction (EPC) work by the strategic partners together with the abilities, skills, experience of the key personnel. The loss of any of these key personnel without suitable and timely replacement may adversely affect Sunsuria Group's construction business.

The management of Sunsuria Group recognise the importance of attracting and retaining key personnel. Accordingly, the Group will adopt appropriate approaches or measures to retain the key personnel. To avoid over dependency on any key personnel, the Group will strive to attract qualified and experienced employees to support the new businesses.

5.4 Economic, political and regulatory risks

Any adverse developments in political, economic, market, interest rate, taxation, regulatory and social conditions may materially affect Sunsuria Group's involvement in the construction industry. These include changes which are beyond Sunsuria Group's control.

The Group seeks to limit the impact of such risks by monitoring and adapting business strategies in response to major developments in the economic, political and regulatory environment.

6. EFFECTS OF THE PROPOSED DIVERSIFICATION

The Proposed Diversification will not have any effect on the share capital and substantial shareholders' shareholding of the Company.

As the Proposed Diversification is neither a transaction nor a fund-raising exercise, it will not have any proforma effects on the net assets and gearing of Sunsuria Group. However, the profit contributions arising from the construction and related businesses are expected to have a positive impact on the future net assets of the Group while the gearing of the Group will depend on, amongst others, the manner of funding for the construction projects.

The Proposed Diversification is expected to contribute positively to the earnings of Sunsuria Group for the financial year ending 30 September 2018 and beyond.

7. APPROVALS REQUIRED AND TIMEFRAME

The Proposed Diversification requires the approval of the Company's shareholders at an AGM to be convened in the first quarter of 2018.

The Proposed Diversification is not conditional or inter-conditional upon any other corporate proposals undertaken or to be undertaken by the Company.

The Proposed Diversification will take immediate effect upon obtaining the approval of the Company's shareholders at the AGM to be convened.

8. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the directors and/or major shareholders of Sunsuria Group and/or persons connected with them have any interests, direct or indirect, in the Proposed Diversification.

9. DIRECTORS' STATEMENT

Having considered all aspects of the Proposed Diversification, including the rationale, financial effects and risks associated with the Proposed Diversification, the Board is of the opinion that the Proposed Diversification is in the best interest of the Company.

10. ADVISER

Astramina Advisory Sdn Bhd is the appointed Financial Advisor for Sunsuria Group in relation to the Proposed Diversification.

This announcement is dated 17 January 2018.