

PUBLIC PACKAGES HOLDINGS BERHAD

**(Company No. 162413-K)
("PPH" or "the Company")**

**Subject : PUBLIC PACKAGES HOLDINGS BERHAD ("PPH")
PROPOSED DIVERSIFICATION**

Contents : The Board of Directors of PPH is pleased to announce that PPH, had on 3 June 2013 decided to diversify into hotel and commercial property leasing business.

Please refer to the attachment for full text of the announcement.

This announcement is dated 3 June 2013.

1. INTRODUCTION

The Board of Directors of PPH is pleased to announce that Public Packages Holdings Berhad (PPH) wishes to undertake a proposed diversification of its business into “hotel and commercial property leasing business”. Horwath HTL, an Independent Market Researcher has been engaged to conduct a market & financial feasibility study (“Feasibility Study”) on the operation of hotel business in Georgetown, Penang. A boutique hotel with the proposed name of “The Quay” will be developed on a land as described in item 1.1 below. The Land was acquired by its wholly-owned subsidiary, PPH Plaza Sdn Bhd (“PPH Plaza”) in year 1995 for development purposes. The estimate total construction cost including the restoration cost of existing building erected on the land is approximately RM74,390,000. The Company expects that the profit contribution of this hotel and commercial property leasing business will start to accrue in year 2018.

The Board expects that the deployment of assets of 25% or more of the net assets of PPH for the hotel and commercial property leasing business . As such, the Board proposes to seek the prior approval from the shareholders of the Company at the forthcoming Extraordinary General Meeting for the Proposed Diversification pursuant to Paragraph 10.13 of the Listing Requirements for the Main Market of Bursa Malaysia Securities Berhad.

1.1 Information of the Land

The Land comprises three contiguous lots (i.e. Lot Nos 741, 742 and 743) and erected thereon on Lot Nos 741 and 743 are two (2) units of two-storey pre-war heritage buildings bearing postal addresses Nos 29 & 31, Lebuhr Pantai, 10300 Georgetown, Penang and No. 7, Pengkalan Weld, 10300 Georgetown, Penang (the “Land”).

1.2 Information of The Quay

The Quay will consist of a five (5) storey boutique hotel and retail lots with a total built up of approximately 18,050 square metres and 950 square meters respectively with approximately 160 guestrooms together with 2 storey car park of 100 car park spaces.

2. Information of PPH Plaza

2.1 Background

PPH Plaza Sdn Bhd (Company No. 330349-H) was incorporated as a private limited company on 12 January 1995. The authorised capital of PPH is RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each, of which all have been fully issued and paid-up.

PPH Plaza is principally involved in the business of provision of hotel and lodging facilities.

The directors of PPH Plaza as at 3 June 2013 are as below:-

1. Koay Chiew Kang
2. Koay Chue Beng
3. Koay Teng Kheong

2.2 Shareholders

PPH Plaza is a wholly-owned subsidiary of PPH.

3. RATIONALE OF THE PROPOSED DIVERSIFICATION

The Proposed Diversification is undertaken as part of PPH's plan to mitigate the overdependence on its existing core business. This would then provide the group with an additional income stream. Based on the positive outlook of the hotel industry and the feasibility study conducted, the proposed hotel and commercial property development is highly regarded as a better option to fully unlock the value of the Land.

4. TOURISM PROSPECTS

The World Tourism Organisation (WTO) forecasts international arrivals worldwide are expected to reach 1 billion by 2012. For 2011, international arrivals grew 4 percent to 980 million, of which 22 percent travelled to Asia Pacific. By 2030, the arrivals worldwide are projected to reach 1.8 billion.

However, the WTO forecasts that mature regions such as Europe and the Americas will register slower arrival growth rates in the next 10 years compared to emerging regions such as Asia and the Middle East and by 2020, the market share of Europe will shrink to approximately 46 percent, whilst those of East Asia and the Pacific will expand to 25 percent.

Penang has always been a popular tourist destination, both domestically and internationally. Penang is known for its rich heritage, multicultural society and its vibrant culture, its hills, parks, and beaches, shopping and good food. Penang Island has been ranked by Yahoo! Travel as one of the "10 Islands to Explore before You Die" and is listed in Patricia Schultz's best-selling "1,000 Places to See before You Die" travel book.

The pre-war houses in the historic centre of George Town were for half a century until January 2001 protected from urban development due to the Rent Control Act which prohibited landlords from arbitrarily raising rentals as a measure to provide affordable housing to the low-income population. Its eventual repeal visibly changed the landscape of the island's demographic pattern and economic activity as it led to overnight appreciation of house and real estate prices, forcing out tenants of multiple generations of their homes to the city outskirts and the development of new townships, the demolition of many pre-war houses, the mushrooming of high-rise residences and office buildings, and the emptying out and dilapidation of many areas in the city centre. Unperturbed development sparked concerns for the preservation of the heritage buildings, leading to more vigorous conservation efforts. On 7 July 2008, George Town was formally inscribed as a UNESCO World Heritage Site and officially recognised as having "a unique architectural and cultural townscape without parallel anywhere in East and Southeast Asia"

The state government does not publish tourism arrivals as tourists arrive in Penang by land, sea and air, making tracking of visitor arrivals difficult. However, the statistics of hotel guests as compiled by Tourism Malaysia provides an indication of tourist arrivals to Penang. Hotels that are covered include quality guesthouses, budget and international standard hotels.

Just as in the business sector, the global financial crisis of 2009 had a negative impact on tourism in Penang where total hotel guest arrivals took a negative growth in that year. However, it is interesting to note that foreign guests registered a 6 percent growth. Between 2005 and 2009, the proportion of domestic guests was higher, but the trend reversed in 2010. Foreign guests have consistently registered growth since 2005. Indonesians topped the list of foreign guests followed by Singaporeans, Mainland Chinese, Japanese and Americans.

To further boost tourism, the Penang state government plans to develop and promote Penang as the Medical City of the region by providing quality healthcare that is affordable for all segments of the market and to set-up a pro-active administration that will be able to look into the comfort and needs of the patients and their families. Out of Malaysia's total medical tourism receipts of approximately MYR288 million in 2009, Penang contributed MYR162 million or 57 percent. In 2010, this increased to MYR 227 million or 66 percent of the total MYR336 million national medical tourism receipts. In 2010, the Hotel Resort Insider named Malaysia as one of the top five medical tourism destinations in the world. Penang has some seven specialty hospitals, which form the Penang Health Association to jointly promote medical tourism in Penang. The lifting of levies imposed on Indonesians seeking medical treatment in Malaysia at the beginning of 2011 is expected to draw more medical tourists from Indonesia. In total, there are eight private hospitals in Penang. The Economist in its recent article on August 13, 2011, wrote a flourishing article on the state of medical care and medical tourism in Penang where low cost and well-equipped hospitals have drawn foreign patients seeking medical treatment. The state government is currently targeting southern China where it promoted medical tourism in Guangzhou in September 2011. Medical tourists numbered approximately 250,000 in 2010, chalking an increase of almost 24 percent. Most of the medical tourists arrived from Indonesia.

(Source: Tourism Malaysia)

Premised on the above, the Board believes that the outlook and prospects of the hospitality industry in Malaysia are expected to be positive in the long term.

5. RISK FACTORS

5.1 Business Risk

The Proposed Diversification is subject to certain risk inherent in the hotel and commercial property leasing business. These include, inter-alia availability of labour, availability of financing, changes in general economic and business conditions and tourism arrivals.

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

5.2 Business Diversification Risk

The Company has not been previously involved in hotel and commercial property leasing business. Hence, the Company may be subject to new challenges and risks arising from hotel and commercial property leasing business in which the Company does not have track record to ensure the success of the venture in hotel business. Nevertheless, the Management believes that the hotel consultant to be employed for the management of the hotel business has sufficient experience in hotel industry to derive the management team of the Quay.

5.3 Competition Risk

The Company may also face some disadvantages being a new entrant in the hotel industry as it lacks the track records as compared to the existing players which enjoy the privilege on their established brand name and reputation.

The PPH Group's competitiveness will depend on its technical expertise, process know-how, and its marketing strategies. The Company will constantly review its development and marketing strategy to fulfill the needs and specifications of their guests.

5.4 Non-completion risks

The Proposed diversification is currently pending completion of the development of The Quay ("Proposed Development") and there is no certainty to the successful completion of the transaction. Upon any non-fulfilment of any condition or necessary procedure by the successful contractor or by the Company, the Proposed Development may not be completed. Notwithstanding the above, PPH shall take all reasonable steps and procedures to ensure the completion of the Proposed Development and safeguard the Company's position.

5.5 Political, economic and regulatory risks

Like all other business ventures, changes in political, economic and regulatory conditions could materially and adversely affect the financial and business prospects of the Proposed Diversification. Amongst the political, economic and regulatory uncertainties are the changes in the general economic and business conditions as well as the credit conditions. PPH Group will seek to limit the impact of such risks to its business, and the risks in relation to the Proposed Development and Proposed Diversification.

5.6 Financial risks

PPH intends to fund part of the construction cost for the Proposed Development of the hotel via bank borrowings. As such, any significant fluctuation in interest rates may increase the cost of borrowings for PPH. PPH will monitor closely the fluctuations in interest rate and will negotiate with the relevant financial institution for an attractive and cost effective financing package.

6. SOURCE OF FUNDS

The Proposed Development will be financed via a term loan of RM50 Million and the balance will be financed by internally generated funds, the proportions of which are expected to be 73% and 27% respectively.

7. FINANCIAL EFFECTS

The Proposed Diversification will not have any material effect on PPH Group's earnings per share, net assets per share, gearings, share capital and substantial shareholdings structure for the year ending 31 December 2013.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

None of the directors and/or major shareholders of PPH and/or persons connected with them has any interest, either direct or indirect in the Proposed Diversification.

9. APPROVALS REQUIRED

The Proposed Diversification is subject to the approval of the shareholders of PPH and the Proposed Development of The Quay is subject to the approval of local government authorities.

10. DOCUMENTS FOR INSPECTION

The Memorandum and Articles of Association of PPH and Feasibility Study report of the hotel project are available for inspection by the shareholders of PPH at the registered office of PPH at Wisma Public Packages, Plot 67 Lintang Kampong Jawa, Bayan Lepas Industrial Estate, 11900 Bayan Lepas, Penang during office hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement.

11. STATEMENT BY THE BOARD OF DIRECTORS

The Board of Directors of PPH, after taking into consideration of the rationale of the Proposed Diversification, is of the opinion that the Proposed Diversification is in the best interest of the Company.