



BINA PURI HOLDINGS BHD

PRESS RELEASE

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19 Jan 2009: Cover Story: Bankers set precedent in Assam Jawa-Templer Park job

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The Assam Jawa-Templer Park (AJTP) highway concession project adds a new dimension to how bankers reduce their risks in financing such projects.

The bankers — Bank Pembangunan and Islamic Development Bank — had imposed a condition that AJTP's concessionaire, KL-Kuala Selangor Expressway Bhd (KLKSE), tender out the job to get the lowest possible bid, rather than nominating a related-party contractor.

Through a tender exercise, KLKSE had in June last year awarded the AJTP project to a third party contractor, Mudajaya Corp Bhd, for a contract price of RM958 million. Sources say Mudajaya's bid had beaten other contractors, including IJM Corp Bhd, and was about RM50 million below the original cost estimate.

Thus, the outcome is that Bina Puri Holdings Bhd, despite holding a 50% equity interest in KLKSE, will not be involved in the construction of AJTP. In the company's announcement on June 5, 2008, on KLKSE's awarding the AJTP job to Mudajaya, Bina Puri had stated that "no directors, substantial shareholders and/or persons connected with them have any interests, direct or indirect, in the above transaction."

Such an arrangement helps to protect bankers' interests as they could prevent cases where related-party contractors cream off margins in the construction of the highway before toll revenue kicks in.

It is not difficult to fathom why bankers have become more cautious. Credit crunch aside, the memory of how the SILK highway concession project turned sour with actual traffic flow 70% below forecast is still fresh in their minds. The result was bankers were forced to take a steep haircut after contractors got lucrative margins on the construction.

In KLKSE's case however, the fact that Bina Puri is not going to reap any construction profits from the AJTP project means that it is taking a higher risk by putting in its equity in the non-listed KLKSE. In essence, Bina Puri will only recover its investment in KLKSE when the AJTP highway begins tolling, and that is provided the traffic flow meets the original forecast.

Interestingly, Senator Tan Sri Tee Hock Seng, group managing director and substantial shareholder of Bina Puri, is putting his own money into KLKSE as well, despite his company not getting the AJTP job. Sources say Tee has advanced some RM20 million to Bina Puri to

pay for equity in KLKSE, which has an initial-paid up capital of RM60 million.

KLKSE had in 1997 signed a concession agreement with the government for the design and construction and finally, to operate the 33km highway linking Assam Jawa to Templer Park for a period of 30 years, later revised to 40 years. Due to the Asian financial crisis, the project was put on the back burner and had remained so for the last 10 years, as Bina Puri couldn't secure financing for the project.

The highway project was only revived last year after which KLKSE awarded the AJTP job to Mudajaya last June. Construction work had commenced in October last year. Subsequently, after the paid-up capital in KLKSE is firmed up, Bina Puri last week announced that KLKSE had achieved its financial close and has finalised all the loan documentation with Bank Pembangunan for the Istisna' facility of RM740 million and Islamic Development Bank for the Istisnaa wa Ijaara' facility of RM300 million. The facilities will be utilised to finance the construction of the toll highway from Assam Jawa to Kundang for Package 1, and from Kundang to Templer Park for Package 2.

The KLKSE's model of tendering the AJTP job rather than giving it to a related party is the right way to go. While the concession agreement signed with the government gave KLKSE the right to "design and construct" the highway, which in other words means allowing it to nominate its own contractors, the bankers have stepped in to push for an open tender to safeguard their interests.

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