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SARAWAK CONSOLIDATED INDUSTRIES BERHAD
(Company No. 25583-W)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE:

PART A

PROPOSED ACQUISITION OF A PARCEL OF LAND TOGETHER WITH TWO (2) UNITS OF INDUSTRIAL BUILDINGS ERECTED THEREON SITUATED AT SEJINGKAT INDUSTRIAL PARK, KUCHING AND DESCRIBED AS LOT 830 BLOCK 7 MUARA TEBAS LAND DISTRICT BY SCIB CONCRETE MANUFACTURING SDN BHD, A WHOLLY-OWNED SUBSIDIARY OF SARAWAK CONSOLIDATED INDUSTRIES BERHAD (“SCIB”) FROM REIGNVEST CORPORATION SDN BHD FOR A CASH CONSIDERATION OF RM8,236,000 (“PROPOSED ACQUISITION”)

PART B

INDEPENDENT ADVICE LETTER FROM KENANGA INVESTMENT BANK BERHAD TO THE NON-INTERESTED SHAREHOLDERS OF SCIB IN RELATION TO THE PROPOSED ACQUISITION

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Adviser for Part B

kenanga

Kenanga Investment Bank Berhad
Company No. 15678-H

The Notice of the Extraordinary General Meeting (“EGM”) together with a copy of the Form of Proxy are enclosed with this Circular. If you decide to appoint a proxy to attend and vote on your behalf at the EGM, the Form of Proxy should be completed and lodged at our registered office at Lot 1258, Jalan Utama, Pending Industrial Estate, 93450 Kuching, Sarawak not less than 48 hours before the time appointed for the EGM or at any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting at the forthcoming EGM if you subsequently wish to do so.

Last date and time for lodging the Form of Proxy : Wednesday, 26 June 2019 at 10.00 a.m.

Date and time of the EGM : Friday, 28 June 2019 at 10.00 a.m.

This Circular is dated 11 June 2019

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular.

Act	:	Companies Act 2016, as amended from time to time and any re-enactment thereof
Board	:	Board of Directors of SCIB
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (Company No. 165570-W)
Bursa Securities	:	Bursa Malaysia Securities Berhad (Company No. 635998-W)
Circular	:	This circular dated 11 June 2019 in relation to the Proposed Acquisition
Director(s)	:	This shall have the same meaning given in Paragraph 1.01 and 10.02 of the MMLR
Director of Lands and Surveys	:	Director of Lands and Surveys of the Land and Survey Department, Sarawak Malaysia
EGM	:	Extraordinary general meeting of the Company
FPE	:	Financial period(s) ended/ ending, as the case may be
FYE	:	Financial year(s) ended/ ending, as the case may be
IAL	:	Independent advice letter from the Independent Adviser as contained in Part B of this Circular
Kenanga IB or Independent Adviser	:	Kenanga Investment Bank Berhad (Company No. 15678-H)
Land	:	The parcel of land situated at Sejingkat Industrial Park, Kuching measuring approximately 2.793 hectares and described as Lot 830 Block 7 Muara Tebas Land District
LPD	:	27 May 2019, being the latest practicable date prior to the printing of this Circular
LPS	:	Loss per share
Major Shareholder(s)	:	A person, including any person who is or was within the preceding six (6) months of the date on which the terms of the transactions were agreed upon, who has an interest or interests in one (1) or more voting shares in the Company (or any other company which is its subsidiary or holding company) and the number of those shares, is:- (a) 10% or more of the total number of voting shares in the Company; or (b) 5% or more of the total number of voting shares in the Company where such person is the largest shareholder of the Company.

For the purpose of this definition, "interest in shares" shall have the same meaning given in Section 8 of the Act.

DEFINITIONS (Cont'd)

Main Market	:	Main Market of Bursa Securities
MMLR	:	Main Market Listing Requirements of Bursa Securities, as amended from time to time
MOS	:	The Memorandum of Sublease dated 25 May 2007 registered as Instrument No. L.12635/2007 on 15 June 2007 at the Kuching Land Registry Office
NA	:	Net assets
PBB	:	Public Bank Berhad (Company No. 6463-H)
Person(s) Connected	:	This shall have the same meaning given in Paragraph 1.01 of the MMLR
Property	:	The Land together with two (2) units of industrial buildings erected thereon
Proposed Acquisition	:	The proposed acquisition of the Property by SCIBCM from RCSB at the Purchase Consideration
Purchase Consideration	:	A cash consideration of RM8,236,000 in respect of the Proposed Acquisition
RCSB	:	Reignvest Corporation Sdn Bhd (Company No. 162877-W)
Record of Depositors	:	A record of securities holders established by Bursa Depository under the Rules of Bursa Depository
Related Party(ies)	:	A Director, Major Shareholder or Person Connected with such Director or Major Shareholder of the Group. For the purpose of this definition, "Director", "Major Shareholder" and their "Persons Connected" shall have the same meanings given in Paragraph 10.02 of the MMLR
Related Party Transaction	:	A transaction entered into by the SCIB Group which involves the interest, direct or indirect, of a Related Party
Rewi Hamid Bugo	:	Rewi Hamid Bugo is the son of Tan Sri Hamid Bugo and a Director of the Company
RM and sen	:	Ringgit Malaysia and sen, respectively
Rules of Bursa Depository	:	The rules of Bursa Depository as issued pursuant to the SICDA
SC	:	Securities Commission Malaysia
SCIB Group	:	SCIB and its subsidiaries
SCIB or the Company	:	Sarawak Consolidated Industries Berhad (Company No. 25583-W)
SCIBCM	:	SCIB Concrete Manufacturing Sdn Bhd (Company No. 554888-U)
Shareholder(s)	:	Shareholder(s) of the Company

DEFINITIONS (Cont'd)

SICDA	:	Securities Industry (Central Depositories) Act, 1991 of Malaysia, as amended from time to time
SPA	:	The conditional Sale and Purchase Agreement dated 24 January 2019 entered into between SCIBCM and RCSB in respect of the Proposed Acquisition
sq ft	:	Square feet
Tan Sri Hamid Bugo	:	YBhg. Tan Sri Datuk Amar (Dr.) Hamid Bin Bugo
Valuation Report	:	Valuation report prepared by the Valuer dated 12 December 2018 to assess the market value of the Property
Valuer or VPC	:	VPC Alliance (Sarawak) Sdn Bhd (Company No. 101995-X)

All references to “you” in this Circular are to the Shareholders who are entitled to attend and vote at the EGM and whose names appear in the Record of Depositors at the time and on the date to be determined by the Board.

Words denoting the singular shall, where applicable, include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and neuter gender and vice versa. Reference to persons shall include corporations, unless otherwise specified.

Any reference in this Circular to any provision of the statutes, rules, regulations or rules of stock exchange shall (where the context admits), be construed as a reference to provisions of such statutes, rules, regulations or rules of stock exchange (as the case may be) as modified by any written law and any amendments to the statutes, regulations or rules of stock exchange for the time being in force or their respective re-enactment. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

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PART A

**LETTER FROM THE BOARD TO THE SHAREHOLDERS OF SCIB IN RELATION TO THE
PROPOSED ACQUISITION**



SARAWAK CONSOLIDATED INDUSTRIES BERHAD

(Company No. 25583-W)
(Incorporated in Malaysia)

Registered Office:

Lot 1258, Jalan Utama
Pending Industrial Estate
93450 Kuching
Sarawak

11 June 2019

Board of Directors

Tan Sri Datuk Amar (Dr.) Hamid Bin Bugo (Non-Independent Non-Executive Chairman)
Datu Ir. Haji Mohidden Bin Haji Ishak (Independent Non-Executive Director)
Datu Haji Soedirman Bin Haji Aini (Independent Non-Executive Director)
Shamsul Anuar Bin Ahamad Ibrahim (Independent Non-Executive Director)
Rewi Hamid Bugo (Executive Director)
Haji Zaidi Bin Haji Ahmad (Non-Independent Non-Executive Director)
Haji Abdul Hadi Bin Datuk Abdul Kadir (Non-Independent Non-Executive Director)

To: The Shareholders

Dear Sir/ Madam,

1. INTRODUCTION

On 24 January 2019, the Board had announced that the Company had on 24 January 2019 entered into a conditional sale and purchase agreement with RCSB for the proposed acquisition of a parcel of land together with two (2) units of industrial buildings erected thereon situated at Sejingkat Industrial Park, Kuching measuring approximately 2.793 hectares and described as Lot 830 Block 7 Muara Tebas Land District for a cash consideration of RM8,236,000.

RCSB is a company related to the Directors and Major Shareholders of SCIB, namely, Tan Sri Hamid Bugo and Rewi Hamid Bugo.

In view of the interests of the above-mentioned Directors and Major Shareholders of SCIB in the Proposed Acquisition, the Proposed Acquisition is a related party transaction under Paragraph 10.08 of the MMLR.

Accordingly, the Board had on 14 November 2018 appointed Kenanga IB to act as the Independent Adviser to provide independent advice to the minority shareholders of SCIB on the fairness and reasonableness of the Proposed Acquisition. The IAL from Kenanga IB in relation to the Proposed Acquisition is set out in Part B of this Circular.

The details of the Proposed Acquisition are as set out in the announcement by the Company dated 24 January 2019 and also provided in Section 2 in Part A of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH THE RELEVANT INFORMATION ON THE PROPOSED ACQUISITION, TOGETHER WITH THE BOARD'S RECOMMENDATION AND TO SEEK YOUR APPROVAL FOR THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF THE EGM TOGETHER WITH THE FORM OF PROXY ARE ENCLOSED IN THIS CIRCULAR.

SHAREHOLDERS OF SCIB ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN, BEFORE VOTING ON THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED ACQUISITION

2.1 Details of the Proposed Acquisition

The Proposed Acquisition involves the acquisition of a parcel of land together with two (2) units of industrial buildings erected thereon situated at Sejingkat Industrial Park, Kuching measuring approximately 2.793 hectares and described as Lot 830 Block 7 Muara Tebas Land District, for a cash consideration of RM8,236,000.

For information purposes, SCIB had entered into a sale and purchase agreement on 8 March 2007 with RCSB for the disposal of the Property to RCSB for a sale consideration of RM7,500,000 ("**Disposal by SCIB**"). The Disposal by SCIB in 2007 was not subject to the approval of the shareholders of SCIB but was subject to the consent in writing being obtained from the Director of Lands and Surveys to transfer the Property to RCSB.

Upon completion of the Disposal by SCIB on 7 May 2007 SCIBCM had then entered into the MOS with RCSB to sublease the Property from RCSB at a monthly rental of RM60,000 for a sublease period of fifteen (15) years commencing from 1 June 2007 and expiring on 31 May 2022 with an option to renew for a further term of ten (10) years from the expiration of the initial term. There is no increment in monthly rental since 1 June 2007. The rationale for the sale and leaseback arrangement was, amongst others, to raise funds for the SCIB Group to meet working capital requirements and to reduce the SCIB Group's bank borrowings then. At the time of signing the MOS, RCSB was owned by third parties, namely, Puan Norlela Binti Mohamad Ali and Tuan Haji Mohamad Ali Bin Saikh Salleh. RCSB was subsequently sold to Sego Holdings Sdn Bhd which is owned by Tan Sri Hamid Bugo and his immediate family on 15 December 2008. Please refer to Section 2.3 in Part A of this Circular for further details of RCSB.

2.2 Details of the Property

The details of the Property pursuant to the Proposed Acquisition to be acquired are as follows:-

Postal address	Lot 830, Jalan Demak Laut 3, Demak Laut Industrial Park Phase 1, Jalan Bako, 93050 Kuching Sarawak
Description	One (1) parcel of land together with two (2) units of industrial buildings erected thereon situated at Sejingkat Industrial Park, Kuching measuring approximately 2.793 hectares and described as Lot 830 Block 7 Muara Tebas Land District
Land tenure	60 years leasehold expiring on 17 August 2053
Land area	Approximately 2.793 hectares more or less (6.90 acres)
Existing usage	For the manufacturing of spun piles and concrete roofing tiles
Total built-up area of the buildings	5,504.6 square metres (59,250.6 sq ft)
Approximate age of buildings	12 to 13 years
Latest audited net book value	RM5,673,751
Market value as appraised by VPC	RM15,000,000
Encumbrances *	Charged to PBB for RM5,500,000 vide Memorandum of Charge registered as Instrument No. L.9400/2007 on 8 May 2007 with the Kuching Land Registry office (includes caveat) (" PBB Charge ")

Note:-

* *The sum payable to PBB to redeem the Property ("**Redemption Sum**") will be settled by RCSB from part of the Purchase Consideration prior to the completion of the Proposed Acquisition. Please refer to Section 2.6.4 in Part A of this Circular for further details.*

The cost of acquisition by RCSB for the Property was RM7.50 million at the time of acquisition on 8 March 2007.

2.3 Background Information on RCSB

RCSB was incorporated in Malaysia on 22 July 1987 under the Companies Act 1965 as a private limited company. RCSB is principally an investment holding company.

As at the LPD, the total issued share capital of RCSB is RM100,000. The directors and shareholders (all of whom are Malaysians and children of Tan Sri Hamid Bugo) including their shareholdings in RCSB as at the LPD are as follows:-

Directors and shareholders of RCSB	Direct		Indirect	
	No. of RCSB Shares	%	No. of RCSB Shares	%
<u>Shareholders</u>				
Sego Holdings Sdn Bhd	72,500	72.5		
Tan Sri Hamid Bugo	-	-	100,000 ^(a)	100.00
<u>Directors and shareholders</u>				
Rewi Hamid Bugo	27,500	27.5	72,500 ^(b)	72.5
Rahim Hamid Bugo	-	-	100,000 ^(c)	100.00
Roana Hamid Bugo	-	-	100,000 ^(c)	100.00

Notes:-

- (a) Deemed interested by virtue of his substantial shareholding and the substantial shareholdings of his children in Sego Holdings Sdn Bhd.
- (b) Deemed interested by virtue of the substantial shareholdings of his father and his siblings in Sego Holdings Sdn Bhd.
- (c) Deemed interested by virtue of his/her substantial shareholding, the substantial shareholding of his/her father and the substantial shareholding of his/her siblings in Sego Holdings Sdn Bhd.

2.4 Basis and Justification at Arriving at the Purchase Consideration

The Purchase Consideration was arrived at on a willing buyer-willing seller basis based on a predetermined formula set out in the MOS as disclosed below and after taking into consideration the market value of RM15,000,000 for the Property as appraised by the Valuer.

The predetermined formula set out in the MOS:-

$$\begin{aligned} &= (2 \text{ months rental})^{(i)} + (2\% \text{ per annum} \times \text{RM2.8 million} \times \text{number of completed years of term})^{(ii)} + (\text{RM7.5 million})^{(iii)} + (\text{financing penalty on prepayment of loan granted by a bank/ financial institution to RCSB to part-finance the acquisition of the Property}) \\ &= (\text{RM60,000} \times 2) + (2\% \times \text{RM2,800,000} \times 11) + (\text{RM7,500,000}) \\ &= \text{RM8,236,000} \end{aligned}$$

Notes:-

- (i) Compensation for early termination of MOS;
- (ii) 2% represents the estimated annual bare land value appreciation rate mutually agreed by RCSB and SCIBCM;
- (iii) RM7.5 million was the disposal price by SCIB to RCSB in 2007.

The Purchase Consideration represents a discount of RM6,764,000 or approximately 45% of the market value of the Property of RM15,000,000.

For information purposes, for the above calculation, RCSB has agreed to exclude financing penalty on repayment of loan granted by a bank and/or financial institution, if any.

The Purchase Consideration will not be revised if the Proposed Acquisition is completed after 31 May 2019.

The Purchase Consideration will be settled in accordance with the milestones as detailed in Section 2.6.3 in Part A of this Circular.

2.5 Salient Features of the Valuation Report

In arriving at the opinion of the market value of the Property, the Valuer had appraised the Property in its Valuation Report using the Cost Approach to determine the market value of the subject property which the Valuer considers to be the most appropriate method.

“Cost Approach” means the value of the land as an improved site, where the value of the land is added to the replacement cost of the building and other improvements. The value of the site is determined by comparison with similar lands that were sold recently and those that are currently being offered for sale in the vicinity with appropriate adjustments made for location, size, improvements and other value factors.

The replacement cost of the building is derived from the estimated cost of reconstructing a new building of the same kind and design based on current market prices for materials and labour, other related fees, charges and present construction techniques. A depreciation rate of 46% and 35% were adopted for the hardstanding area and fencing, respectively. For the buildings, a straight line depreciation of 2% per annum was also adopted.

The “Investment Method” was the second method of valuation used to counter-check the valuation carried out using the “Cost Approach” of valuation.

Under the Investment Method, the annual rental income being received or expected to command over period of time relating to the lease of the premises is estimated. The expenses or outgoings incidental to ownership of property are then deducted to obtain the net annual rental value. This net annual income is then capitalised by an appropriate capitalisation rate or years purchase figure to adjust the income into the present capital value of property. The relevant capitalisation rate is chosen basing on the investment rate of return to be expected from the type of property concerned taking into consideration such factors as risk, capital appreciation, security of income, ease of sale and management of property.

However, in arriving at the market value of the Property, the Valuer had adopted the Cost Approach as the preferred method of valuation. As for the Investment Method, it should be used as a rough guide only by reason of the lack of evidence on the yield.

The valuation of the Property was prepared in accordance with the requirements as set out in the Asset Valuation Guidelines (revised 19 January 2017) issued by Securities Commission Malaysia and the Malaysian Valuation Standards (Fifth Edition 2015) issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

(Source: Valuation Report on the Property prepared by the Valuer)

2.6 Salient Terms of the SPA

The salient terms of the SPA include, among others, the following:

2.6.1 Agreement to Sell and Purchase

Subject to the Conditions Precedent (as detailed in Section 2.6.2(1) in Part A of this Circular) being fulfilled, SCIBCM has agreed to purchase and RCSB has agreed to sell the Property free from all encumbrances at the Purchase Consideration.

2.6.2 Conditions Precedent

- (1) The SPA is conditional upon the following being fulfilled within six (6) months from the date of the SPA ("**Conditional Period**"):-
 - (a) the completion of a legal due diligence review to be conducted on the Property to the satisfaction of SCIBCM;
 - (b) consent in writing of the Director of Lands and Surveys being obtained for the transfer of the Property to and in favour of SCIBCM in compliance with the restriction in interest expressed in the issue document of title to the Property;
 - (c) the approvals of the board of directors and the shareholders of RCSB in general meeting being obtained on the disposal of the Property at the Purchase Consideration and upon the terms set out in the SPA;
 - (d) the approval of the board of directors and the shareholders of SCIBCM being obtained on the acquisition of the Property at the Purchase Consideration and upon the terms set out in the SPA; and
 - (e) the approval of the shareholders of SCIB in general meeting being obtained for the Proposed Acquisition at the Purchase Consideration and upon the terms set out in the SPA;

hereinafter collectively referred to as "**Conditions Precedent**".

- (2) If any of the Conditions Precedent is not fulfilled within the Conditional Period, RCSB and SCIBCM may mutually agree in writing to extend the Conditional Period to an extended period as may be necessary to fulfil the remaining Conditions Precedent whether with or without conditions, and such extended period shall then be referred to as the "**Extended Conditional Period**".
- (3) The date of the fulfilment of the last of the Conditions Precedent shall be the "**Effective Date**".
- (4) If the Conditions Precedent are not fulfilled within the Conditional Period or the Extended Conditional Period, as the case may be, the following will take place:
 - (a) RCSB shall refund all monies paid by SCIBCM to RCSB, including the Deposit (as detailed in Section 2.6.3(2) in Part A of this Circular), free of interest; and
 - (b) the SPA shall be deemed to be terminated and of no further force or effect and neither RCSB nor SCIBCM shall have any

further rights under the SPA except for any obligation which is expressed to apply after the termination of the SPA and any rights or obligations which were accrued arising from any breach of the SPA prior to such termination.

- (5) If all the Conditions Precedent have been fulfilled, RCSB shall be required to proceed with the completion of the sale and purchase transaction of the Property within the time and in the manner set out in the SPA and shall not be at liberty to rescind the SPA as monetary compensation shall not be adequate compensation to SCIBCM. If RCSB's decision not to proceed with the completion is due to the condition precedent in Section 2.6.2(1)(b) or (c) in Part A of this Circular not being fulfilled, RCSB and SCIBCM shall amicably use their best endeavours to re-negotiate for an alternative solution within three (3) months.

2.6.3 Payment of Purchase Consideration

- (1) The Purchase Consideration shall be paid by SCIBCM to RCSB at the time and manner as prescribed below:

Milestone	%	Amount (RM)
1. Immediately upon signing of the SPA	10%	823,600
2. Within three (3) months from the Effective Date	90%	7,412,400
Total	100%	8,236,000

- (2) The sum of RM823,600 representing 10% of the Purchase Consideration ("**Deposit**"), shall be paid to RCSB without deductions upon the execution of the SPA.

From the sum of RM7,412,400 representing 90% of the Purchase Consideration ("**Balance Sum**") SCIBCM shall:

- (a) retain RM247,080 representing 3% of the Balance Sum to pay to the Inland Revenue Board of Malaysia for contingent real property gains tax arising from the disposal of the Property by RCSB of which such payment shall be deemed to be part of the Purchase Consideration; and
- (b) release such sum as shall be sufficient to settle the Redemption Sum to PBB.

Thereafter, the remaining of the Balance Sum shall be released to RCSB less the apportioned lawful outgoings accrued in respect of the Property, upon the registration of the discharge of the PBB Charge and the Memorandum of Transfer affecting the Property to and in favour of SCIBCM ("**Memorandum of Transfer**") by the Kuching Land Registry office.

- (3) If SCIBCM shall be unable to pay the Balance Sum within three (3) months from the Effective Date ("**Completion Period**") for whatever reasons, SCIBCM shall be automatically entitled to an extension of one (1) month from the expiry of the Completion Period ("**Extended Completion Period**") subject to an interest of eight per centum (8%) per annum on the Balance Sum or such part thereof calculated from the

expiry of the Completion Period until full payment thereof, to effect payment of the Balance Sum.

2.6.4 Redemption of PBB Charge

- (1) RCSB shall immediately upon the Effective Date, request PBB to issue and deliver a valid redemption statement cum letter of undertaking to SCIBCM or SCIBCM's financier ("**Redemption Statement**") to:
 - (a) deliver the redemption documents to SCIBCM or to SCIBCM's financier upon payment of the sum necessary or redeem the Property as reflected in the Redemption Statement ("**Redemption Sum**") by PBB; and
 - (b) refund any monies received by PBB towards payment of the Redemption Sum to SCIBCM in the event that the discharge of the PBB Charge cannot be registered for any reasons whatsoever provided that the redemption documents are returned to PBB with its interest intact.
- (2) SCIBCM shall settle the Balance Sum to SCIBCM's solicitors as stakeholder as soon as the Redemption Statement is issued by PBB so as to enable SCIBCM's solicitors to release such amount as shall be sufficient to pay the Redemption Sum to PBB on or before the due date of payment of the Redemption Sum as shall be stipulated in the Redemption Statement and accordingly, to complete the Proposed Acquisition within the Completion Period or the Extended Completion Period, as the case may be.
- (3) If the Redemption Sum is greater than the Balance Sum, RCSB shall pay the difference between the Redemption Sum and the Balance Sum to PBB.

2.6.5 Non-registration of Transfer

- (1) If the Memorandum of Transfer shall be rejected from registration due to the existence of any caveats, orders or any other encumbrances or for any other reasons whatsoever, not due to the fault, default, neglect, act or omission of RCSB or SCIBCM, then SCIBCM shall be entitled to require RCSB to unconditionally refund to SCIBCM, the Deposit and all monies so paid by SCIBCM under the SPA, if any, free of interest and upon such refund, the SPA shall be null and void and neither RCSB nor SCIBCM shall then have any claims against each other save and except for any breach of the SPA prior to such termination. Against such refund, SCIBCM shall withdraw any private caveat lodged against the Property by SCIBCM. Notwithstanding the generality of the provisions stated in this section 2.6.5 (1) in Part A of this Circular, RCSB and SCIBCM agree that subject to the observance of all the terms and conditions of the sublease pursuant to the MOS by SCIBCM, including without limitation the payment of rental to RCSB, SCIBCM shall be entitled to continue with the sublease arrangement and to occupy the Property as a sublessee under the MOS.
- (2) RCSB shall, other than the claim for refund of monies stated above, have no claims whatsoever against SCIBCM in respect of the Property.

2.6.6 Delivery of Possession and Completion

- (1) Possession of the Property has been delivered to SCIBCM as the registered sublessee upon commencement of the MOS and SCIBCM has been occupying the Property since then.
- (2) The Proposed Acquisition shall be completed on the date upon which the Memorandum of Transfer is accepted for registration by the Kuching Land Registry office as shall be evidenced by the allocation of instrument number for registration under Form L and the payment of the Balance Sum is made by SCIBCM to RCSB ("**Completion Date**").
- (3) Upon the completion of the Proposed Acquisition on the Completion Date, SCIBCM shall cease to pay rental to RCSB under the MOS and the existing sublease arrangement of the Property between SCIBCM and RCSB under the MOS shall cease.

2.6.7 Termination by SCIBCM

- (1) SCIBCM is entitled to terminate the SPA by way of a written notice to RCSB ("**SCIBCM Termination Notice**") on or before the Completion Date, such termination to be effective from the date of the SCIBCM Termination Notice, if any of the following occur after the execution of the SPA but before the Completion Date:
 - (a) RCSB refuses or is unable to complete the sale and transfer of the Property through no fault of SCIBCM;
 - (b) RCSB fails to execute and deliver to SCIBCM the Memorandum of Transfer and such other documents as are necessary to register the transfer of the Property to SCIBCM;
 - (c) there is a breach of the warranties given of RCSB, which cannot be remedied to the satisfaction of SCIBCM within 14 business days or any other period as otherwise agreed by SCIBCM;
 - (d) there is a material breach of any terms or conditions of the SPA or a failure to perform or observe any undertaking or obligation in the SPA by RCSB which RCSB has refused or is unable to remedy within 14 business days from the date of receipt of the notice of the breach by RCSB from SCIBCM; or
 - (e) there is an order made or resolution passed, or analogous proceeding taken for the winding up or dissolution of RCSB or if RCSB is deemed unable to pay its debts under Section 466(1) of the Act or has a receiver and manager appointed over all or a substantial part of its undertakings and assets.
- (2) Termination takes effect from such date stated in the SCIBCM Termination Notice where:
 - (a) RCSB shall refund to SCIBCM all monies paid by SCIBCM, free of interest;
 - (b) RCSB shall pay SCIBCM a sum equivalent to the Deposit as agreed pre-estimated liquidated damages;
 - (c) SCIBCM shall return all documents pertaining to the Property to RCSB for cancellation; and

(d) SCIBCM shall withdraw the caveat lodged against the Property;

and thereafter, neither party shall have any claims against the other party.

2.6.8 Termination by RCSB

- (1) If SCIBCM fails, refuses or is unwilling to pay the Purchase Consideration or any part thereof or is unable to complete the Proposed Acquisition through no fault of RCSB after the execution of the SPA but before the Completion Date, RCSB is entitled to terminate the SPA by way of a written notice to SCIBCM ("**RCSB Termination Notice**") on or before the Completion Date.
- (2) Termination takes effect from such date stated in the RCSB Termination Notice where:
 - (a) the Deposit shall be forfeited to RCSB as agreed pre-estimated liquidated damages;
 - (b) all other monies received by RCSB as part of the Purchase Consideration (except for the Deposit) shall be returned free of interest to SCIBCM;
 - (c) SCIBCM shall return all documents pertaining to the Property to RCSB for cancellation; and
 - (d) SCIBCM shall withdraw the caveat lodged against the Property at the cost and expenses of SCIBCM, and thereafter, neither party shall have any claims against the other party.
- (3) Notwithstanding the general provisions on termination above and in line with the provisions in Section 2.6.2(5) in Part A of this Circular, if all the Conditions Precedent have been fulfilled, RCSB shall be obliged to proceed to complete the Proposed Acquisition within the time and in the manner set out in the SPA, failing which, SCIBCM shall have the option to seek the remedy of specific performance of the SPA under the Specific Relief Act 1950.

2.6.9 Mutual Termination

Without prejudice to the general provisions above on the rights of termination, RCSB and SCIBCM may mutually agree to terminate the SPA before the Completion Date at the election of either RCSB or SCIBCM where:

- (a) RCSB shall refund to SCIBCM all monies which may have been paid by SCIBCM to RCSB under the SPA, if any, free of interest;
- (b) SCIBCM shall return all documents pertaining to the Property to RCSB for cancellation; and
- (c) SCIBCM shall withdraw the caveat lodged against the Property, and thereafter, neither party shall have any claims against the other party.

2.7 Liabilities to be Assumed

There will be no liabilities, including contingent liabilities and guarantees, to be assumed by SCIBCM pursuant to the Proposed Acquisition.

2.8 Additional Financial Commitment

There will be no additional financial commitment required of SCIBCM in putting the assets acquired on-stream.

2.9 Source of Funding

The Purchase Consideration shall be satisfied in cash and shall be funded by a combination of bank borrowings (approximately 85%) and internally generated funds (approximately 15%). For information purposes, the deposit of RM823,600 has been paid via internally generated funds. Part of the Balance Sum of RM412,400 is expected to be funded via internally generated funds and the remaining of the Balance Sum amounting to RM7,000,000 to be fully funded via bank borrowings.

3. RATIONALE FOR THE PROPOSED ACQUISITION

Pursuant to the MOS, SCIBCM was granted with an option to purchase the Property before the end of the lease period based on a pre-determined formula provided in the MOS.

Taking into consideration the market value of the Property of RM15,000,000, the Board is of the opinion that the Proposed Acquisition is timely as the Purchase Consideration represents a substantial discount to the market value of the Property.

In addition, based on discounted cashflow model, there is a potential saving of approximately RM4.0 million (based on discounted rate of 5.85%, being the average interest rate of SCIBCM existing term loan facilities) pursuant to the Proposed Acquisition as compared to the continuation of the sublease until May 2032 (based on the assumption that the option to renew for a further term of ten (10) years from the expiration of the initial term on May 2022 is granted). The computation of the potential saving is set out below:-

Year	2019 RM' million	2032 RM' million
(a) Proposed Acquisition		
Cost of the Land	(8.236)	
Tax saving	0.330 ⁽ⁱ⁾	← From 2019 to 2032 →
Property Value 2032	6.578 ⁽ⁱⁱ⁾	← Discounted from 13.776 →
Total cost	<u>(1.328)</u>	(a)
(b) Renting of the Property		
Lease expenses	(6.950) ⁽ⁱⁱⁱ⁾	} ← From 2019 to 2032 →
Tax saving	1.668 ^(iv)	
Total cost	<u>(5.282)</u>	(b)
Potential saving	<u>3.954</u>	(a) – (b)

Notes:-

- (i) The tax saving represents the total net present value ("NPV") of the Property's Industrial building allowance ("IBA") at current tax rate of 24% for each year commencing 2019 to 2032. The discount factor ("Discount Factor") used for the computation of the NPV of IBA of each year is as follows:-

$$\text{Discount factor} = 1 / (1+r)^n$$

$r = 5.85\%$, being annual interest rate of SCIBCM's existing term loan facilities
 $n = \text{number of year, i.e. Year 0} = 2019 \text{ and Year 13} = 2032$

- (ii) The property value 2032 represents the estimated discounted market value of the Land together with remaining unclaimed IBA of the buildings at the end of year 2032 ("Property Value 2032"). The value was arrived at based on the current market value of the Land of RM8.694 million multiplied by the average annual Consumer Price Index ("CPI") growth rate per annum of 1.024% from 2010 to 2018 (extracted from Bank Negara Malaysia website) for 14 years (i.e. number of years from the date of valuation in 2018 until 2032) to arrive at the

estimated market value of the Land by 2032 of RM12.118 million. The estimated remaining unclaimed IBA at the end of 2032 is RM1.658 million.

	RM' million
Estimated value of the Land by 2032 (RM8.694 million X 1.024% per year for 14 years)	12.118
Unclaimed IBA of the buildings by 2032	1.658
Property Value as at 2032	13.776
Property Value 2032 (NPV of RM13.776 million)	<u>6.578</u>

(iii) The lease expenses represent the total NPV of the rental expense of RM60,000 per month from January 2019 to May 2032.

(iv) The tax saving represents the total NPV of rental expense at current tax rate of 24%.

The above discounted cashflow method takes into consideration the following for comparison purposes:-

(a) Proposed Acquisition

The acquisition cost of the Land of RM8.236 million netted off against total NPV of tax benefit from the IBA from 2019 to 2032 of approximately RM0.330 million (based on current taxation rate of 24%) and the NPV of the Property Value 2032 (estimated market value of Land together with the remaining unclaimed IBA of the buildings at the end of the year of sublease) of approximately RM6.578 million to arrive at RM1.328 million (RM8.236 million - RM0.330 million - RM6.578 million). The computations for the NPV of the tax benefit and the Property Value 2032 are set out in Notes (i) and (ii) above.

(b) Renting of the Property

The NPV of lease expenses netted of tax saving (based on current taxation rate of 24%) during the sublease period totalling RM5.282 million using discounted cashflow method. The computations for the NPV of the lease expenses and the tax benefit are set out in Notes (iii) and (iv) above.

The comparison between the Proposed Acquisition as tabulated in paragraph (a) and the continuation in renting of the Property during the sublease period as tabulated in paragraph (b) has resulted in a total net saving of RM3.954 million (RM5.282 million – RM1.328 million).

The Proposed Acquisition will allow SCIBCM to have full control of the Property to facilitate any future expansion plan, when required.

4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

4.1 Overview and Outlook of the Malaysian Economy

Overall Gross Domestic Product growth was moderate at 4.5% in the first quarter of 2019 (4Q 2018: 4.7%), driven mainly by the expansion in domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.1% (4Q 2018: 1.3%)

Domestic demand expanded by 4.4% in the first quarter (4Q 2018: 5.7%), driven by firm household spending amid weaker capital expenditure.

After three consecutive quarters of robust spending, private consumption growth moderated but remained strong at 7.6% (4Q 2018: 8.4%). This mainly reflected the normalisation in spending following the frontloading of purchases during the tax holiday period. Nonetheless, household spending continued to be supported by income and employment growth.

Public consumption expended at a faster pace of 6.3% (4Q 2018:4.0%), attributable to higher growth in spending on supplies and services.

Gross fixed capital formation (GFCF) contracted by 3.5% (4Q 2018: 0.6%), weighed down by weaker private and public sector investment. By type of assets, investment in structures declined by 1.3% (4Q 2018: 1.3%) amid subdued property market activity. Capital expenditure on machinery and equipment registered a larger contraction of 7.4% (4Q 2018: -1.3%) affected mainly by a decline in transport equipment spending. Investment in other types of assets also declined by 2.2% (4Q 2018: 4.5%) due mainly to lower research and development (R&D) spending.

Private investment growth slowed to 0.4% (4Q 2018: 5.8%). Investment activity was affected by heightened uncertainty surrounding global trade negotiations and prevailing weaknesses in the broad property segment. Nonetheless, spending on large multi-year projects provided some support to investment growth, particularly in the primary-related manufacturing and utilities services sub-sectors.

Public investment declined further by 13.2% (4Q 2018: -5.9%) on account of lower capital spending by the Federal Government and public corporations.

Against the backdrop of a challenging global environment, growth in the Malaysia economy is expected to remain broadly sustained for the year. Growth will be supported by continued expansion in the domestic demand amid a moderate support from the external sector.

Private sector spending is expected to remain the key driver of growth. Although consumer sentiments have moderated from its recent peak, household spending will be underpinned by continued income and employment growth. Investment activity is estimated to improve, driven by ongoing capacity expansion in key sectors, with additional support from new manufacturing investments, as reflected by the high MIDA investment approvals. Nevertheless, overall growth may be partially weighed down by lower public sector spending.

Risks to growth remain tilted to the downside, arising mainly from external uncertainties such as further weakening of global growth and heightened financial market volatility. On the domestic front, unexpected interruptions in commodity production could also affect Malaysia's growth prospects.

(Source: Economic and Financial Developments in Malaysian Economy in the First Quarter of 2019 of the Bank Negara Malaysia Quarterly Bulletin)

4.2 Overview and Outlook of the Manufacturing and Construction Industry

Growth in the manufacturing sector moderated, mainly driven by the slowdown in the electronics and electrical (E&E) and primary-related clusters. The slower growth in the E&E cluster was due to slower global demand for semiconductors. The implementation of stricter vehicle emission standards in the EU and expiring tax rebates for cars in PR China weighed on the demand for automotive semiconductors. Growth in the primary-related cluster also moderated as unplanned closure of gas facilities in Sarawak in February affected the production of refined petroleum products, particularly liquefied natural gas. Meanwhile, recovery in the production of palm-oil based products led to an improvement in the consumer-related cluster during the quarter.

The construction sector registered lower growth reflecting slower activities in the non-residential, civil engineering and special trade subsectors. The near completion of large petrochemical projects resulted in lower growth for the civil engineering subsector. The special trade subsector's growth moderated due mainly to declining early works from transportation projects transitioning to mid-phase. In the non residential and residential subsectors, growth remained weak due to the oversupply of commercial properties and a high number of unsold residential properties.

(Source: *Economic and Financial Developments in Malaysian Economy in the First Quarter of 2019 of the Bank Negara Malaysia Quarterly Bulletin*)

4.3 Overview and Outlook of the Property Industry in Sarawak

Overview for 2018

The State's property market saw a slight rebound in 2018 as indicated by the growth of market activity. There were 23,662 transactions worth RM6.65 billion recorded in 2018, increased by 4.7% in volume and 7.4% in value as compared to 2017 (22,605 transactions with RM6.19 billion). Agriculture and residential subsectors were dominating the total market with 40.9% and 40.3% share respectively. The next leading subsector was development land with 9.4%, followed by commercial (7.7%) and industrial (1.6%) subsectors.

Outlook for 2019

The State's property market is expected to be positive, supported by various projects. Pan Borneo Highway Project is the biggest infrastructure development project undertaken by the Federal Government. This project is not just a catalyst for economic growth but a game-changer that would bring huge transformation to the State. With total distance of 1,073 kilometre, it is scheduled to be fully completed by 2025. As at November 2018, about 33% of the project is completed. This project will maintain as key infrastructure development in 2019.

(Source: *Property Market Report 2018*)

Industrial Sectors in Kuching

The industrial sector in Kuching was dull for 2018, with few completions, following the paucity of industrial projects launched in recent years. There is potential but lacks the hype to attract property players.

Lacks Vibrancy

The industrial sector in Kuching currency lacks vibrancy. There were no new industrial project launched in 2018, which only 26 units expected to be completed in 2018, namely Industri 87 at Jalan Batu Kitang. However, there is interest in the secondary market especially for units in established industrial areas.

Semi-detached units and warehouses remain popular with market prices ranges from RM600,000 to more than RM1 million, depending on the land size. Occupancies and take up rates were stable and may remain unchanged for 2019, whilst rentals from RM1.20 to RM1.50 per sq ft for semi-detached units.

In the long run, there is good potential with the increasing presence of SMEs which will demand space for workshops, showrooms and storage/ warehousing.

Overall

Industrial markets in this region are quiet but stable. The only exception is Miri which has been on the downside recently. Nonetheless, Miri's industrial market may undergo some slight improvements in 2019 on the hope that the oil and gas industry recovers. No significant supply is expected across the markets covered. Investment on industrial properties in this region can be regarded as a safe option given the slowly rising rental and constant yield over the years.

(Extracted from *Sarawak Property Bulletin 12/2018 2H2018*)

4.4 Prospects

The Group is principally engaged in the manufacturing of concrete products for use in the construction and infrastructure sectors such as pre-stressed spun pile, reinforced concrete square pile, spun concrete pipe, reinforced concrete box culvert, pre-stressed beam, concrete roofing tiles and prefabricated concrete elements or industrialised building system components such as hollowcore slab, wall panel, column and beam.

Over the years, the SCIB Group had benefited from the various infrastructure projects in the State of Sarawak and the SCIB Group foresees that it will continue to benefit from infrastructure developments such as the Pan Borneo Highway and coastal road projects as the SCIB Group is one of the major suppliers of construction materials in the State of Sarawak. The Proposed Acquisition will allow SCIBCM to have full control of the Property.

This will augur well for SCIBCM when planning for additional production lines and/or venturing into a new production of related products, subject to the availability of factory space and the approval of the relevant authorities.

5. RISK FACTORS IN RELATION TO THE PROPOSED ACQUISITION

Save as disclosed below which are by no means exhaustive, the Board does not foresee any other additional risks arising from the Proposed Acquisition given that the SCIB Group is already involved in the business of manufacturing of concrete products for the construction, infrastructure and property development sectors:-

5.1 Business Risks Relating to the Manufacturing of Concrete Products Industry

The nature of the SCIB Group's products is subject to certain risks inherent in the infrastructure, construction and property development industries. These include but not limited to, shortages of labour, i.e. skilled designers, engineers and technicians, increase in cost of labour, entry of new players in the concrete products industry and changes in general economic and business conditions. Even though infrastructure, construction and property development industries in Sarawak still remained positive, there is no assurance that the recovery will be sustainable.

5.2 Non-Completion Risk of the Proposed Acquisition

The completion of the Proposed Acquisition is subject to certain conditions such as the approvals from the non-interested shareholders of SCIB and from the relevant authorities. In the event any of the conditions precedent as set out in Section 2.6.2 in Part A of this Circular is not fulfilled and/or in the event an extension of time is not agreed upon between the parties to the SPA, the SPA will be terminated and become null and void. As such, the rationale and prospects to be realised from the Proposed Acquisition will not materialise.

SCIBCM will take all reasonable and necessary steps to ensure that all the conditions precedent are met to ensure the completion of the Proposed Acquisition to realise the benefits to the SCIB Group as detailed in Section 3 in Part A of this Circular.

5.3 Non-Compliance with the Approved Usage of Industrial Building

The usage of one of the industrial buildings on the Land is different from the usage stated in the approved occupation permit. Although steps have been taken to regularize the irregularity, there can be no assurance that the regularization will be approved by the relevant authorities. In the unlikely event that the regularization is not approved, SCIBCM will take the necessary steps to submit a new application on the current usage.

Following the announcement on 24 January 2019, representatives from SCIBCM have taken steps to regularize its current usage with the relevant authorities.

5.4 Compulsory Land Acquisition

The State Government of Sarawak is empowered under the Sarawak Land Code to compulsorily acquire any land in Sarawak. In the event that the State Government of Sarawak compulsorily acquires the Property, the risk to the SCIB Group may be mitigated by the compensation to be awarded by the State Government of Sarawak for such compulsory acquisition.

Pursuant to the Sarawak Land Code, the market value of the land shall be taken into consideration in determining the amount of compensation to be awarded for any land acquired by the State of Government of Sarawak. However, the risk of compulsory acquisition of the Property is mitigated by the fact that presently, the Property is not subject to any compulsory acquisition notifications issued under the Sarawak Land Code.

6. EFFECTS OF THE PROPOSED ACQUISITION

6.1 Share Capital and Substantial Shareholders' Shareholding

The Proposed Acquisition will not have any effect on the share capital and the substantial shareholders' shareholding of SCIB as the Proposed Acquisition does not involve any issuance of SCIB shares.

6.2 Loss for the financial year and LPS

The pro forma effects of the Proposed Acquisition on the loss for the financial year and LPS of the Group based on the audited consolidated financial statements of SCIB as at FYE 31 December 2018 and on the assumption that the Proposed Acquisition had been effected on 1 January 2018, being the beginning of the financial year of the Group are set out below:-

	Audited 31 December 2018	Pro forma after the Proposed Acquisition
	RM'000	RM'000
Loss for the financial year	(9,792)	(9,792)
<u>Add:</u>		
- Saving on rental expense as a result of the Proposed Acquisition	-	720
<u>Less:</u>		
- Additional interest expense as a result of the Proposed Acquisition ⁽ⁱ⁾	-	(319)
- Additional depreciation as a result of the Proposed Acquisition ⁽ⁱⁱ⁾	-	(309)
- Estimated expenses of the Proposed Acquisition	-	(250)
Pro forma Loss for the financial year	(9,792)	(9,950)
No. of shares ('000)	85,883	85,883
LPS (Sen)	(11.4)	(11.6)

Notes:-

- (i) Based on the estimated interest expense of 4.65% per annum for the additional bank borrowings of RM7 million to finance the Proposed Acquisition
- (ii) Based on annual depreciation rate of remaining leasehold period of 35 years for land and 5% for buildings.

6.3 NA and Gearing

Based on the audited consolidated financial statements of SCIB as at FYE 31 December 2018, the pro forma effects of the Proposed Acquisition on the consolidated NA and gearing of the Group on the assumption that the Proposed Acquisition had been effected on 31 December 2018, are as follows:-

	Audited 31 December 2018	After Proposed Acquisition
	(RM'000)	(RM'000)
Share capital	85,913	85,913
Accumulated losses	(37,062)	(37,312) ⁽ⁱ⁾
Shareholders' Funds	48,851	48,601
No. of Shares ('000)	85,883	85,883
NA per Share (RM)	0.569	0.566
Total borrowings	26,305	33,305 ⁽ⁱⁱ⁾
Gearing ratio (times)	0.54	0.69

Notes:

- (i) After deducting the estimated expenses in relation to the Proposed Acquisition of approximately RM250,000.
- (ii) After incorporating the estimated additional bank borrowings of RM7,000,000 to finance the Proposed Acquisition.

7. APPROVALS REQUIRED

The Proposed Acquisition is conditional upon the following approvals being obtained:

- (a) shareholders of SCIB at an EGM to be convened; and
- (b) where required, the approval and consent of any other relevant authority and/or parties.

The Proposed Acquisition is not conditional upon any other corporate exercises undertaken or to be undertaken by SCIB.

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

Save as disclosed below, none of the Directors and/or Major Shareholders of SCIB as well as Persons Connected with them have any interest, direct or indirect, in the Proposed Acquisition.

The direct and indirect interest of the interested Directors and interested Major Shareholders of SCIB as at LPD are as follows:-

Directors and Major Shareholders of SCIB	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
<u>Directors and Major Shareholders</u>				
Tan Sri Hamid Bugo	7,305,055	8.51	9,281,600*	10.81
Rewi Hamid Bugo	2,088,300	2.43	9,281,600*	10.81
<u>Major Shareholder</u>				
Pacific Unit Sdn Bhd	9,281,600	10.81	-	-

Note:

* *Deemed interested by virtue of his substantial shareholding in Pacific Unit Sdn Bhd pursuant to Section 8 of the Act.*

Tan Sri Hamid Bugo is the Non-Independent Non-Executive Chairman and Rewi Hamid Bugo is the Executive Director of SCIB. Tan Sri Hamid Bugo and Rewi Hamid Bugo are Major Shareholders of SCIB.

Tan Sri Hamid Bugo and Rewi Hamid Bugo are the directors and shareholders of RCSB. Rewi Hamid Bugo is the son of Tan Sri Hamid Bugo.

Accordingly, Tan Sri Hamid Bugo and Rewi Hamid Bugo are interested in the Proposed Acquisition. They have abstained and will continue to abstain from deliberation and voting at the Board meetings of SCIB in respect of the Proposed Acquisition.

Tan Sri Hamid Bugo, Rewi Hamid Bugo and Pacific Unit Sdn Bhd will abstain from voting and have also undertaken to ensure that Persons Connected with them will abstain from voting in respect of their respective direct and/or indirect shareholdings in SCIB, if any, on the resolution pertaining to the Proposed Acquisition at the forthcoming EGM to be convened.

Save as disclosed above, to the best knowledge of the Board, there are no other Directors, Major Shareholders and/or Persons Connected with them who have any interest, direct or indirect, in the Proposed Acquisition.

9. AMOUNT TRANSACTED WITH THE INTERESTED DIRECTORS AND INTERESTED SHAREHOLDERS IN THE PROPOSED ACQUISITION FOR THE PRECEDING TWELVE (12) MONTHS

Other than the Proposed Acquisition and the recurrent related party transactions which have been previously announced or disclosed in the audited financial statements of SCIB for the FYE 31 December 2018 or which are not subject to be disclosed pursuant to Paragraph 10.09(1)(a) of the MMLR, there were no other transactions entered into by the Company with the interested Directors and the interested Major Shareholders in the Proposed Acquisition for the last twelve (12) months preceding the LPD.

10. DIRECTORS' RECOMMENDATION

The Board (save for the interested Directors namely Tan Sri Hamid Bugo and Rewi Hamid Bugo who have abstained from all deliberations and voting on the Proposed Acquisition), having considered all aspects of the Proposed Acquisition including the financial effects and rationale for the Proposed Acquisition, and the advice of the Independent Adviser, namely Kenanga IB is of the opinion that the Proposed Acquisition:-

- (a) is in the best interest of SCIB;
- (b) is fair, reasonable and on normal commercial terms; and
- (c) is not detrimental to the interest of the minority shareholders of SCIB.

The Board, except for the interested Directors as named above, hereby recommends that shareholders vote in favour of the ordinary resolution at the EGM.

11. AUDIT COMMITTEE'S RECOMMENDATION

The Audit Committee of SCIB, having considered all aspects of the Proposed Acquisition including the financial effects and rationale for the Proposed Acquisition, and the advice of the Independent Adviser, namely Kenanga IB is of the opinion that the Proposed Acquisition:-

- (a) is in the best interest of SCIB;
- (b) is fair, reasonable and on normal commercial terms; and
- (c) is not detrimental to the interest of the minority shareholders of SCIB.

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposed Acquisition is expected to be completed in the following timeframe:

Milestone	Estimated Completion
EGM for the Proposed Acquisition	First half of 2019
Completion of the Proposed Acquisition	Second half of 2019

13. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Acquisition which is the subject matter of this Circular, there are no other corporate exercises or proposals which have been announced by the Company and are pending completion as at the LPD.

14. INDEPENDENT ADVISER

Kenanga IB has been appointed as the Independent Adviser in view that the Proposed Acquisition is a related party transaction pursuant to Paragraph 10.08 (2) of the MMLR to undertake the following in respect of the Proposed Acquisition:

- (a) Comment as to whether the Proposed Acquisition is fair and reasonable so far as the non-interested shareholders of SCIB are concerned and also whether the Proposed Acquisition is to the detriment of the non-interested shareholders of SCIB and such opinion must set out the reasons for, the key assumptions made and the factors taken into consideration in forming that opinion;

- (b) Advise the non-interested shareholders of SCIB whether they should vote in favour of the Proposed Acquisition; and
- (c) Take all reasonable steps to satisfy itself that it has a reasonable basis to make the comments and advice in paragraphs (a) and (b) above.

15. EGM

An EGM, the notice of which is enclosed in this Circular, will be held at the Board Room, Ground Floor, SCIB Building, Lot 1258, Jalan Utama, Pending Industrial Estate, 93450 Kuching, Sarawak on Friday, 28 June 2019 at 10.00 a.m., for the purpose of considering and if thought fit, passing with or without modifications, the ordinary resolution to give effect to the Proposed Acquisition.

If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the Form of Proxy in accordance with the instructions contained therein, to be deposited at the registered office of the Company at Lot 1258, Jalan Utama, Pending Industrial Estate, 93450 Kuching, Sarawak, not less than 48 hours before the time appointed for the EGM or at any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting at the forthcoming EGM if you subsequently wish to do so.

16. FURTHER INFORMATION

Shareholders are advised to refer to the enclosed appendices for further information.

Yours faithfully,
For and on behalf of the Board of
SARAWAK CONSOLIDATED INDUSTRIES BERHAD

Datu Haji Soedirman Bin Haji Aini
Independent Non-Executive Director

PART B

**INDEPENDENT ADVICE LETTER FROM KENANGA IB TO THE NON-INTERESTED
SHAREHOLDERS OF SCIB IN RELATION TO THE PROPOSED ACQUISITION**

EXECUTIVE SUMMARY

All definitions used in this Executive Summary shall have the same meanings as the words and expressions defined in the definitions section and Part A of the Circular, except where the context otherwise requires or where otherwise defined in the IAL.

This Executive Summary is intended to be a brief summary of this IAL which has been prepared by Kenanga IB as the Independent Adviser to provide the non-interested Shareholders with an independent evaluation of the Proposed Acquisition and to express our recommendation thereon. Non-interested Shareholders should consider carefully the recommendation contained in this IAL before voting on the resolution pertaining to the Proposed Acquisition that will be tabled at SCIB's forthcoming EGM.

1. INTRODUCTION

On 24 January 2019, the Board had announced that the Company had on 24 January 2019 entered into a SPA with RCSB for the proposed acquisition of a parcel of land together with two (2) units of industrial buildings erected thereon situated at Sejingkat Industrial Park, Kuching measuring approximately 2.793 hectares and described as Lot 830 Block 7 Muara Tebas Land District for a total cash consideration of RM8,236,0000.

RCSB is a company related to the Directors and Major Shareholders of SCIB, namely, Tan Sri Hamid Bugo and Rewi Hamid Bugo.

In view of the interests of Tan Sri Hamid Bugo and Rewi Hamid Bugo in SCIB as detailed in Section 8 in Part A of the Circular, the Proposed Acquisition is deemed to be a related party transaction pursuant to Paragraph 10.08 of the MMLR. Accordingly, the Board had, on 14 November 2018, appointed Kenanga IB to act as the Independent Adviser to advise the non-interested Shareholders in respect of the Proposed Acquisition with:

- (i) an opinion as to whether the Proposed Acquisition is fair and reasonable so far as the non-interested Shareholders are concerned and whether the Proposed Acquisition is detrimental to the non-interested Shareholders; and
- (ii) a recommendation as to whether the non-interested Shareholders should vote for or against the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

2. EVALUATIONS OF THE PROPOSED ACQUISITION

In arriving at our evaluations, we have assessed and evaluated the Proposed Acquisition after taking into consideration the following factors:

2.1 Rationale for the Proposed Acquisition

Taking cognisance of the rationale for the Proposed Acquisition as set out in Section 3 in Part A of the Circular, we are of the view that the rationale of the Proposed Acquisition is reasonable and not detrimental to the non-interested Shareholders as:

- (i) Pursuant to the MOS, SCIBCM was granted with an option to purchase the Property before the end of the sublease period based on a pre-determined formula provided in the MOS;
- (ii) Taking into consideration the market value of the Property of RM15,000,000, the Board is of the opinion that the Proposed Acquisition is timely as the Purchase Consideration represents a substantial discount to the market value of the Property;

- (iii) In addition, based on discounted cashflow model, there is a potential saving of approximately RM4.0 million (based on discounted rate of 5.85%, being the average interest rate of SCIBCM's existing term loan facilities) pursuant to the Proposed Acquisition as compared to the continuation of the sublease until May 2032 (based on the assumption that the option to renew for a further term of ten (10) years from the expiration of the initial term on May 2022 is granted); and
- (iv) The Proposed Acquisition will allow SCIBCM to have full control of the Property to facilitate any future expansion plan, when required.

Please refer to **Section 6.1 of this IAL** for our detailed evaluation of the rationale for the Proposed Acquisition.

2.2 Evaluation of the Purchase Consideration for the Proposed Acquisition

The Purchase Consideration for the Proposed Acquisition was arrived at on a willing buyer-willing seller basis based on a predetermined formula set out in the MOS and after taking into consideration the market value of RM15,000,000 for the Property as appraised by the Valuer.

As the Purchase Consideration represents a discount of RM6.764 million (approximately 45%) to the market value of RM15,000,000 for the Property, we are of the view that the Purchase Consideration for the Proposed Acquisition is justifiable and not detrimental to the non-interested Shareholders.

Please refer to **Section 6.2 of this IAL** for our detailed evaluation of the Purchase Consideration for the Proposed Acquisition, which we are of the view that is fair and reasonable.

2.3 Salient Terms of the SPA

Based on our review of the salient terms of the SPA, we are of the view that the overall terms and conditions of the SPA are not detrimental to the non-interested Shareholders.

Please refer to **Section 6.3 of this IAL** for our detailed evaluation of the salient terms of the SPA.

2.4 Effects of the Proposed Acquisition

The Proposed Acquisition will not have any effect on the share capital and substantial shareholders' shareholdings in the Company as the consideration of the Proposed Acquisition is to be fully satisfied by cash and does not involve the issuance or disposal of new ordinary shares in SCIB.

The Proposed Acquisition is not expected to have any material effect on the earnings of the Group for the FYE 31 December 2019.

The Proposed Acquisition will have minimal effect on the SCIB Group's NA per share.

Please refer to **Section 6.4 of this IAL** for our detailed evaluation of the effects of the Proposed Acquisition.

2.5 Risk Factors of the Proposed Acquisition

The Proposed Acquisition is to acquire a parcel of land together with two (2) units of industrial buildings which SCIBCM is currently renting and not a diversification into a new business which carries new risks. The risk factors in relation to the Proposed Acquisition include amongst others, non-completion risk and risk associated to the manufacturing of concrete products industry.

Although measures may be taken by the SCIB Group in the attempt to limit the risks in relation to the Proposed Acquisition as mentioned in Section 5 in Part A of the Circular, there is no assurance any one or a combination of such risk factors will not crystallise which may give rise to material and adverse effects on the financial performance, financial position or prospects of the SCIB Group.

Please refer to **Section 6.5 of this IAL** for our evaluation of the risk factors of the Proposed Acquisition.

2.6 Outlook And Prospects

2.6.1 Overview and Outlook of the Malaysian Economy

Overall Gross Domestic Product growth was moderate at 4.5% in the first quarter of 2019 (4Q 2018: 4.7%), driven mainly by the expansion in domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.1% (4Q 2018: 1.3%)

Domestic demand expanded by 4.4% in the first quarter (4Q 2018: 5.7%), driven by firm household spending amid weaker capital expenditure.

After three consecutive quarters of robust spending, private consumption growth moderated but remained strong at 7.6% (4Q 2018: 8.4%). This mainly reflected the normalisation in spending following the frontloading of purchases during the tax holiday period. Nonetheless, household spending continued to be supported by income and employment growth.

Public consumption expended at a faster pace of 6.3% (4Q 2018:4.0%), attributable to higher growth in spending on supplies and services.

Gross fixed capital formation (GFCF) contracted by 3.5% (4Q 2018: 0.6%), weighed down by weaker private and public sector investment. By type of assets, investment in structures declined by 1.3% (4Q 2018: 1.3%) amid subdued property market activity. Capital expenditure on machinery and equipment registered a larger contraction of 7.4% (4Q 2018: -1.3%) affected mainly by a decline in transport equipment spending. Investment in other types of assets also declined by 2.2% (4Q 2018: 4.5%) due mainly to lower research and development (R&D) spending.

Private investment growth slowed to 0.4% (4Q 2018: 5.8%). Investment activity was affected by heightened uncertainty surrounding global trade negotiations and prevailing weaknesses in the broad property segment. Nonetheless, spending on large multi-year projects provided some support to investment growth, particularly in the primary-related manufacturing and utilities services sub-sectors.

Public investment declined further by 13.2% (4Q 2018: -5.9%) on account of lower capital spending by the Federal Government and public corporations.

Against the backdrop of a challenging global environment, growth in the Malaysia economy is expected to remain broadly sustained for the year. Growth will be supported by continued expansion in the domestic demand amid a moderate support from the external sector.

Private sector spending is expected to remain the key driver of growth. Although consumer sentiments have moderated from its recent peak, household spending will be underpinned by continued income and employment growth. Investment activity is estimated to improve, driven by ongoing capacity expansion in key sectors, with additional support from new manufacturing investments, as reflected by the high MIDA investment approvals. Nevertheless, overall growth may be partially weighed down by lower public sector spending.

Risks to growth remain tilted to the downside, arising mainly from external uncertainties such as further weakening of global growth and heightened financial market volatility. On the domestic front, unexpected interruptions in commodity production could also affect Malaysia's growth prospects.

(Source: Economic and Financial Developments in Malaysian Economy in First Quarter of 2019 of the Bank Negara Malaysia Quarterly Bulletin)

2.6.2 Overview and Outlook of the Manufacturing and Construction Industry

Growth in the manufacturing sector moderated, mainly driven by the slowdown in the electronics and electrical (E&E) and primary-related clusters. The slower growth in the E&E cluster was due to slower global demand for semiconductors. The implementation of stricter vehicle emission standards in the EU and expiring tax rebates for cars in PR China weighed on the demand for automotive semiconductors. Growth in the primary-related cluster also moderated as unplanned closure of gas facilities in Sarawak in February affected the production of refined petroleum products, particularly liquefied natural gas. Meanwhile, recovery in the production of palm-oil based products led to an improvement in the consumer-related cluster during the quarter.

The construction sector registered lower growth reflecting slower activities in the non-residential, civil engineering and special trade subsectors. The near completion of large petrochemical projects resulted in lower growth for the civil engineering subsector. The special trade subsector's growth moderated due mainly to declining early works from transportation projects transitioning to mid-phase. In the non residential and residential subsectors, growth remained weak due to the oversupply of commercial properties and a high number of unsold residential properties..

(Source: Economic and Financial Developments in Malaysian Economy in the First Quarter of 2019 of the Bank Negara Malaysia Quarterly Bulletin)

2.6.3 Overview and Outlook of the Property Industry in Sarawak

Overview for 2018

The State's property market saw a slight rebound in 2018 as indicated by the growth of market activity. There were 23,662 transactions worth RM6.65 billion recorded in 2018, increased by 4.7% in volume and 7.4% in value as compared to 2017 (22,605 transactions with RM6.19 billion). Agriculture and residential subsectors were dominating the total market with 40.9% and 40.3% share respectively. The next leading subsector was development land with 9.4%, followed by commercial (7.7%) and industrial (1.6%) subsectors.

Outlook for 2019

The State's property market is expected to be positive, supported by various projects. Pan Borneo Highway Project is the biggest infrastructure development project undertaken by the Federal Government. This project is not just a catalyst for economic growth but a game-changer that would bring huge transformation to the State. With total distance of 1,073 kilometres, it is scheduled to be fully completed by 2025. As at November 2018, about 33% of the project is completed. This project will maintain as key infrastructure development in 2019.

(Source: Property Market Report 2018)

Please refer to **Section 6.6 of this IAL** for our detailed evaluation of the outlook and prospects.

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3. CONCLUSION AND RECOMMENDATION

In arriving at our recommendation, we have assessed and evaluated the Proposed Acquisition, taking into consideration the various factors discussed in **Section 6 of this IAL**, which we summarise below:

Rationale for the Proposed Acquisition	Overall, given the expected benefits to be realised from the Proposed Acquisition as discussed above, we are of the view that the rationale for the Proposed Acquisition is reasonable.
Evaluation of the Purchase Consideration for the Proposed Acquisition	The basis upon which the Purchase Consideration of RM8.236 million was arrived at after considering a substantial discount of RM6.764 million (approximately 45%) to the market value of the Property as ascribed by the Valuer of RM15,000,000, we are of the view that the Purchase Consideration for the Proposed Acquisition is reasonable.
Salient Terms of the SPA	We are of view that the overall terms of the Proposed Acquisition are not prejudicial or detrimental to the non-interested Shareholders.
Financial Effects of the Proposed Acquisition	The Proposed Acquisition is expected to have minimal financial impact to the Group. We noted that the Proposed Acquisition will result in cost saving to the SCIB Group although the gearing of the Group is expected to increase.
Risk Factors of the Proposed Acquisition	We noted that although measures may be taken by the Board in an attempt to limit the risks mentioned above, no assurance can be given that one or a combination of such risk factors will not crystallise and give rise to adverse impact on the financial performance/position or prospects of the SCIB Group.
Outlook And Prospects	In view of the sustainable construction and infrastructure projects in the Sarawak State, we expect the prospects of the Group for the next twelve (12) months to be positive.

After taking into consideration the abovementioned factors and on an overall basis, we are of the opinion that the Proposed Acquisition is **FAIR AND REASONABLE** and are not detrimental to the interests of the non-interested Shareholders.

Accordingly, we recommend that the non-interested Shareholders **VOTE IN FAVOUR** of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

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11 June 2019

To: The Non-Interested Shareholders of Sarawak Consolidated Industries Berhad

Dear Sir/Madam,

SARAWAK CONSOLIDATED INDUSTRIES BERHAD (“SCIB” OR THE “COMPANY”)

INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED SHAREHOLDERS OF SCIB IN RELATION TO THE PROPOSED ACQUISITION

This IAL on the Proposed Acquisition is prepared for inclusion in the Circular. Definitions or defined terms used in this IAL shall have the same meanings as the definitions and defined terms in the definitions section and Part A of the Circular, except where the context otherwise requires or otherwise as defined herein.

1. INTRODUCTION

On 24 January 2019, the Board had announced that the Company had on 24 January 2019 entered into a SPA with RCSB for the proposed acquisition of a parcel of land together with two (2) units of industrial buildings erected thereon situated at Sejingkat Industrial Park, Kuching measuring approximately 2.793 hectares and described as Lot 830 Block 7 Muara Tebas Land District for a total cash consideration of RM8,236,000.

RCSB is a company related to the Directors and Major Shareholders of SCIB, namely, Tan Sri Hamid Bugo and Rewi Hamid Bugo.

In view of the interests of Tan Sri Hamid Bugo and Rewi Hamid Bugo in SCIB as detailed in Section 8 in Part A of the Circular, the Proposed Acquisition is deemed to be a related party transaction pursuant to Paragraph 10.08 of the MMLR. Accordingly, the Board had, on 14 November 2018, appointed Kenanga IB to act as the Independent Adviser to advise the non-interested Shareholders in respect of the Proposed Acquisition with:

- (i) an opinion as to whether the Proposed Acquisition is fair and reasonable so far as the non-interested Shareholders are concerned and whether the Proposed Acquisition is detrimental to the non-interested Shareholders; and
- (ii) a recommendation as to whether the non-interested Shareholders should vote for or against the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

Nonetheless, the non-interested Shareholders should rely on their own evaluation of the merits of the Proposed Acquisition before making a decision onto the course of action to be taken at SCIB's forthcoming EGM.

This IAL is prepared solely for the use of the non-interested Shareholders for the purpose of considering the merits of the Proposed Acquisition and should not be used or relied upon by any other party for any other purposes whatsoever.

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YOU ARE ADVISED TO READ AND UNDERSTAND BOTH THIS CIRCULAR AND THE LETTER FROM THE BOARD SET OUT IN PART A OF THE CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES, AND TO CAREFULLY CONSIDER THE EVALUATIONS AND RECOMMENDATION CONTAINED IN BOTH THE LETTERS BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

2. DETAILS OF THE PROPOSED ACQUISITION

The Proposed Acquisition involves the acquisition of a parcel of land together with two (2) units of industrial buildings erected thereon situated at Sejingkat Industrial Park, Kuching measuring approximately 2.793 hectares and described as Lot 830 Block 7 Muara Tebas Land District, for a cash consideration of RM8,236,000.

For information purposes, SCIB had entered into a sale and purchase agreement on 8 March 2007 with RCSB for the disposal of the Property to RCSB for a sale consideration of RM7,500,000 ("**Disposal by SCIB**"). The Disposal by SCIB in 2007 was not subjected to the approval of the shareholders of SCIB but was subjected to the consent in writing being obtained from the Director of Lands and Surveys for the transfer of the Property from SCIB to RCSB.

Upon completion of the Disposal by SCIB on 7 May 2007, SCIBCM had then entered into a MOS with RCSB to sublease the Property from RCSB at a monthly rental of RM60,000 for a sublease period of fifteen (15) years commencing from 1 June 2007 and expiring on 31 May 2022 with an option to renew for a further term of ten (10) years from the expiration of the initial term. There is no revision or increase in the monthly rental since 1 June 2007. The rationale for the sale and leaseback arrangement was, amongst others, to raise funds for the SCIB Group to meet working capital requirements and to reduce the SCIB Group's bank borrowings then.

At the time of signing the MOS, RCSB was owned by third parties, namely, Puan Norlela Binti Mohamad Ali and Tuan Haji Mohamad Ali Bin Saikh Salleh. RCSB was subsequently sold to Seego Holdings Sdn Bhd which is owned by Tan Sri Hamid Bugo and his immediate family on 15 December 2008.

Please refer to Section 2 in Part A of the Circular for further details of the Proposed Acquisition.

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

The details of the interested Directors and interested Major Shareholders are set out in Section 8 in Part A of the Circular.

The interested Directors have abstained and will continue to abstain from all deliberations and voting at the relevant Board meetings in respect of the Proposed Acquisition.

Accordingly, the interested Directors and interested Major Shareholders will abstain from voting and have also undertaken to ensure that Persons Connected with them (if any) will abstain from voting in respect of their respective direct and/or indirect shareholdings in the Company on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

4. SCOPE AND LIMITATIONS OF OUR EVALUATIONS OF THE PROPOSED ACQUISITION

Kenanga IB was not involved in any formulation or any deliberation and negotiation of the terms and conditions of the Proposed Acquisition. The terms of reference of our appointment as Independent Adviser to the non-interested Directors and non-interested Shareholders are in accordance with the requirements set out in Paragraphs 10.08(2) and (3) of the MMLR. Kenanga IB's scope as Independent Adviser is limited to expressing an independent opinion on the fairness and reasonableness of the Proposed Acquisition insofar as the non-interested Directors and non-interested Shareholders are concerned based on information and documents made available to Kenanga IB including but not limited to the following:

- (i) the SPA;
- (ii) the Valuation Certificate and Valuation Report;
- (iii) information obtained or derived from the Company's announcement to Bursa Securities relating to the Proposed Acquisition;
- (iv) information contained in Part A and the Appendices of the Circular;
- (v) information, documents, confirmations and/or representations provided by the Board and management of the Company, or obtained in or derived from discussions with the non-interested Directors and management of the Company; and
- (vi) other relevant publicly available information.

We have made due enquiries and have relied on the Board and management of SCIB to exercise due care to ensure that all information, documents and representations, provided to us to facilitate our evaluations are accurate, valid and complete in all material respects. Also, we have made due enquiries and discussions with the Valuer to facilitate our evaluations of the Proposed Acquisition. The Board has, individually and collectively, accepted full responsibility for the accuracy of the information provided and given herein and has confirmed in writing that after making all reasonable enquiries and to the best of their knowledge and belief, all relevant facts and information necessary for our evaluations have been disclosed to us and there is no omission of any fact that would make any statement in this IAL incomplete, misleading or inaccurate as at the LPD.

Accordingly, having made all reasonable enquiries and carried out reasonable checks on the information provided to us, we are satisfied with the sufficiency of the information provided and disclosure from the Board and management of the Company, and we have no reason to believe that any of the information is unreliable, misleading or inaccurate and the information provided is reasonable, complete and free from material omission.

Our evaluations and opinions as set out in this IAL are based upon market, economic, industry, regulatory and the information/ documents made available to us, as at the LPD or such other relevant period as discussed herein (as the case may be). Such conditions may change significantly over a period of time. Accordingly, our evaluations and opinions in this IAL do not take into account the information, events and conditions arising after the date of this IAL or such other relevant period as discussed herein (as the case may be). We will notify the non-interested Shareholders, if after the despatch of the Circular, we:

- (i) become aware of significant change affecting the information contained in the IAL;
- (ii) have reasonable grounds to believe that a material statement in the IAL is misleading or deceptive; or
- (iii) have reasonable grounds to believe that there is a material omission in the IAL.

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A supplementary IAL will be sent to the non-interested Shareholders if there are material changes in our recommendation as set out in this IAL.

Our scope as Independent Adviser is limited to expression of an independent opinion on the Proposed Acquisition. In forming our opinion, we have considered factors which we believe would be of relevance and general importance to the non-interested Shareholders. In rendering our advice, we have taken note of pertinent issues which we believe are of general importance in enabling us to form our opinion as to the fairness and reasonableness of the Proposed Acquisition and whether the Proposed Acquisition is detrimental to the non-interested Shareholders.

It is not within our terms of reference to express any opinion on the commercial risks or commercial merits of the Proposed Acquisition which remains the sole responsibility of the Board, and where comments or points of consideration are included on certain pertinent matters which may be commercially oriented, these are incidental to our overall evaluations and concern matters which we may deem material for disclosure.

Our evaluations as set out in this IAL are rendered solely for the benefit of the non-interested Directors and non-interested Shareholders as a whole. We have not taken into consideration any specific investment objective, financial situation or particular needs of any individual Shareholder or any specific group of Shareholders. We recommend that any individual Shareholder or group of Shareholders who are in doubt as to the action to be taken or require advice in relation to the Proposed Acquisition in the context of their individual objectives, financial situation or particular needs, to consult their respective stockbrokers, bank managers, solicitors, accountants or other professional advisers.

5. **DECLARATION OF CONFLICT OF INTEREST AND OUR CREDENTIALS, EXPERIENCE AND EXPERTISE**

Save for the Proposed Acquisition, which is the subject matter of the Circular, we have not advised SCIB in the capacity of principal adviser nor Independent Adviser for any corporate exercise or any other professional capacities within the past two (2) years preceding the LPD.

We confirm that there is no situation of conflict of interest that exists or is likely to exist in relation to our role as the Independent Adviser to SCIB in respect of the Proposed Acquisition.

Kenanga IB provides a range of advisory services which include, among others, mergers, acquisitions and divestitures, take-overs/ general offers, fund raising and initial public offerings. We have significant experience in the independent analysis of transactions and issuing opinions on whether the terms and financial conditions of a transaction are deemed fair and reasonable, including those of acquisitions, disposals and general offers. Kenanga IB is an approved corporate finance adviser within the meaning of the Principal Adviser Guidelines issued by the SC.

Our credentials and experience as an Independent Adviser since 2018 until LPD, include among others, the following:

- (i) Kenanga IB's independent advice letter dated 25 July 2018 to the non-interested shareholders of Kein Hing International Berhad ("**KHIB**") pertaining to the proposed acquisition by KHIB of US Dollar ("**USD**") 528,000 of carter capital representing 24% equity interest in KHIB from Shingo Muramoto for the cash consideration of USD1,100,000.

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- (ii) Kenanga IB's independent advice letter dated 16 May 2018 to the non-interested shareholders of CCM Duopharma Biotech Berhad ("**CCMD**") pertaining to the proposed acquisition of 806,450 common shares in PanGen Biotech Inc. ("**PanGen**") representing approximately 8.39% equity interest in PanGen by CCMD from Chemical Company of Malaysia Berhad for a total purchase consideration of RM59.16 million (equivalent to South Korean Won16.35 billion) to be satisfied entirely in cash.
- (iii) Kenanga IB's independent advice letter dated 4May 2018 to the non-interested shareholders of Malaysian Resources Corporation Berhad ("**MRCB**") pertaining to the management contract between Kwasa Sentral Sdn Bhd ("**KSSB**"), a 70%-owned subsidiary of MRCB and MRCB Land Sdn Bhd ("**MRCB Land**"), a wholly-owned subsidiary of MRCB, for the appointment of MRCB Land as the management contractor in connection with the development and construction of a mixed development identified to be the town centre of the Kwasa Damansara Township, on a piece of land owned by KSSB measuring 64.30 acres known as MX-1, held under HSD 315671, Lot No. PT50854, Mukim Sungai Buloh, Daerah Petaling, Selangor Darul Ehsan, for a provisional total project sum of RM7,461,991,606 payable in cash.
- (iv) Kenanga IB's independent advice letter dated 22 February 2018 to the non-interested shareholders of Ibraco Berhad ("**Ibraco**") pertaining to the proposed sale of a proposed 8-storey strata titled corporate office by Ibraco to Hiap Ghee Seng Sdn Bhd, a major shareholder of Ibraco for a cash consideration of RM25.5 million.
- (v) Kenanga IB's independent advice letter dated 5February 2018 to the holders of the voting shares of MCT Berhad ("**MCT**") pertaining to the unconditional mandatory take-over offer by Regent Wise Investments Limited ("**RWIL**") to acquire all the remaining voting shares in MCT not already held by RWIL and its person acting in concert for a cash offer price of RM0.88 per offer share.

Premised on the above, we are capable, competent and have the relevant experience in carrying out our role and responsibilities as the Independent Adviser for the Proposed Acquisition.

6. EVALUATIONS OF THE PROPOSED ACQUISITION

In our evaluations of the Proposed Acquisition, and taking into consideration the reliance and limitation set out in **Section 4 of this IAL**, we have considered the following factors:

Section 6.1	: Rationale for the Proposed Acquisition
Section 6.2	: Evaluation of the Purchase Consideration
Section 6.3	: Salient terms of the SPA
Section 6.4	: Financial effects of the Proposed Acquisition
Section 6.5	: Risk factors of the Proposed Acquisition
Section 6.6	: Outlook and prospects

6.1 Rationale for the Proposed Acquisition

Taking cognisance of the rationale for the Proposed Acquisition as set out in Section 3 in Part A of the Circular, we note that the Proposed Acquisition is undertaken:-

- (i) Pursuant to the MOS, SCIBCM was granted with an option to purchase the Property before the end of the sublease period based on a pre-determined formula provided in the MOS.
- (ii) Taking into consideration the market value of the Property of RM15,000,000, the Board is of the opinion that the Proposed Acquisition is timely as the Purchase Consideration represents a substantial discount to the market value of the Property.
- (iii) In addition, based on discounted cashflow model, there is a potential saving of approximately RM4.0 million (based on discounted rate of 5.85%, being the average interest rate of SCIBCM's existing term loan facilities) pursuant to the Proposed Acquisition as compared to the continuation of the sublease until May 2032 (based on the assumption that the option to renew for a further term of ten (10) years from the expiration of the initial term on May 2022 is granted); and
- (iv) The Proposed Acquisition will allow SCIBCM to have full control of the Property to facilitate any future expansion plan, when required.

Our evaluation of the rationale for the Proposed Acquisition is as follows:

- (i) **Pursuant to the MOS, SCIBCM was granted with an option to purchase the Property before the end of the sublease period based on a pre-determined formula provided in the MOS.**

Based on the MOS, SCIBCM has agreed to pay a monthly rental of RM60,000 ("**Rental**") to RCSB for fifteen (15) years ("**Term**"). The Rental is subject to review at the end of every three (3) years. In addition to the Rental, SCIBCM was given an option to purchase the Property at any time not later than the last day of the Term. Based on Clause 3.4.2 of the MOS (also stated in Section 2.4 in Part A of the Circular), the formula of the purchase price is as follows:-

$(2 \text{ months Rental})^{(a)} + (2\% \text{ per annum} \times \text{RM}2.8 \text{ million} \times \text{number of completed years of Term})^{(b)} + (\text{RM}7.5 \text{ million})^{(c)} + (\text{financing penalty on prepayment of loan granted by a bank/ financial institution to the RCSB to part-finance the acquisition of the Property (if any)})$

Based on the above formula, the purchase price for the Property is RM8,236,000 (i.e. : $(\text{RM}60,000 \times 2) + (2\% \times \text{RM}2,800,000 \times 11) + \text{RM}7,500,000$).

Notes:-

- (a) Compensation for early termination of MOS;
- (b) 2% represents the estimated annual bare land value appreciation rate mutually agreed upon by RCSB and SCIBCM; and
- (c) RM7.5 million was the disposal price by SCIB to RCSB in 2007.

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We are of the opinion that the compensation of 2 months rental for early termination is reasonable. The RM2.8 million stated in the formula is the net book value of the Land at the time of disposal. The number of completed year of term of 11 year is from 31 May 2007 to 31 May 2019. We understand that the 11 year will not be revised even if the Proposed Acquisition is completed after 31 May 2019. As for the 2% annual bare land appreciation rate stated in the formula, we noted that it is lower than the average annual Consumer Price Index (“CPI”) growth rate in Malaysia from the time of disposal until the end of 2018 (extracted from Department of Statistics) at 2.256%. We have also verified that RM7.5 million is the disposal value of the Property to RCSB in 2007. The disposal price of RM7.5 million was at a discount of 10% to the then market value of the Property totalling RM8.3 million based on the valuation report dated 1 March 2007 prepared by an independent valuer, Rahim & Co Surveyors (Sarawak) Sdn Bhd. In addition, we noted that the current market value of the Property of RM15 million (please refer to **Section 6.2 of this IAL** for further detail) is substantially higher than the purchase price of the Property determined by the formula. Premise from the above, we are of the view that the above formula is reasonable.

For information purposes, for the above calculation, RCSB has agreed to exclude financing penalty on repayment of loan granted by a bank and/or financial institution, if any.

- (ii) **Taking into consideration the market value of the Property of RM15,000,000, the Board is of the opinion that the Proposed Acquisition is timely as the Purchase Consideration represents a substantial discount to the market value of the Property.**

Based on the Valuation Report, the market value of the Property is RM15,000,000 (further details on the evaluation of the market value is set out in **Section 6.2 of this IAL**). The Purchase Consideration of RM8,236,000 represents a discount of approximately 45% to the market value of the Property.

- (iii) **In addition, based on discounted cashflow model, there is a potential saving of approximately RM4.0 million (based on discounted rate of 5.85%, being the average interest rate of SCIBCM’s existing term loan facilities) pursuant to the Proposed Acquisition as compared to the continuation of the sublease until May 2032 (based on the assumption that the option to renew for a further term of ten (10) years from the expiration of the initial term on May 2022 is granted). The computation of the potential saving is set out below:-**

Year	2019 RM' million	2032 RM' million
(a) Proposed Acquisition		
Cost of the Land	(8.236)	
Tax saving	0.330 ⁽¹⁾	← From 2019 to 2032 →
Property Value 2032	6.578 ⁽²⁾	← Discounted from 13.776 →
Total cost	<u>(1.328)</u>	(a)
(b) Renting of the Property		
Lease expenses	(6.950) ⁽³⁾	} ← From 2019 to 2032 →
Tax saving	1.668 ⁽⁴⁾	
Total cost	<u>(5.282)</u>	(b)
Potential saving	<u><u>3.954</u></u>	(a) – (b)

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Notes:-

- (1) The tax saving represents the total net present value (“NPV”) of the Property’s Industrial building allowance (“IBA”) for each year commencing 2019 to 2032. The discount factor (“Discount Factor”) used for the computation of the NPV of IBA of each year is as follows:-

$$\text{Discount factor} = 1/(1+r)^n$$

$r = 5.85\%$, being average annual interest rate of SCIBCM’s existing term loan facilities
 $n = \text{number of year, i.e. Year 0} = 2019 \text{ and Year } 13 = 2032$

- (2) The value represents the NPV of the Land together with the unclaimed IBA of the buildings in year 2032 (“Property Value 2032”). The value was arrived at based on the current market value of the Land of RM8.694 million multiplied the average annual Consumer Price Index (“CPI”) growth rate in Malaysia of 1.024% from 2010 to 2018 (extracted from Bank Negara Malaysia website) for 14 years (i.e. number of years from the date of valuation in 2018 until 2032) to arrive at the estimated market value of the Land by 2032 of RM12.118 million. The estimated remaining unclaimed IBA of the buildings at the end of 2032 is RM1.658 million.

		RM’ million
Estimated value of Land by 2032 (RM8.694 million X 1.024% per year for 14 years)	:	12.118
Unclaimed IBA of the buildings by 2032	:	<u>1.658</u>
Property value as at 2032	:	<u>13.776</u>
Property Value 2032 (NPV of RM13.776 million)	:	<u><u>6.578</u></u>

- (3) The lease expenses represent the NPV of the total rental expense of RM60,000 per month from January 2019 to May 2032.
- (4) The tax saving represents the total NPV of rental expense at current tax rate of 24%.

As mentioned in Section 3 in Part A of this Circular, based on the discounted cashflow method, there is a potential saving of approximately RM4.0 million (based on discounted rate of 5.85%, being the average interest rate of SCIBCM’s existing term loan facilities) pursuant to the Proposed Acquisition as compared to the expenses to be incurred should SCIBCM continue with the sublease until May 2032 (based on the assumption that the option to renew for a further term of ten (10) years from the expiration of the initial term on May 2022 is granted).

The above discounted cashflow method takes into consideration the following for comparison purposes:-

- (a) Proposed Acquisition

The acquisition cost of the Land of RM8.236 million netted off against total NPV of tax benefit from the IBA from 2019 to 2032 of approximately RM0.330 million (based on current taxation rate of 24%) and the Property Value 2032 (estimated NPV of the market value of the Land together with the remaining unclaimed IBA for buildings at the end of the year of sublease) of approximately RM6.578 million to arrive at RM1.328 million (RM8.236 million - RM0.330 million - RM6.578 million). The computations for the NPV of the tax benefit and the Property Value 2032 are set out in Notes (1) and (2) above.

- (b) Renting of the Property

The NPV of lease expenses net of tax saving (based on current taxation rate of 24%) during the sublease period totalling RM5.282 million using discounted cashflow method. The computations for the NPV of the lease expense and the tax benefit are set out in Notes (3) and (4) above.

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The comparison between the Proposed Acquisition as tabulated in (a) and continuation in renting of the Property during the sublease period as tabulated in (b) has resulted in a total net saving of RM3.954 million (RM5.282 million – RM1.328 million).

Based on our review of the discounted cashflow method, we noted that the discounted rate used for the computation of Discount Factor is based on the average interest rate of SCIBCM's existing term loan facilities. Pursuant to the Proposed Acquisition, SCIBCM is expected to have a tax saving from IBA after SCIBCM has acquired the Property. However, unlike the existing lease arrangement, there will be a Property Value 2032 totalling RM6.578 million.

It is noted that the estimated value of the Property Value 2032 is based on bare land market value. SCIBCM did not attach any value to the factory buildings as it is assumed that the factory buildings would be fully depreciated at the end of the sublease period. The estimated market value of the Land together with the remaining unclaimed IBA of the buildings were then discounted by thirteen (13) years (from 2019 to 2032) to arrive at RM6.578 million. Premised from the above, we are of the view that the above computation is reasonable.

(iv) The Proposed Acquisition will allow SCIBCM to have full control of the Property to facilitate any future expansion plan, when required

The Proposed Acquisition will enable SCIBCM to be the registered owner of the Property. Being the owner of the Property, SCIBCM will be able to modify, enhance and/or expand the factory buildings without any restrictions. This will augur well for SCIBCM when planning for additional production lines and/or venture into a new production of related products, subject to the availability of factory space and the approval of the relevant authorities. In addition, SCIBCM will also be able to charge the Property to any financial institutions to obtain bank financing as and when required.

In summary, we note that the Proposed Acquisition will enable SCIBCM to gain full control of the Property to facilitate any future expansion plan when required. In addition, we also noted that the Purchase Consideration is at a substantial discount to the current market value of the Property. Furthermore, it is noted that, pursuant to the Proposed Acquisition, there will be potential cost savings to SCIBCM and consequently, the SCIB Group.

Overall, given the expected benefits to be realised from the Proposed Acquisition as discussed above, we are of the view that the rationale of the Proposed Acquisition is reasonable and not detrimental to the non-interested Shareholders.

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6.2 Evaluation of the Purchase Consideration

As set out in Section 2.4 in Part A of the Circular, the Purchase Consideration for the Proposed Acquisition was arrived at on a willing buyer-willing seller basis based on a predetermined formula set out in the MOS and after taking into consideration the market value of RM15,000,000 for the Property as appraised by the Valuer.

We note that in arriving at the market value of the Property, the following methods of valuation have been adopted:

Method of Valuation	Description	Market Value
Cost approach (Primary)	For the cost approach, the value of the land as an improved site is added to the replacement cost of the building and other improvements. The value of the site is determined by comparison with similar lands that were sold recently and those that are currently being offered for sale in the vicinity with appropriate adjustments made for location, size, improvements and other value factors. The replacement cost of the building is derived from the estimated cost of reconstructing a new building of same kind and design based on current market prices for materials and labour, other related fees and charges, and present construction techniques.	RM15.0 million
Investment approach (Check)	For the investment approach, the annual rental income being received or expected to command over a period of time relating to the lease of the Property is estimated. The expenses or outgoings incidental to the ownership of the Property are then deducted to obtain the net annual rental value. This net annual income is then capitalised by an appropriate capitalisation rate or years of purchase figure to adjust the income into the present capital value of the Property. The relevant capitalisation rate is chosen based on the investment rate of return to be expected from the type of property concerned taking into consideration such factors as risk, capital appreciation, security of income, ease of sale and management of property	RM14.4 million

We have reviewed the contents of the Valuation Report and the Valuation Certificate, and are satisfied with the bases and assumptions adopted by the Valuer in arriving at the fair values of the Property. We concur with the Valuer insofar as:

- (i) the cost approach is the most appropriate and primary valuation methodology to be applied to the Property. The cost approach derived the estimated cost of reconstructing the building of the same kind and design based on current prices for the materials, labour cost and other related fee and charges. For the land, a comparison approach was used to take into consideration the comparable sale evidence according to en-bloc and adjustments made for differences in time factor, location/ visibility, size, tenure and other relevant characteristics to arrive at the market value of the land; and

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- (ii) the investment approach is an appropriate counter-check for the valuation of the Property based on the existing lease arrangement to reflect the expected return on investment from the Property. Lack of evidence on the rental yield is also another reason the investment approach is not considered as the primary valuation methodology to be applied to the Property.

Our analysis of the cost approach and investment approach are detailed in **Section 6.2.1 and Section 6.2.2 of this IAL** respectively.

Nonetheless, we wish to highlight that any significant departure in the assumptions mentioned therein may have a material impact on the valuations. The cost approach and investment approach of valuations are based on prevailing economic, market and other conditions as at the date of valuation, as well as publicly available information and the information provided by SCIB's management and such conditions may change significantly over a short period of time. The resultant effect of such changes may materially and/or adversely affect the valuation.

6.2.1 Cost Approach of Valuation

The breakdown in value of the Property based on the cost approach of valuation is set out below:-

Type of Building	Total area (sq ft)	Price (RM/ sq ft)	Total (RM)
<u>Tile manufacturing factory</u>			
- offices	3,665.11	⁽ⁱ⁾ 120.08	440,106
- factory	31,968.81	⁽ⁱ⁾ 90.44	2,891,259
<u>Spun pile manufacturing factory</u>			
- office	1,582.30	⁽ⁱ⁾ 119.88	189,686
- factory	19,375.00	⁽ⁱ⁾ 99.90	1,935,566
Others			
- MSB/genset	356.07	⁽ⁱ⁾ 119.88	42,686
- MSB/genset/pump room	645.80	⁽ⁱ⁾ 50.32	32,498
Site improvements			
- Hardstanding yard	34,688	⁽ⁱⁱ⁾ 18.90	⁽ⁱⁱⁱ⁾ 656,000
- Fencing	1,898	⁽ⁱⁱ⁾ 22.75	⁽ⁱⁱⁱ⁾ 44,000
Market value of the Land			^(iv) 8,694,000
		Total	14,925,801
		Say	15,000,000

(Source : Valuation Report)

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Notes:-

- (i) Based on JUBM& Arcadis Construction Cost Handbook Malaysia 2018 for Kuching ("**Handbook**") after deducting depreciation charges at the rates mentioned below;
- (ii) Based on the Valuer's estimate after deducting depreciation charges;
- (iii) Rounded up value; and
- (iv) Based on comparison approach of valuation detailed below.

For the buildings, the Valuer estimated the cost of reconstructing the buildings of the Property based on current prices for the materials, labour cost and other related fees, and charges used to construct similar buildings in Kuching. When arriving at the current prices, the Handbook is used as a guide to determine the current prices. We understand that the Handbook is commonly used amongst the valuers to estimate the cost of constructing different types building within Malaysia. For the depreciation, the Valuer adopted a depreciation rate of 46% and 35% per annum for the hardstanding yard and fencing respectively while for the buildings, the Valuer adopted straight line depreciation of 2% per annum.

For the Land, a comparison approach is used to take into consideration the comparable sales evidences according to en-bloc and adjustments made for differences in time factor, size, shape of land, tenure and other relevant characteristics to arrive at the market value of the land. The comparables used in the comparison approach of valuation are as follows:

Reference	Description	Land Tenure	Transacted Date	Price Transacted (RM)	Adjusted Price* (RM/Acre)
Land	Lot 830 Block 7 Muara Tebas District (" MTLD ")	Expiring on 17.08.2053	Not applicable	8,694,000	1,260,000
Comparable 1	Lot 2107 Block 7 MTLD	Expiring on 02.08.2055	April 2014	1,385,000	1,264,966
Comparable 2	Lot 934 Block 7 MTLD	Expiring on 27.08.2055	October 2014	3,600,000	1,253,571
Comparable 3	Lot 1538 Block 8 MTLD	Expiring on 06.04.2068	September 2016	2,350,000	1,256,357
Range (Comparable 1 to Comparable 3)					1,253,571 to 1,264,966

Note :

- * Adjustments have been made for differences in land size, shape of land, tenure, time factor, and other relevant characteristics of each comparable against the Land. No adjustment was made on the location in view of their proximity which is within the same industrial park.

Based on the total land area of 6.90 acres, we noted that the Valuer has derived a market value of RM1.260million per acre bringing a total market value for the Land to approximately RM8.694 million.

We are of the view that the market value of RM1.260 per acre is reasonable based on the following:

- (a) it is valued closely to the adjusted price of Comparable 3, which is the most recent transaction; and

- (b) the valuation of RM1.260 million per acre is within the range of the adjusted prices of the comparables of RM1.254 million per acre to RM1.265 million per acre.

6.2.2 Investment Approach of Valuation

The workings of the investment approach of valuation are set out below:-

	RM
Rental per month	(i) 60,000
Less:-	
- Repair & maintenance	} (ii) 4,200
- Insurance	
- Assessment rate	
- Land rent	
Net Income (per month)	55,800
Net Income per year	669,600
Yield for 35 years @ 3%	(iii) 21.4872201
	14,387,843

(Source : Valuation Report)

Notes:-

- (i) The rental of RM60,000 per month is arrived at after taking into consideration the following comparable rentals:-

Reference	Lot No	Location	Description	Land Area	Rental (per month)
Property	Lot 830 Block 7 MTLD	Demak Laut Industrial Park Phase I	There are two (2) industrial buildings- a 2-storey office building cum spun piles factory and a 2-storey office cum concrete roofing tiles factory (58,605 sq ft). There are also two (2) ancillary buildings - a raw material store and a genset/MSB room/ pump room (646 sq ft).	27,930sq uare metres(6.90 acres)	RM60,000 @RM1.00 per sq ft
Comparable 1	Lot 1124 Section 66 Kuching Town Land District	Pending Industrial Estate (to the south-west of the Property)	Improved with a 2-storey office cum warehouse with an approximate total build-up area of about 45,000 sq ft.	9,109 square metres(2.25 acres)	Asking RM27,000 @ RM0.60 per sq ft
Comparable 2	Lot 1543 Block 8 MTLD	Demak Laut Industrial Park Phase IIA (to the east of the Property)	Improved with a 1-storey warehouse and a guard house with a total build-up area of about 85,192 sq ft.	2.833 hectares (7.00 acres)	Existing RM94,000 @ RM1.10 per sq ft
Range (Comparable 1 to Comparable 2)					RM0.60 per sq ft to RM1.10per sq ft

Based on the above comparables, the existing rental of the Property of RM60,000 (RM1.00 per sq ft) per month is reasonable as it falls within the range of RM0.60 per sq ft to RM1.10 per sq ft.

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- (ii) These expenses are based on total estimated outgoings for by SCIBCM for FYE 31 December 2018. The breakdown are as follows:-

Description	Per annum (RM)
Rates & assessment	29,184
Building maintenance	425
Insurance	21,180
Land rent	2,346
Total	53,135
Per month	4,427

The above monthly outgoings of RM4,427 are 7.38% of the monthly rental of RM60,000. For the purpose of valuation, 7% (rounded down) was used to arrive at RM4,200.

- (iii) The estimated yield of 3% is based on the Valuer's own estimation taking into consideration the following quoted asking/existing rental of the following properties:-

Reference	Property	Estimated Market Value RM' million	Monthly Asking/Existing Rentals RM	Net Yield %
Comparable 1	Lot 1124 Section 66 Kuching Town Land District*	9.7	RM27,000	2.7
Comparable 2	Lot 1543 Block 8 MTLD*	22.0	RM94,000	4.1
	Range			2.7 – 4.1

* Please refer to Comparable 1 and Comparable 2 of (i) above for further details of the properties

Premised on the above, we are of the opinion that market value of RM15,000,000 for the Property is fair and reasonable based on the cost approach (being the primary method of valuation) and supported by the investment approach (being the secondary method of valuation).

As the Purchase Consideration represents a discount of RM6.764 million (approximately 45%) to the market value of RM15,000,000 for the Property, we opine that the Purchase Consideration is fair and reasonable and is not detrimental to the non-interested Shareholders.

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6.3 Salient Terms of the SPA

The Proposed Acquisition is subject to the terms and conditions of the SPA as set out in Section 2.6 in Part A of the Circular.

Salient Terms of the SPA	Kenanga IB's Comments
<p>6.3.1 Agreement to Sell and Purchase</p> <p>Subject to the Conditions Precedent (as detailed in Section 6.3.2 (1) of this IAL) being fulfilled, SCIBCM has agreed to purchase and RCSB has agreed to sell the Property free from all encumbrances at the Purchase Consideration.</p> <p>6.3.2 Conditions Precedent</p> <p>(1) The SPA is conditional upon the following being fulfilled within six (6) months from the date of the SPA ("Conditional Period"):-</p> <p>(a) the completion of a legal due diligence review to be conducted on the Property to the satisfaction of SCIBCM;</p> <p>(b) consent in writing of the Director of Lands and Surveys being obtained for the transfer of the Property to and in favour of SCIBCM in compliance with the restriction in interest expressed in the issue document of title for the Property;</p> <p>(c) the approvals of the board of directors and the shareholders of RCSB in general meeting being obtained on the disposal of the Property at the Purchase Consideration and upon the terms set out in the SPA;</p> <p>(d) the approval of the board of directors and the shareholders of SCIBCM being obtained on the acquisition of the Property at the Purchase Consideration and upon the terms set out in the SPA; and</p> <p>(e) the approval of the shareholders of SCIB in general meeting being obtained for the Proposed Acquisition at the Purchase Consideration and upon the terms set out in the SPA;</p> <p>hereinafter collectively referred to as "Conditions Precedent".</p> <p>(2) If any of the Conditions Precedent is not fulfilled within the Conditional Period, RCSB and SCIBCM may mutually agree in writing to extend the Conditional Period to an extended period as may be necessary to fulfil the remaining Conditions Precedent whether with or without conditions, and such extended period shall then be referred to as the "Extended Conditional Period".</p> <p>(3) The date of the fulfilment of the last of the Conditions Precedent shall be the "Effective Date".</p>	<p>The delivery of the Property free from all encumbrances is reasonable and is a normal commercial arrangement for any property transaction.</p> <p>This term serves to protect the interests of SCIBCM by subjecting the Property to the conduct of due diligence review pursuant to the Proposed Acquisition.</p> <p>The terms are reasonable as they relate to the relevant approvals required for the implementation of the Proposed Acquisition.</p> <p>The Extended Conditional Period will enable both parties to extend the Conditional Period when the fulfillments of any of the terms of the Conditions Precedent are delayed.</p>

Salient Terms of the SPA	Kenanga IB's Comments												
<p>(4) If the Conditions Precedent are not fulfilled within the Conditional Period or the Extended Conditional Period, as the case may be, the following will take place:</p> <p>(a) RCSB shall refund all monies paid by SCIBCM to RCSB, including the Deposit (as detailed in Section 6.3.3 (2) of this IAL), free of interest; and</p> <p>(b) the SPA shall be deemed to be terminated and of no further force or effect and neither RCSB nor SCIBCM shall have any further rights under the SPA except for any obligation which is expressed to apply after the termination of the SPA and any rights or obligations which were accrued arising from any breach of the SPA prior to such termination.</p> <p>(5) If all the Conditions Precedent have been fulfilled, RCSB shall be required to proceed with the completion of the sale and purchase transaction of the Property within the time and in the manner set out in the SPA and shall not be at liberty to rescind the SPA as monetary compensation shall not be adequate compensation to SCIBCM. If RCSB's decision not to proceed with the completion is due to the condition precedent in Section 6.3.2(1) (b) or (c) of this IAL not being fulfilled, RCSB and SCIBCM shall amicably use their best endeavours to re-negotiate for an alternative solution within three (3) months.</p>	<p>These terms are reasonable as they entitle either party to terminate the SPA should any of the Conditions Precedent cannot be met within the Conditional Period or the Extended Conditional Period.</p> <p>In such event, RCSB shall refund all monies paid by SCIBCM, if any, and the parties shall have no further rights in respect of the SPA (save as expressly provided).</p> <p>Once the Conditions Precedent are fulfilled, RCSB shall be required to proceed with the transaction in accordance with the terms of the SPA. However, if item (b) or (c) in Section 6.3.2 (1) of the Conditions Precedent in this IAL is not fulfilled, alternative solutions can be considered by both parties.</p>												
<p>6.3.3 Payment of Purchase Consideration</p> <p>(1) The Purchase Consideration shall be paid by SCIBCM to RCSB at the time and manner as prescribed below:</p> <table border="1" data-bbox="475 1384 1018 1572"> <thead> <tr> <th>Milestone</th> <th>%</th> <th>Amount (RM)</th> </tr> </thead> <tbody> <tr> <td>1. Immediately upon signing of the SPA</td> <td>10%</td> <td>823,600</td> </tr> <tr> <td>2. Within three (3) months from the Effective Date</td> <td>90%</td> <td>7,412,400</td> </tr> <tr> <td>Total</td> <td>100%</td> <td>8,236,000</td> </tr> </tbody> </table> <p>(2) The sum of RM823,600 representing 10% of the Purchase Consideration ("Deposit"), shall be paid to RCSB without deductions upon the execution of the SPA.</p> <p>From the sum of RM7,412,400 representing 90% of the Purchase Consideration ("Balance Sum") SCIBCM shall:</p> <p>(a) retain RM247,080 representing 3% of the Balance Sum to pay to the Inland Revenue Board of Malaysia for contingent real property gains tax arising from the disposal of the Property by RCSB of which such payment shall be deemed to be part of the Purchase Consideration; and</p>	Milestone	%	Amount (RM)	1. Immediately upon signing of the SPA	10%	823,600	2. Within three (3) months from the Effective Date	90%	7,412,400	Total	100%	8,236,000	<p>The payment of the Purchase Consideration, is reasonable, in view of the following:</p> <p>(a) The deposit payment of 10% upon signing of the SPA is a normal commercial term.</p> <p>(b) The balance of the payment of the Purchase Consideration will be paid within three (3) months from the Effective Date.</p> <p>(c) The Purchase Consideration is inclusive of real property gains tax, if any, which is to be borne by RCSB. As such, 3% of the Balance Sum is retained for this purpose.</p> <p>(d) For the Redemption Sum, please refer to Section 6.3.4 of this IAL.</p>
Milestone	%	Amount (RM)											
1. Immediately upon signing of the SPA	10%	823,600											
2. Within three (3) months from the Effective Date	90%	7,412,400											
Total	100%	8,236,000											

Salient Terms of the SPA	Kenanga IB's Comments
<p>(b) release such sum as shall be sufficient to settle the Redemption Sum to PBB.</p> <p>Thereafter, the remaining of the Balance Sum shall be released to RCSB less the apportioned lawful outgoings accrued in respect of the Property, upon the registration of the discharge of the PBB Charge and the Memorandum of Transfer affecting the Property to and in favour of SCIBCM ("Memorandum of Transfer") by the Kuching Land Registry office.</p> <p>(3) If SCIBCM shall be unable to pay the Balance within three (3) months from the Effective Date ("Completion Period") for whatever reasons, SCIBCM shall be automatically entitled to an extension of one (1) month from the expiry of the Completion Period ("Extended Completion Period") subject to an interest of eight per centum (8%) per annum on the Balance Sum or such part thereof calculated from the expiry of the Completion Period until full payment thereof, to effect payment of the Balance Sum.</p>	<p>The Extended Completion Period will give more time to SCIBCM to make payment of the Balance Sum. However, SCIBCM will be subjected to an interest of eight per centum (8%) per annum which is higher than the cost of financing of SCIBCM averaging at the rate of 5.85% per annum.</p>
<p>6.3.4 Redemption of PPB Charge</p>	
<p>(1) RCSB shall immediately upon the Effective Date, request PBB to issue and deliver a valid redemption statement cum letter of undertaking to SCIBCM or SCIBCM's financier ("Redemption Statement") to:</p> <p>(a) deliver the redemption documents to SCIBCM or to SCIBCM's financier upon payment of the sum necessary or redeem the Property as reflected in the Redemption Statement ("Redemption Sum") by PBB; and</p> <p>(b) refund any monies received by PBB towards payment of the Redemption Sum to SCIBCM in the event that the discharge of the PBB Charge cannot be registered for any reasons whatsoever provided that the redemption documents are returned to PBB with its interest intact.</p> <p>(2) SCIBCM shall settle the Balance Sum to SCIBCM's solicitors as stakeholder as soon as the Redemption Statement is issued by PBB so as to enable SCIBCM's solicitors to release such amount as shall be sufficient to pay the Redemption Sum to PBB on or before the due date of payment of the Redemption Sum as shall be stipulated in the Redemption Statement and accordingly, to complete the Proposed Acquisition within the Completion Period or the Extended Completion Period, as the case may be.</p> <p>(3) If the Redemption Sum is greater than the Balance Sum, RCSB shall pay the difference between the Redemption Sum and the Balance Sum to PBB.</p>	<p>As at the LPD, the Property is charged to PBB for a bank facility with an outstanding amount of approximately RM5.50 million.</p> <p>This is to ensure that RCSB will settle the outstanding borrowings with PPB prior to the Completion Date (as defined hereinunder) so that the Property will be acquired free from all encumbrances.</p>

Salient Terms of the SPA	Kenanga IB's Comments
<p>6.3.5 Non-registration of Transfer</p> <p>(1) If the Memorandum of Transfer shall be rejected from registration due to the existence of any caveats, orders or any other encumbrances or for any other reasons whatsoever, not due to the fault, default, neglect, act or omission of RCSB or SCIBCM, then SCIBCM shall be entitled to require RCSB to unconditionally refund to SCIBCM, the Deposit and all monies so paid by SCIBCM under the SPA, if any, free of interest and upon such refund, the SPA shall be null and void and neither RCSB nor SCIBCM shall then have any claims against each other save and except for any breach of the SPA prior to such termination. Against such refund, SCIBCM shall withdraw any private caveat lodged against the Property by SCIBCM.</p> <p>Notwithstanding the generality of the provisions stated in this Section 6.3.5 (1) of this IAL, RCSB and SCIBCM agree that subject to the observance of all the terms and conditions of the sublease pursuant to the MOS by SCIBCM, including without limitation the payment of rental to RCSB, SCIBCM shall be entitled to continue with the sublease and to occupy the Property as a sublessee under the MOS.</p> <p>(2) RCSB shall, other than the claim for refund of monies stated above, have no claims whatsoever against SCIBCM in respect of the Property.</p> <p>6.3.6 Delivery of Possession and Completion</p> <p>(1) Possession of the Property has been delivered to SCIBCM as the registered sublessee upon commencement of the MOS and SCIBCM has been occupying the Property since then.</p> <p>(2) The Proposed Acquisition shall be completed on the date upon which the Memorandum of Transfer is accepted for registration by the Kuching Land Registry office as shall be evidenced by the allocation of instrument number for registration under Form L and the payment of the Balance Sum is made by SCIBCM to RCSB ("Completion Date").</p> <p>(3) Upon the completion of the Proposed Acquisition on the Completion Date, SCIBCM shall cease to pay rental to RCSB under the MOS and the existing sublease arrangement of the Property between SCIBCM and RCSB under the MOS shall cease.</p>	<p>The term is reasonable as it sets out the remedies available to SCIBCM in the event that the Memorandum of Transfer is rejected.</p> <p>The term allows SCIBCM to continue renting the Property under the MOS in the event that the Memorandum of Transfer cannot be effected.</p> <p>These terms are reasonable as they set out the terms to be fulfilled upon the completion of the Proposed Acquisition.</p>

Salient Terms of the SPA	Kenanga IB's Comments
<p>6.3.7 Termination by SCIBCM</p> <p>(1) SCIBCM is entitled to terminate the SPA by way of a written notice to RCSB ("SCIBCM Termination Notice") on or before the Completion Date, such termination to be effective from the date of the SCIBCM Termination Notice, if any of the following occur after the execution of the SPA but before the Completion Date:</p> <ul style="list-style-type: none"> (a) RCSB refuses or is unable to complete the sale and transfer of the Property through no fault of SCIBCM; (b) RCSB fails to execute and deliver to SCIBCM the Memorandum of Transfer and such other documents as are necessary to register the transfer of the Property to SCIBCM; (c) there is a breach of the warranties given of RCSB, which cannot be remedied to the satisfaction of SCIBCM within 14 business days or any other period as otherwise agreed by SCIBCM; (d) there is a material breach of any terms or conditions of the SPA or a failure to perform or observe any undertaking or obligation in the SPA by RCSB which RCSB has refused or is unable to remedy within 14 business days from the date of receipt of the notice of the breach by RCSB from SCIBCM; or (e) there is an order made or resolution passed, or analogous proceeding taken for the winding up or dissolution of RCSB or if RCSB is deemed unable to pay its debts under Section 466(1) of the Act or has a receiver and manager appointed over all or a substantial part of its undertakings and assets. <p>(2) Termination takes effect from such date stated in the SCIBCM Termination Notice where:</p> <ul style="list-style-type: none"> (a) RCSB shall refund to SCIBCM all monies paid by SCIBCM free of interest; (b) RCSB shall pay SCIBCM a sum equivalent to the Deposit as agreed pre-estimated liquidated damages; (c) SCIBCM shall return all documents pertaining to the Property to RCSB for cancellation; and (d) SCIBCM shall withdraw the caveat lodged against the Property; <p>and thereafter, neither party shall have any claims against the other party.</p>	<p>The terms are reasonable as they entitle SCIBCM to terminate the SPA upon occurrence of (a), (b), (c), (d) or (e) set out in this clause.</p> <p>In such event, SCIBCM will give a termination notice.</p> <p>Upon termination, RCSB shall refund all monies paid by SCIBCM as part of the Purchase Consideration including the Deposit.</p>

Salient Terms of the SPA	Kenanga IB's Comments
<p>6.3.8 Termination by RCSB</p> <p>(1) If SCIBCM fails, refuses or is unwilling to pay the Purchase Consideration or any part thereof or is unable to complete the Proposed Acquisition through no fault of RCSB after the execution of the SPA but before the Completion Date, RCSB is entitled to terminate the SPA by way of a written notice to SCIBCM ("RCSB Termination Notice") on or before the Completion Date.</p> <p>(2) Termination takes effect from such date stated in the RCSB Termination Notice where:</p> <p>(a) the Deposit shall be forfeited to RCSB as agreed pre-estimated liquidated damages;</p> <p>(b) all other monies received by RCSB as part of the Purchase Consideration (except for Deposit) shall be returned free of interest to SCIBCM;</p> <p>(c) SCIBCM shall return all documents pertaining to the Property to RCSB for cancellation; and</p> <p>(d) SCIBCM shall withdraw the caveat lodged against the Property at the cost and expenses of SCIBCM, and thereafter, neither party shall have any claims against the other party.</p> <p>(3) Notwithstanding the general provisions on termination above and in line with the provisions in Section 2.6.2(5) in Part A of this Circular, if all the Conditions Precedent have been fulfilled, RCSB shall be obliged to proceed to complete the Proposed Acquisition within the time and in the manner set out in the SPA, failing which, SCIBCM shall have the option to seek the remedy of specific performance of the SPA under the Specific Relief Act 1950.</p>	<p>The terms are reasonable as they entitle RCSB to terminate the SPA if the Purchase Consideration cannot be satisfied by SCIBCM.</p> <p>Upon termination, SCIBCM shall forfeit the Deposit and all other monies received by RCSB as part of the Purchase Consideration (except for the Deposit) shall be returned free of interest to SCIBCM.</p> <p>This term is reasonable as it shall oblige RCSB to proceed to complete the Proposed Acquisition once all the Conditions Precedent have been fulfilled, failing which, SCIBCM can seek the remedy of specific performance from RCSB.</p>
<p>6.3.9 Mutual Termination</p> <p>Without prejudice to the general provisions above on the rights of termination, RCSB and SCIBCM may mutually agree to terminate the SPA before the Completion Date at the election of either RCSB or SCIBCM where:</p> <p>(a) RCSB shall refund to SCIBCM all monies which may have been paid by SCIBCM to RCSB under the SPA, if any free of interest;</p> <p>(b) SCIBCM shall return all documents pertaining to the Property to RCSB for cancellation; and</p> <p>(c) SCIBCM shall withdraw the caveat lodged against the Property, and thereafter, neither party shall any claims against the other party.</p>	<p>These terms are reasonable as they entitle either party to terminate the SPA at the election of either party.</p> <p>In such event, each party shall return all documents and refund all monies paid to the other party, if any, and the parties shall have no further rights or obligations under the SPA (save as expressly provided).</p>

Based on our review of the salient terms of the SPA as set out above, we are of the view that the overall terms and conditions of the SPA are reasonable and not detrimental to the non-interested Shareholders.

6.4 Financial Effects of the Proposed Acquisition

The pro forma effects of the Proposed Acquisition on SCIB's share capital, substantial shareholders' shareholdings, consolidated NA, gearing and consolidated earnings and our commentaries are summarised as follows:

Effects	Proposed Acquisition
Share capital and substantial shareholders' shareholdings	<ul style="list-style-type: none"> The Proposed Acquisition will not have any effect on the share capital and substantial shareholders' shareholdings of the Company as the Proposed Acquisition will not involve the issuance or disposal of new ordinary shares in SCIB.
NA and gearing	<ul style="list-style-type: none"> Pursuant to the Proposed Acquisition, the NA per Share of the SCIB Group is expected to decrease slightly from RM0.569 to RM0.566 mainly due to the estimated expenses in relation to the Proposed Acquisition of approximately RM250,000. The gearing of the Group will increase slightly from 0.54 to 0.69 times mainly due to the anticipated bank borrowings of RM7.0 million to finance the Proposed Acquisition. Nonetheless, SCIBCM expects its monthly cashflow to improve as the monthly principal repayment and the interest charge for the bank borrowings is expected to be less than the monthly rental payment of RM60,000.
Earnings	<ul style="list-style-type: none"> The Proposed Acquisition is not expected to have any material effect on the earnings of the SCIB Group for the FYE 31 December 2019. Based on the existing leasing arrangement, SCIBCM is required to pay annual rental of RM720,000. Upon completion of the Proposed Acquisition, as SCIBCM intends to incur additional borrowings to part finance the Proposed Acquisition, the management estimated that SCIBCM will incur annual interest expense of RM319,000. In addition, the depreciation expense is also expected to increase by RM309,000 per year. Premised from the above, the Proposed Acquisition is expected to have a net reduction in SCIBCM's expense of RM92,000 per annum (RM720,000 – RM319,000 – RM309,000) in future. It is noted that there is an estimated one-off expense of RM250,000 pursuant to the Proposed Acquisition.

Premised on the above, we are of view that the financial effects arising from the Proposed Acquisition, after accounting for cost saving and estimated expenses are reasonable and are not detrimental to the interests of the non-interested Shareholders.

6.5 Risk Factors of the Proposed Acquisition

In evaluating the Proposed Acquisition, the non-interested Shareholders should carefully consider the potential risks of the Proposed Acquisition as set out in Section 5 in Part A of the Circular and summarised as follows:

6.5.1 Business Risks Relating to the Manufacturing of Concrete Products Industry

We noted that the SCIB Group is principally involved in the manufacturing of concrete products for use in the construction and infrastructure sectors, such as pre-stressed spun pile, reinforced concrete square pile, spun concrete piles, reinforced concrete box culvert and etc.

As such, the Group's business is subject to certain risks inherent in the manufacturing industry. These include but not limited to, shortages of labour, i.e. skilled designers, engineers and technicians, increase in cost of labour and entry of new players in the concrete products industry.

As the Group manufactures concrete products for use in the construction and infrastructure sectors, its business is also subject to the performance of the construction and infrastructure sectors in Sarawak. Even though infrastructure, construction and property development industries in Sarawak still remained positive, there is no assurance that this sectors will continue to be positive in the future.

6.5.2 Non-Completion Risk of the Proposed Acquisition

The completion of the Proposed Acquisition is subject to certain conditions such as the approvals from the non-interested Shareholders and from the relevant authorities (if any). In the event any of the conditions precedent as set out in **Section 6.3.2 of this IAL** is not fulfilled and/or in the event an extension of time is not agreed upon between the parties to the SPA, the SPA will be terminated and become null and void. As such, the rationale and prospects to be realised from the Proposed Acquisition will not materialise.

SCIBCM will take all reasonable and necessary steps to ensure that all the conditions precedent are met to ensure the completion of the Proposed Acquisition to realise the benefits to the SCIB Group as detailed in **Section 6.1 of this IAL**.

6.5.3 Non-Compliance with the Approved Usage of Industrial Building

We noted that the usage of one of the industrial buildings is different from the usage stated in the approved occupation permit. Although steps have been taken to regularise its current usage with the relevant authorities, there can be no assurance that the regularisation will be approved by the relevant authorities. In the unlikely event that the regularisation is not approved, SCIBCM will take the necessary steps to resolve any irregularities to comply with the authorities' requirements and submit a new application to obtain approval for the current usage.

We were informed by the Valuer that the valuation of the Property only takes into account the market value of the land, buildings and other improvements and excludes the batching plant, i.e. plant, machinery and equipment. In view of this, the non-compliance on the usage of the plant does not/will not have any material impact on the valuation of the Property.

6.5.4 Compulsory Land Acquisition

The State Government of Sarawak is empowered under the Sarawak Land Code to compulsorily acquire any land in Sarawak. In the event that the State Government of Sarawak compulsorily acquires the Property, the risk to the SCIB Group may be mitigated by the compensation to be awarded by the State Government of Sarawak for such compulsory acquisition.

Pursuant to the Sarawak Land Code, the market value of the land shall be taken into consideration in determining the amount of compensation to be awarded for any land acquired by the State Government of Sarawak. However, the risk of compulsory acquisition of the Property is mitigated by the fact that presently, the Property is not subject to any compulsory acquisition notifications issued under the Sarawak Land Code.

We wish to highlight that although effects and measures have been taken by the SCIB Group to mitigate the risks associated with the Proposed Acquisition, no assurance can be given that one or a combination of risk factors as stated in Section 5 in Part A of the Circular will not occur and give rise to material adverse impact on the business and operation of the SCIB Group, its financial performance or prospects thereon.

In evaluating the Proposed Acquisition, non-interested shareholders of SCIB should carefully consider the said risk factors and their respective mitigating factors prior to voting on the resolution pertaining to the Proposed Acquisition at the forthcoming EGM of SCIB. Non-interested shareholders of SCIB should also note that the risk factors mentioned therein are not meant to be exhaustive.

6.6 Outlook and Prospects

6.6.1 Overview and Outlook of the Malaysian Economy

Overall Gross Domestic Product growth was moderate at 4.5% in the first quarter of 2019 (4Q 2018: 4.7%), driven mainly by the expansion in domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.1% (4Q 2018: 1.3%)

Domestic demand expanded by 4.4% in the first quarter (4Q 2018: 5.7%), driven by firm household spending amid weaker capital expenditure.

After three consecutive quarters of robust spending, private consumption growth moderated but remained strong at 7.6% (4Q 2018: 8.4%). This mainly reflected the normalisation in spending following the frontloading of purchases during the tax holiday period. Nonetheless, household spending continued to be supported by income and employment growth.

Public consumption expended at a faster pace of 6.3% (4Q 2018:4.0%), attributable to higher growth in spending on supplies and services.

Gross fixed capital formation (GFCF) contracted by 3.5% (4Q 2018: 0.6%), weighed down by weaker private and public sector investment. By type of assets, investment in structures declined by 1.3% (4Q 2018: 1.3%) amid subdued property market activity. Capital expenditure on machinery and equipment registered a larger contraction of 7.4% (4Q 2018: -1.3%) affected mainly by a decline in transport equipment spending. Investment in other types of assets also declined by 2.2% (4Q 2018: 4.5%) due mainly to lower research and development (R&D) spending.

Private investment growth slowed to 0.4% (4Q 2018: 5.8%). Investment activity was affected by heightened uncertainty surrounding global trade negotiations and prevailing weaknesses in the broad property segment. Nonetheless, spending on large multi-year projects provided some support to investment growth, particularly in the primary-related manufacturing and utilities services sub-sectors.

Public investment declined further by 13.2% (4Q 2018: -5.9%) on account of lower capital spending by the Federal Government and public corporations.

Against the backdrop of a challenging global environment, growth in the Malaysia economy is expected to remain broadly sustained for the year. Growth will be supported by continued expansion in the domestic demand amid a moderate support from the external sector.

Private sector spending is expected to remain the key driver of growth. Although consumer sentiments have moderated from its recent peak, household spending will be underpinned by continued income and employment growth. Investment activity is estimated to improve, driven by ongoing capacity expansion in key sectors, with additional support from new manufacturing investments, as reflected by the high MIDA investment approvals. Nevertheless, overall growth may be partially weighed down by lower public sector spending.

Risks to growth remain tilted to the downside, arising mainly from external uncertainties such as further weakening of global growth and heightened financial market volatility. On the domestic front, unexpected interruptions in commodity production could also affect Malaysia's growth prospects.

(Source: Economic and Financial Developments in Malaysian Economy in the First Quarter of 2019 of the Bank Negara Malaysia Quarterly Bulletin)

6.6.2 Overview and Outlook of the Manufacturing and Construction Industry

Growth in the manufacturing sector moderated, mainly driven by the slowdown in the electronics and electrical (E&E) and primary-related clusters. The slower growth in the E&E cluster was due to slower global demand for semiconductors. The implementation of stricter vehicle emission standards in the EU and expiring tax rebates for cars in PR China weighed on the demand for automotive semiconductors. Growth in the primary-related cluster also moderated as unplanned closure of gas facilities in Sarawak in February affected the production of refined petroleum products, particularly liquefied natural gas. Meanwhile, recovery in the production of palm-oil based products led to an improvement in the consumer-related cluster during the quarter.

The construction sector registered lower growth reflecting slower activities in the non-residential, civil engineering and special trade subsectors. The near completion of large petrochemical projects resulted in lower growth for the civil engineering subsector. The special trade subsector's growth moderated due mainly to declining early works from transportation projects transitioning to mid-phase. In the non residential and residential subsectors, growth remained weak due to the oversupply of commercial properties and a high number of unsold residential properties.

(Source: Economic and Financial Developments in Malaysian Economy in the First Quarter of 2019 of the Bank Negara Malaysia Quarterly Bulletin)

6.6.3 Overview and Outlook of the Property Industry in Sarawak

Overview for 2018

The State's property market saw a slight rebound in 2018 as indicated by the growth of market activity. There were 23,662 transactions worth RM6.65 billion recorded in 2018, increased by 4.7% in volume and 7.4% in value as compared to 2017 (22,605 transactions with RM6.19 billion). Agriculture and residential subsectors were dominating the total market with 40.9% and 40.3% share respectively. The next leading subsector was development land with 9.4%, followed by commercial (7.7%) and industrial (1.6%) subsectors.

Outlook for 2019

The State's property market is expected to be positive, supported by various projects. Pan Borneo Highway Project is the biggest infrastructure development project undertaken by the Federal Government. This project is not just a catalyst for economic growth but a game-changer that would bring huge transformation to the State. With total distance of 1,073 kilometres, it is scheduled to be fully completed by 2025. As at November 2018, about 33% of the project is completed. This project will maintain as key infrastructure development in 2019.

(Source: Property Market Report 2018)

Industrial Sectors in Kuching

The industrial sector in Kuching was dull for 2018, with few completions, following the paucity of industrial projects launched in recent years. There is potential but lacks the hype to attract property players.

Lacks Vibrancy

The industrial sector in Kuching currency lacks vibrancy. There were no new industrial project launched in 2018, which only 26 units expected to be completed in 2018, namely Industri 87 at Jalan Batu Kitang. However, there is interest in the secondary market especially for units in established industrial areas.

Semi-detached units and warehouses remain popular with market prices ranges from RM600,000 to more than RM1 million, depending on the land size. Occupancies and take up rates were stable and may remain unchanged for 2019, whilst rentals from RM1.20 to RM1.50 per sq ft for semi-detached units.

In the long run, there is good potential with the increasing presence of SMEs which will demand space for workshops, showrooms and storage/warehousing.

Overall

Industrial markets in this region are quiet but stable. The only exception is Miri which has been on the downside recently. Nonetheless, Miri's industrial market may undergo some slight improvements in 2019 on the hope that the oil and gas industry recovers. No significant supply is expected across the markets covered. Investment on industrial properties in this region can be regarded as a safe option given the slowly rising rental and constant yield over the years.

(Extracted from Sarawak Property Bulletin 12/2018 2H2018)

6.6.3 Prospect of the Group

The Group is principally engaged in the manufacturing of concrete products for use in the construction and infrastructure sectors such as pre-stressed spun pile, reinforced concrete square pile, spun concrete pipe, reinforced concrete box culvert, pre-stressed beam, concrete roofing tiles and prefabricated concrete elements or industrialised building system components such as hollowcore slab, wall panel, column and beam.

Over the years, the SCIB Group had benefited from the various infrastructure projects in the State of Sarawak and the SCIB Group foresees that it will continue to benefit from infrastructure developments such as the Pan Borneo Highway and coastal road projects as the SCIB Group is one of the major suppliers of construction materials in the State of Sarawak. The Proposed Acquisition will allow SCIBCM to have full control of the Property.

This will augur well for SCIBCM when planning for additional production lines and/or venturing into a new production of related products, subject to the availability of factory space and the approval of the relevant authorities.

Based on the outlook of the Malaysian and Sarawak economy set out in Sections 6.6.1, 6.6.2 and 6.6.3 of this IAL, we noted that the Malaysian economy grew by 4.5% in the first quarter of 2019 mainly driven by the expansion in domestic demand. Private sector spending is expected to remain the key driver of growth. During the quarter, growth in the manufacturing sector moderated, mainly driven by the slowdown in the electronics and electrical (E&E) and primary-related clusters. The construction sector registered lower growth reflecting slower activities in the non-residential, civil engineering and special trade subsectors. The near completion of large petrochemical projects resulted in lower growth for the civil engineering subsector. The Sarawak's property market is expected to be sustainable with Pan Borneo Highway project as the biggest infrastructure development project in Sarawak. Riding on the sustainable construction and infrastructure projects in Sarawak, we expect the prospects of the Group for the next twelve (12) months to be positive.

Nonetheless, we wish to highlight that the future plans and strategies to be undertaken by the Board are subject to uncertainties which are not within the Board's control such as changes in Government policies, changes in interest rates, social and political position, delay and cancellation of the construction and infrastructure projects, labour and material supply shortages, fluctuation in the prices of raw materials, cost of labour charges, adverse changes in property tax assessments and changes in the global or economic conditions. The occurrence of any of such events may materially impact the Group's operations and affect the Group's ability to implement the plans within the intended timeframe or such plans may not achieve the expected results.

7. CONCLUSION AND RECOMMENDATION

In arriving at our recommendation, we have assessed and evaluated the Proposed Acquisition after taking into consideration the various factors discussed in **Section 6 of this IAL**.

We summarise below our evaluations of the Proposed Acquisition:

Rationale for the Proposed Acquisition	Overall, given the expected benefits to be realised from the Proposed Acquisition as discussed above, we are of the view that the rationale for the Proposed Acquisition is reasonable.
Evaluation of the Purchase Consideration for the Proposed Acquisition	The basis upon which the Purchase Consideration of RM8.236 million was arrived at after considering a substantial discount of RM6.764 million (approximately 45%) to the market value of the Property as ascribed by the Valuer of RM15,000,000, we are of the view that the Purchase Consideration for the Proposed Acquisition is reasonable.
Salient Terms of the SPA	We are of view that the overall terms of the Proposed Acquisition are not prejudicial or detrimental to the non-interested Shareholders.
Financial Effects of the Proposed Acquisition	The Proposed Acquisition is expected to have minimal financial impact to the Group. We noted that the Proposed Acquisition will result in cost saving to the SCIB Group although the gearing of the Group is expected to increase.
Risk Factors of the Proposed Acquisition	We noted that although measures may be taken by the Board in an attempt to limit the risks mentioned above, no assurance can be given that one or a combination of such risk factors will not crystallise and give rise to adverse impact on the financial performance/ position or prospects of the SCIB Group.
Outlook And Prospects	In view of the sustainable construction and infrastructure projects in the Sarawak State, we expect the prospects of the Group for the next twelve (12) months to be positive.

After taking into consideration the abovementioned factors and on an overall basis, we are of the opinion that the Proposed Acquisition is **FAIR AND REASONABLE** and are not detrimental to the interests of the non-interested Shareholders.

Accordingly, we recommend that the non-interested Shareholders **VOTE IN FAVOUR** of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

Yours faithfully,
For and on behalf of
KENANGA INVESTMENT BANK BERHAD

DATUK CHAY WAI LEONG
Group Managing Director

DATUK ROSLAN HJ TIK
Executive Director
Head of Group Investment Banking & Islamic Banking

APPENDIX I - FURTHER INFORMATION

1. RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Directors of the Company and they collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that, after making all reasonable enquiries to the best of their knowledge and belief, there are no other facts, the omission of which would make any information or statement in this Circular misleading.

2. CONSENT AND DECLARATION OF CONFLICT OF INTEREST

Kenanga IB and VPC, being the Independent Adviser and the Independent Valuer respectively for the Proposed Acquisition, have given and have not subsequently withdrawn its written consent to the inclusion of its name and all references thereto in the form and context in which it appears in this Circular.

Kenanga IB and VPC confirm that it is not aware of any circumstances that exist or are likely to exist which would give rise to a possible conflict of interest situation in relation to its role as Independent Adviser and Independent Valuer respectively for the Proposed Acquisition.

3. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

Save as disclosed below, as at the LPD, the Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board is not aware of any proceeding, pending or threatened, against the Group or of any facts likely to give rise to any proceeding which may materially affect the business or financial position of the Group:

- (i) There is an ongoing unresolved dispute between SCIB and Asgari Bin Mohd Fuad Stephens, Brian Francis Ticcioni and Gaya Belian Sdn Bhd (collectively referred to as the "**Vendors**") arising from the Share Sale Agreement dated 28 December 2016 entered into between SCIB and the Vendors ("**SSA**") in relation to the disposal of the entire equity shareholdings in Carlton Gardens Sdn Bhd ("**CGSB**") by the Vendors to SCIB. In the SSA, the Vendors have made representations concerning CGSB as to the profitability of contract and plant capacity of CGSB in relation to several contracts entered into by the Vendors separately with CGSB, such representations of which had all turned out to be false and did not reflect the correct state of affairs of CGSB and its related activities. SCIB had relied upon the representations made by the Vendors in entering into the SSA for the acquisition of the entire equity shareholdings in CGSB from the Vendors.

Arising from the dispute, SCIB seeks to claim against the Vendors for a full refund of the purchase consideration of RM9,500,000 consisting of a cash sum of RM5,266,000 paid to the Vendors, as well as a re-transfer of the remaining undisposed 7,121,000 ordinary shares in SCIB ("**Consideration Shares**") which were allotted and issued to the Vendors as part of the purchase consideration, for the acquisition of the entire equity shareholdings in CGSB under the SSA and also damages and losses incurred.

In accordance with the SSA, SCIB had on 25 May 2018 issued a notice of dispute to the Vendors, to refer the dispute to a mutually appointed arbitrator but there has been no response received from the Vendors agreeing to such appointment.

In order to maintain the status quo and preserve the Consideration Shares, SCIB had applied for an injunction from the Kota Kinabalu High Court vide Originating Summons No. BKI-24NCC(ARB)-2/7-2018 restraining the Vendors jointly and severally from selling, transferring or otherwise dealing with the Consideration Shares as part of the purchase consideration under the SSA. The court had on 28 November 2018, granted an inter parte injunction against the Vendors. The Vendors have on 21 December 2018, filed an appeal to the Court of Appeal against the injunction granted. As at the LPD, no date has been fixed for the hearing of the appeal.

SCIB and the Vendors have since agreed to refer the dispute for mediation, and at the hearing of the mediation on 29 January 2019, it was agreed that a further meeting be held at a date to be fixed to facilitate a better understanding of the basis and reasoning of the matters arising under the dispute to enable the parties to reach an amicable settlement. As at the LPD, no date has been fixed for a further meeting.

In the interim, there are several claims under section 5 of the Construction Industry Payment & Adjudication Act 2012 ("**CIPAA 2012**") made by and against CGSB. The Board of Directors of CGSB, having considered the affairs of CGSB and taking into account the legal advice by its solicitors, has determined that CGSB cannot by reasons of its liabilities, continue its business. Consequently, on 11 January 2019, an interim liquidator was appointed under section 440 of the Act thereby marking the commencement of a voluntary winding up of CGSB. The appointment of a liquidator was then resolved at the meeting of the creditors of CGSB on 31 January 2019 and a committee of inspection was set up to administer the liquidation process of CGSB. With the commencement of the voluntary winding up, no further legal actions or proceedings can be brought against CGSB except with the leave of court and upon such terms as the court may impose. As at the LPD, the appointed liquidator is still in the midst of finalising the verification of the proofs of debts filed to determine the liabilities payable by CGSB.

- (ii) SCIBCM had issued letters of demand against Zecon Construction (Sarawak) Sdn Bhd, Zecon Dredging Sdn Bhd, Zecon Engineering & Construction Sdn Bhd and Zecon Berhad (collectively the "**Zecon Group**") on 4 November 2015 and 18 January 2016 to demand for the payment of the principal sum of RM5,081,369.60 together with the overdue interest of RM586,967.55 as at 31 December 2015 for concrete products sold and delivered by SCIBCM to the Zecon Group.

Pursuant to the said letters of demand, the Zecon Group had paid a sum of RM3,500,000 to SCIBCM on 23 November 2016. To reduce the outstanding debt of RM2,288,448.46 as at 31 December 2018, Zecon Land Sdn Bhd, a wholly owned subsidiary of Zecon Berhad, has agreed to sell one (1) unit of 4-storey shophouse described as Sublot 24 measuring approximately 459 square metres in Vista Tunku, Kuching at the consideration sum of RM1,300,000 (which represents a discount of around of 3% of the listed price) to SCIBCM in accordance with a Sale and Purchase Agreement dated 22 January 2019 entered into between Zecon Land Sdn Bhd and SCIBCM. The said consideration sum is considered settled by SCIBCM, to offset against the outstanding debt, thereby leaving a balance debt of RM988,448.46. Such balance debt comprises overdue interests accrued from the late payment of the principal sum up to the LPD and is to be settled in cash by the Zecon Group.

SCIBCM has written to the Zecon Group on 29 March 2019 to give them 14 days until 12 April 2019 to settle the said interest sum of RM988,448.46, failing which legal action shall be taken against the Zecon Group. There was no response from Zecon Group to settle the said interest sum. As at the LPD, SCIBCM is seeking legal advice on the appropriate legal action to be taken against the Zecon Group for the outstanding settlement of the said interest sum.

- (iii) SCIB Industrialised Building Sdn Bhd ("**SCIB IB**") has on 5 July 2016, commenced legal action at the Kuching High Court vide Suit No. KCH-22NCvC-41/7-2016 against Millennium Crest Sdn Bhd ("**MCSB**"), for inter alia, a declaration that SCIB IB had practically completed its scope of works for the construction and completion of a three (3)

storeys commercial complex on Lot 10816, Section 64, Jalan Wan Alwi, and claimed for the sum of RM2,786,695.70 as at 29 December 2014 together with interests and costs.

On 2 May 2017, a consent judgment was entered into between SCIB IB and MCSB, in which MCSB was ordered to pay to SCIB IB the sum of RM1,982,000 together with interest at the rate of 6% per annum calculated from the date of the consent judgment until the full settlement thereof, and that the counterclaim by MCSB be struck out.

However, MCSB had failed to comply with the consent judgment, and consequently, SCIB IB had on 1 November 2017, served a winding up notice on MCSB. In response, MCSB issued several post-dated cheques to SCIB IB to settle the judgment sum.

One of the post-dated cheques dated 25 April 2018 for the sum of RM300,000 could not be deposited following a request by MCSB, as MCSB needed to wait for funds from the proceeds of the sale of its plantation. Arising therefrom, SCIB IB has on 20 June 2018, issued a letter of demand against MCSB to claim for the outstanding sum.

MCSB had on 28 February 2019 fully settled the remaining outstanding debts due and owing to SCIB IB, amounting to the sum of RM965,510.

- (iv) SCIB IB had on 23 November 2017, commenced legal action at the Kuching High Court vide Suit No. KCH-22NCvC-52/11-2017 (HC4) against Lee Kim Jiung who acted as the guarantor for MCSB for the sum of RM1,982,000 together with interest and costs. Judgment in default of appearance has been entered against the said Lee Kim Jiung on 2 February 2018. In view that SCIB IB has received the settlement of the remaining outstanding debts of RM965,510 from MCSB as mentioned in the foregoing subparagraph (iii) of Section 3 of this Appendix I to this Circular, no execution proceedings will be taken by SCIB IB against the said Lee Kim Jiung.

4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

4.1 Material Commitments

Save as disclosed below, as at the LPD, the Board is not aware of any other material commitments incurred or known to be incurred by the Group which, upon becoming enforceable may have a material impact on the profits and/or NA of the Group:

	<u>RM'000</u>
Property, plant and equipment	
- Contracted but not provided for	370
- Authorised but not contracted for	10,777
Total capital expenditure commitments	<u>11,147</u>

4.2 Contingent Liabilities

Save as disclosed below, as at the LPD, the Board is not aware of any other contingent liabilities incurred or known to be incurred by the Group which, upon becoming enforceable may have a material impact on the profits and/or NA of the Group:

	<u>RM'000</u>
Unsecured: Corporate guarantee given to licensed banks for credit facilities granted to subsidiaries	25,858
Total contingent liabilities	<u>25,858</u>

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from Mondays to Fridays at the Company's registered office at Lot 1258, Jalan Utama, Pending Industrial Estate, 93450 Kuching, Sarawak from the date of this Circular up to and including the date of the forthcoming EGM:

- (i) Constitution of the Company and Memorandum and Articles of Association of SCIBCM;
- (ii) the SPA;
- (iii) the MOS;
- (iv) the Valuation Report and the Valuation Certificate;
- (v) the letter of consent and declaration of conflict of interest referred to in Section 2 of Appendix 1 of this Circular;
- (vi) the audited consolidated financial statements of the Company for the past two (2) FYE 31 December 2017 and FYE 31 December 2018 and unaudited consolidated financial statements for the quarter ended 31 March 2019; and
- (vii) the relevant cause papers in respect of material litigation referred to in Section 3 of Appendix 1 to this Circular.

VPC Alliance (Sarawak) Sdn. Bhd. (101995-X)

Property Consultants, Valuers & Estate Agents

(formerly known as Jordan Lee, Jaafar & Chew Sdn Bhd)

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Website : www.vpc.com.my

Your Ref : -
Our Ref : V/1163/18/EC/sl

24th April 2019

SARAWAK CONSOLIDATED INDUSTRIES BERHAD
Lot 1258, Jalan Utama
Pending Industrial Estate
93450 Kuching

Dear Sirs

VALUATION CERTIFICATE
LOT 830 BLOCK 7 MUARA TEBAS LAND DISTRICT

We refer to your instruction to carry out a formal valuation of the above property in relation to the proposed acquisition by your wholly owned subsidiary, SCIB Concrete Manufacturing Sdn Bhd for submission to Bursa Malaysia Securities Berhad.

We have prepared and provided this Valuation Certificate which outlines key factors that have been considered in arriving at our opinion of Market Value and reflects all information known by us and based on present market conditions for the inclusion in the circular to shareholders in conjunction with the proposed acquisition.

The valuation has been prepared in accordance with the requirements as set out in Asset Valuation Guidelines (revised on 19th January 2017) issued by Securities Commission Malaysia and the Malaysian Valuation Standards (Fifth Edition 2015) issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia.

The basis of this Valuation is the Market Value of the subject property as at the material date of valuation which is taken as at 12th December 2018, which is also the date of inspection.

"Market Value" is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

INTEREST TO BE VALUED

The legal interest of the subject property is held under Lot 830 Block 7 Muara Tebas Land District, containing two (2) units of industrial buildings thereon and appurtenances thereof situated at Demak Laut Industrial Park, Kuching with a land area of about 2.7930 hectares (6.90 acres), more or less with the leasehold term expiring on 17/8/2053.

VPC
MALAYSIA

CLUTTONS

Directors
Chew Kwong Cheong B Sc(Hons), MIS(M),
James Wong BA (Hons), MIS(M)
Tan Beng Sui ANSV, FISM
Kelvin Tan MIS(M), MRICS
Datuk Kenneth Yen FRICS, MIS(M)
Caroline Sebangkit B Sc, MRICS
Gary Wong MRICS, MIS(M), ARMIT (Meb)
Francis Loh FRICS
Tan Lee Kang B Sc, Land Admin
Zoinita Zainuddin B Sc Urban Land Adm

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Kuala Lumpur
Johor Bharu
Penang
Alor Setar
Petaling Jaya
Kota Kinabalu
Sandakan
Mentakab, East Coast

Affiliated Offices
Bangkok
Jakarta
Surabaya
Singapore
Tokyo
New Delhi
Phnom Penh
Ho Chi Minh City

IDENTIFICATION OF PROPERTY

The Property	Two (2) industrial buildings 1) a 2-storey office building cum spun piles factory, and 2) a 2-storey office cum concrete roofing tiles factory. There are also two (2) ancillary buildings 1) a raw material store, and 2) a genset/MSB room/pump room
Title	Lot 830 Block 7 Muara Tebas Land District
Registered Proprietor	Reignvest Corporation Sdn Bhd
Land Area	2.793 hectares (6.90 acres)
Term of Title	Expiring on 17/8/2053
Category/Classification of Land	Town Land/Mixed Zone Land
Locality	Sejingkat Industrial Park, Kuching

GENERAL DESCRIPTION

The subject property is located at Lot 830, Jalan Demak Laut 3, Demak Laut Industrial Park Phase I (formerly known as Sejingkat Industrial Park), Jalan Bako, 93050 Kuching. It is located about 22 km away from Kuching City Centre. The Bako Causeway is about 1.7 km to the south-east.

Properties in the immediate neighbourhood of the subject property are mainly industrial in nature with the presence of semi-detached and detached factories. There are also two (2) residential areas adjacent to Demak Laut Industrial Park to the south-east namely Taman Sepakat Jaya and Taman Dusun Bayu.

The Land

Lot 830 is basically rectangular in shape. It fronts onto Lorong Demak Laut 3 along its southern perimeter. Sungai Serai, a tributary of Sungai Santubong flows along the northern perimeter. The land is flat in terrain.

Buildings

Erected upon the land are two (2) industrial buildings - a 2-storey office building cum spun piles factory and a 2-storey office cum concrete roofing tiles factory. There are also two (2) ancillary buildings - a raw material store and a genset/MSB room/pump room.

NO	BUILDING	ACCOMMODATION	TYPE OF CONSTRUCTION/FINISHES	MAIN FLOOR AREA		REMARKS
				(sq. m.)	(sq. ft.)	
1)	2-storey Office Building cum Spun Piles Factory, MSB/genset room and Raw Material Store <u>Office</u> 2(7m x 10.5m) <u>Factory</u> 40m x 45m <u>MSB/Genset</u> 4.5m x 7.35m <u>Raw Material Store*</u> 11m x 14m	2-storey Office Building <u>Ground Floor</u> Office foyer, store & 2 wcs. <u>First Floor</u> Office space Spun Piles Factory Factory area Raw Material Store Storage area	Reinforced concrete structure, brickwalls, ceramic tiles flooring, acoustic panels ceiling for the office building, steel structure, open-sided and concrete floor for the factory and roof of metal sheets.	<u>2-storey Office</u> 147.0 <u>Factory</u> 1,800.0 <u>MSB/Genset Room</u> 33.08 <u>Raw Material Store</u> 154.0 <u>Subtotal</u> 2,134.1	<u>2-storey Office</u> 1,582.3 <u>Factory</u> 19,375.0 <u>MSB/Genset Room</u> 356.07 <u>Raw Material Store</u> 1,657.6 <u>Subtotal</u> 22,970.9	There is also a Batching Plant* behind the factory. <u>Ridge Height</u> 11.5 m <u>Eaves Height</u> 8.36 m Age of <u>Building</u> 13 years old <u>Condition</u> Fairly good
2)	2-storey Office Building cum Concrete Roofing Tiles Factory <u>Office</u> Ground Floor 9m x 9m 6.5m x 16m (-)1.7 x 6 <u>Subtotal</u> 174.8 m2 First Floor 7.3m x 9m 6.5m x 16m (-)5 x 0.8m <u>Subtotal</u> 165.7 m2 Aggregate : 340.5 m2 <u>Factory</u> 45m x 66m	2-storey Office Building <u>Ground Floor</u> Entrance lobby, office, wcs., 2 stores & laboratory <u>First Floor</u> Manager's room, office, conference room & pantry Concrete Roofing Tiles Factory Factory area	Reinforced concrete structure, brickwalls, ceramic tiles/cement screed flooring, concrete/acoustic panels ceiling for the office building, steel structure, partially open-sided, brickwalls/metal sheets cladding walls above and concrete floor for the factory and roof of metal sheets.	<u>2-storey Office</u> 340.5 <u>Factory</u> 2,970 <u>Subtotal</u> 3,310.5	<u>2-storey Office</u> 3,665.1 <u>Factory</u> 31,968.8 <u>Subtotal</u> 35,633.9	<u>Ridge Height</u> 13.44 m <u>Eaves Height</u> 7.76 m Age of <u>Building</u> 12 years old <u>Condition</u> Fairly good
3)	1-storey Genset/MSB/Pump Room 5m x 12m)	Genset, MSB & pump room	Reinforced concrete structure, brickwalls, concrete floor and ceiling and roof of metal sheets.	60	645.8	-
* Disregarded in valuation				Aggregate:	5,504.6	59,250.6

Approved Building Plans

The building plans for the existing two (2) industrial buildings were approved vide approved plans No. DBKU/157/2003 and DBKU/123/2005. The respective approval letters were dated 20th January 2004 and 8th January 2006.

The existing two (2) industrial buildings and structure have been approved in accordance with the two (2) Occupation Permits issued which represents the existing buildings and structure on site.

For the purpose of valuation, we have excluded the Batching Plant as it is categorized under Plant, Machinery and Equipment (PME) together with the Raw Material Store annexed to Spun Piles Factory as it is a temporary structure without any approval.

Occupation Permits (OP)

There are two (2) Occupation Permits being issued by Dewan Bandaraya Kuching Utara (DBKU) for the subject property.

Date of Occupation Permit	Details
26 th April 2005	Factory for the production of large PE-Pipes
29 th August 2006	Concrete Roofing Tiles Factory

During our inspection, we observed that the original approved usage of one (1) of the industrial building i.e. factory for the production of large PE-Pipes has been changed to the production of spun piles about two (2) years ago. However, there is no physical changes to the building.

Our client has undertaken to regularise the existing usage. Based on latest feedback from DBKU, they will liaise with Bomba and Jabatan Tanah dan Survei whether there are any objections on this matter before they can proceed further.

Sublease

The subject property is presently being subleased to SCIB Concrete Manufacturing Sdn Bhd for fifteen (15) years commencing from 1st day of June 2007 and expiring on 31st day of May 2022 at the monthly rental of RM60,000 vide a Memorandum of Sublease dated 25th May 2007.

METHOD OF VALUATION

We have applied the Cost Approach to determine the Market Value of the subject property which we consider to be the most appropriate method.

In the Cost Approach, the value of the land as an improved site is added to the replacement cost of the building and other improvements. The value of the site is determined by comparison with similar lands that were sold recently and those that are currently being offered for sale in the vicinity with appropriate adjustments made for location, size, improvements and other value factors.

The replacement cost of the building is derived from the estimated cost of reconstructing a new building of same kind and design based on current market prices for materials and labour, other related fees and charges and present construction techniques.

We have also used a second method of valuation, the Income Approach/Investment Method of Valuation as a rough guide. In the Investment Method, the annual rental income being received or expected to command over period of time relating to the lease of the premises is estimated.

The expenses or outgoings incidental to ownership of the property are then deducted to obtain the net annual rental value. This net annual income is then capitalised by an appropriate capitalisation rate or years purchase figure to adjust the income into the present capital value of the property.

The relevant capitalisation rate is chosen basing on the investment rate of return to be expected from the type of property concerned taking into consideration such factors as risk, capital appreciation, security of income, ease of sale and management of property.

MARKET VALUE

Cost Approach

On the cost of the buildings, we have made reference to JUBM & Arcadis Construction Cost Handbook Malaysia 2018 for Kuching as a guideline. We have adopted the rate for replacement cost new for the factories at RM119 and RM135 psf while the offices/MSB cum genset room is at RM158 and RM162 psf and the pump room at RM68 psf. For the buildings, we have adopted a straight line depreciation of 2% per annum. We have also adopted a rate for the replacement cost new of RM35.00 psf for the hardstanding area and fencing with a depreciation rate of 46% and 35%, respectively.

In arriving at the land value of the subject property, we listed below past transactions of industrial lands within Demak Laut Industrial Park which are as follows:-

No.	1	2	3
Title	Lot 2107 Blk 7 Muara Tebas LD	Lot 934 Blk 7 Muara Tebas LD	Lot 1538 Blk 8 Muara Tebas LD
Vendor	Cara-Usia Sdn Bhd	Leasing Sales & Marketing (E.M.) Sdn. Bhd.	Mid-East Electrical Co. Sdn Bhd
Purchaser	Southernhem Industries Sdn. Bhd.	Teck Lee Seng Coffee Products Sdn. Bhd.	Ngui Boo Song & others
Source of Information	Jabatan Penilaian dan Perkhidmatan Harta (JPPH) & Kuching Land Registry Office of Lands and Survey		
Status of Property - At time of Transaction - Current	Vacant Building under construction	Vacant Vacant	Open-sided shed Shed & Office Building
Land Size	6,087 m ² (1.50 acres)	1.360 hectares (3.36 acres)	7,000 m ² (1.73 acres)
Term of Title (expiring date)	08/02/2055	27/08/2055	04/06/2068
Transacted Date	08/04/2014	20/10/2014	15/9/2016
Transacted Price	RM1,385,000	RM3,600,000	RM2,350,000
Analysis of Land (per acre)	RM923,333	RM1,071,2429	RM1,213,872 (land only) [An open-sided shed assessed at RM250,000]
Adjustments	Adjusted for size, shape of land, tenure and time factor		
Adjusted RM per acre	RM1,264,966	RM1,253,571	RM1,256,357

From the above analysis, it is noted that all the comparables have been adjusted by taking into account of the land size, shape of land, tenure and time factor with values ranging from RM1,253,571 to RM1,264,966 per acre. No adjustment was made on the location in view of their proximity which are within the same industrial park. We have considered Comparable 3 as the most appropriate comparable in view of time factor. Hence, we have adopted the land value of RM1,256,357 per acre and rounded up the figure to **RM1,260,000 per acre**.

The valuation may be expressed as follows:-

Land	RM 8,694,000
Site Improvements	RM 700,000
Buildings	RM 5,531,801
	<u>RM14,925,801</u>
Say	<u>RM15,000,000</u>

Investment Method

The parameters adopted are as follows:-

	Item	Monthly Rental
a)	Comparables - Current Asking/Existing Rentals which are located within Demak Laut and Pending Industrial Parks.	RM0.60 to RM1.10 psf
b)	Subject Property	RM60,000 @ RM1.00 psf

The other parameters adopted are as follows:-

	Item	Rate	Remarks
a)	Outgoings of subject Property	7%	We have obtained from Client the total estimated outgoings for 2018. Considering the current outgoings based on the estimates given including our necessary adjustments and outgoings of similar properties within the vicinity, we have adopted a rate of 7% from the total annual rental in the calculation of outgoing to accommodate for other unexpected cost.
b)	Void	0%	We also noted that the factory is fully occupied and utilized. Thus, the void factor does not arise. There is no vacant/rent free period. The subject property has been occupied by SCIB Concrete Manufacturing Sdn Bhd since Year 2007 for a long tenancy period of 15 years.
c)	Capitalization Rate	3%	We are not able to obtain rental transactions of industrial properties to arrive at the estimation of the yield as they are limited. The estimation of the yield is based on our quoted current asking/existing rentals and our derived Market Values.

Property	Estimated Market Value	Monthly Asking/Existing Rentals	Net Yield
Comparable 1 Lot 1124 Section 66 Kuching Town Land District	RM9.7 million	RM27,000	2.7%
Comparable 2 Lot 1543 Block 8 Muara Tebas Land District	RM22 million	RM94,000	4.1%

We have adopted a 10% for outgoing in analysing the net yield for both comparable properties. We have also allocated a void factor of 10% for each comparable property.

The analysis of the above data shows that the net yields are ranged from 2.7% to 4.1%. We are of the opinion that the subject property has more advantages as it enjoys dual frontages i.e road and river and reasonably adaptable for other uses, therefore, the net yield of 3%.

Taking into consideration of the above, the Market Value derived by Investment Method of the subject property is RM14,387,843 say **RM14,400,000**.

Hence,

Valuation Approach/Method	Market Value
Cost	RM15,000,000
Investment	RM14,400,000

We have adopted the Cost Approach of Valuation as it is the preferred Method of Valuation. As for the Investment Method, it should only be used as a rough guide only by reason of the lack of evidence on the yield.

Taking all relevant factors into consideration, we assess the Market Value of *Lot 830 Block 7 Muara Tebas Land District*, in its existing use and condition, free from all legal encumbrances has a:-

MARKET VALUE OF

:- RM15,000,000

(Ringgit : Fifteen million only)

Yours faithfully

VPC ALLIANCE (SARAWAK) SDN BHD



CHEW KWONG CHEONG

B.Surv (Hons), MPEPS MRISM

Registered Valuer (V-141)



SARAWAK CONSOLIDATED INDUSTRIES BERHAD

(Company No. 25583-W)

(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting (“**EGM**”) of Sarawak Consolidated Industries Berhad (“**SCIB**” or the “**Company**”) will be held at the Board Room, Ground Floor, SCIB Building, Lot 1258, Jalan Utama, Pending Industrial Estate, 93450 Kuching, Sarawak on Friday, 28 June 2019 at 10.00 a.m., for the purpose of considering and, if thought fit, passing the following resolution with or without any modifications as shall be determined upon at such meeting:

ORDINARY RESOLUTION

PROPOSED ACQUISITION OF A PARCEL OF LAND TOGETHER WITH TWO (2) UNITS OF INDUSTRIAL BUILDINGS ERECTED THEREON SITUATED AT SEJINGKAT INDUSTRIAL PARK, KUCHING AND DESCRIBED AS LOT 830 BLOCK 7 MUARA TEBAS LAND DISTRICT BY SCIB CONCRETE MANUFACTURING SDN BHD (“SCIBCM”), A WHOLLY-OWNED SUBSIDIARY OF SARAWAK CONSOLIDATED INDUSTRIES BERHAD (“SCIB”) FROM REIGNVEST CORPORATION SDN BHD (“RCSB”) FOR A CASH CONSIDERATION OF RM8,236,000 (“PROPOSED ACQUISITION”)

“**THAT** subject to the fulfilment of the conditions precedent and the approvals of all relevant authorities and/or parties (where required) being obtained, approval be and is hereby given to SCIBCM, a wholly-owned subsidiary of SCIB to acquire a parcel of land together with two (2) units of industrial buildings erected thereon situated at Sejingkat Industrial Park, Kuching and described as Lot 830 Block 7 Muara Tebas Land District by SCIBCM from RCSB for a cash consideration of RM8,236,000 in accordance with the terms and conditions of the conditional Sale and Purchase Agreement dated 24 January 2019 entered into between SCIBCM and RCSB.

AND THAT the Directors of the Company be and are hereby empowered and authorised to do all such acts, deeds and things to execute, sign and deliver on behalf of the Company all such documents and enter into any arrangements, agreements and/or undertakings with any relevant authority(ies) and/or party(ies) as they may deem fit, necessary or expedient or appropriate in order to implement, finalise and/or give full effect to the Proposed Acquisition with full powers to assent to any terms, conditions, modifications, variations and/or amendments as may be required by the relevant authority(ies) and/or party(ies) or deemed necessary by the Directors in the best interest of the Company.”

By Order of the Board of Directors

Voon Jan Moi (MAICSA 7021367)

Company Secretary

Kuching, Sarawak

11 June 2019

Notes:

1. *A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy. A proxy appointed to attend, speak and vote at this meeting shall have the same rights as the member of the Company.*
2. *To be valid, the duly completed Form of Proxy must be deposited at the registered office of the Company at Lot 1258, Jalan Utama, Pending Industrial Estate, 93450 Kuching, Sarawak not less than 48 hours before the time set for holding the meeting or any adjournment thereof.*

3. *A member of the Company entitled to attend, speak and vote at this Extraordinary General Meeting (“EGM”) shall not be entitled to appoint more than two (2) proxies to attend, speak and vote at the same meeting. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportions of his holdings to be represented by each proxy.*
4. *If the appointor is a corporation, the Form of Proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised.*
5. *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (“**omnibus account**”), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. An exempt authorized nominee refers to an authorized nominee defined under the Securities Industry (Central Depositories) Act 1991 (“**SICDA**”) which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.*
6. *A depositor whose name appears in the Record of Depositors as at 21 June 2019 shall be regarded as a member of the Company entitled to attend this EGM or appoint a proxy to attend, speak and vote on his behalf.*

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SARAWAK CONSOLIDATED INDUSTRIES BERHAD

(Company No. 25583-W)
(Incorporated in Malaysia)

Number of shares held	
CDS Account No.	

FORM OF PROXY

*I/We _____ (NRIC No./Passport No./Company No.) _____
(full name)

of _____
(full address)

being a member/ members of **SARAWAK CONSOLIDATED INDUSTRIES BERHAD** hereby appoint

_____ (NRIC No./Passport No.) _____
(full name)

of _____
(full address)

or failing *him/her, _____ (NRIC No./Passport No.) _____
(full name)

of _____

or failing *him/ her, the Chairman of the meeting as *my/our proxy, to vote for *me/us and on *my/our behalf at the Extraordinary General Meeting of the Company to be held at the Board Room, Ground Floor, SCIB Building, Lot 1258, Jalan Utama, Pending Industrial Estate, 93450 Kuching, Sarawak on Friday, 28 June 2019 at 10.00 a.m., for/against the resolution to be proposed thereat.

My/our proxy is to vote on the Resolutions in the manner as indicated with an "X" in the appropriate spaces. If no specific direction as to voting is given, the proxy will vote or abstain from voting at *his/ her discretion.

	RESOLUTION	FOR	AGAINST
1.	ORDINARY RESOLUTION – PROPOSED ACQUISITION		

**Strike out whichever is not applicable*

*The proportions of *my/our holdings to be presented by *my/our proxies are as follows:*

Proxy 1	%
Proxy 2	%
Total	100%

Dated this _____ day of _____ 2019

Signature of shareholder(s)/ Common Seal

Notes:

1. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy. A proxy appointed to attend, speak and vote at this meeting shall have the same rights as the member of the Company.
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6. A depositor whose name appears in the Record of Depositors as at 21 June 2019 shall be regarded as a member of the Company entitled to attend this EGM or appoint a proxy to attend, speak and vote on his behalf.



Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretary
SARAWAK CONSOLIDATED INDUSTRIES BERHAD
Lot 1258, Jalan Utama,
Pending Industrial Estate,
93450 Kuching, Sarawak,
Malaysia.

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