SINO HUA-AN INTERNATIONAL BERHAD ("SHIB" OR "COMPANY")

PROPOSED DISPOSAL OF THE ENTIRE EQUITY INTEREST IN PIPO OVERSEAS LIMITED, A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY

1. INTRODUCTION

On behalf of the Board of Directors of SHIB ("**Board**"), M&A Securities Sdn Bhd ("**M&A Securities**") wishes to announce that SHIB had on 11 November 2020 entered into a conditional share purchase agreement with Hua Fei Investment Limited ("**Purchaser**") for the proposed disposal of 50,000 ordinary shares in PIPO Overseas Limited ("**PIPO**" or "**Disposal Subsidiary**") (a wholly-owned subsidiary of the Company) ("**Sale Shares**") for a total cash consideration of Chinese Renminbi ("**RMB**") 88,000,000 (equivalent to approximately RM54,947,200) ("**Disposal Consideration**") ("**Disposal SPA**") ("**Proposed Disposal**").

Unless stated otherwise, the exchange rates of RMB1.000 : RM0.6244 being the prevailing exchange rates as at 5 November 2020, being the latest practicable date prior to this announcement ("**LPD**"), as published by Bank Negara Malaysia, have been applied in this announcement.

Further details of the Proposed Disposal are set out in the ensuing sections.

2. DETAILS OF THE PROPOSED DISPOSAL

SHIB and its subsidiaries ("**SHIB Group**" or "**Group**") are engaged in the following businesses:

(a) manufacturing and sales of metallurgical coke and other related by-products ("**Coke Business**");

(b) technology solutions business (comprising the information and communications technology ("**ICT**") business and electrical and electronics ("**E&E**") business) ("**Technology Business**"); and

(c) food and beverage ("**F&B**") services business ("**F&B Business**").

The Proposed Disposal entails the sale by the Company of its entire direct equity interest in PIPO and in turn, its entire indirect equity interest in Linyi Yehua Coking Co. Ltd ("**Yehua**").

SHIB through PIPO and Yehua ("**Disposal Subsidiaries**" or "**PIPO Group**"), is principally engaged in the Coke Business. The Proposed Disposal entails the disposal of SHIB Group of its subsidiaries which are involved in the Coke Business.

Upon completion of the Proposed Disposal, SHIB Group will have remaining of its business in the Technology Business and F&B Business ("**Remaining Businesses**").

Please refer to **Appendix I** of this Announcement for the salient terms of the Disposal SPA.

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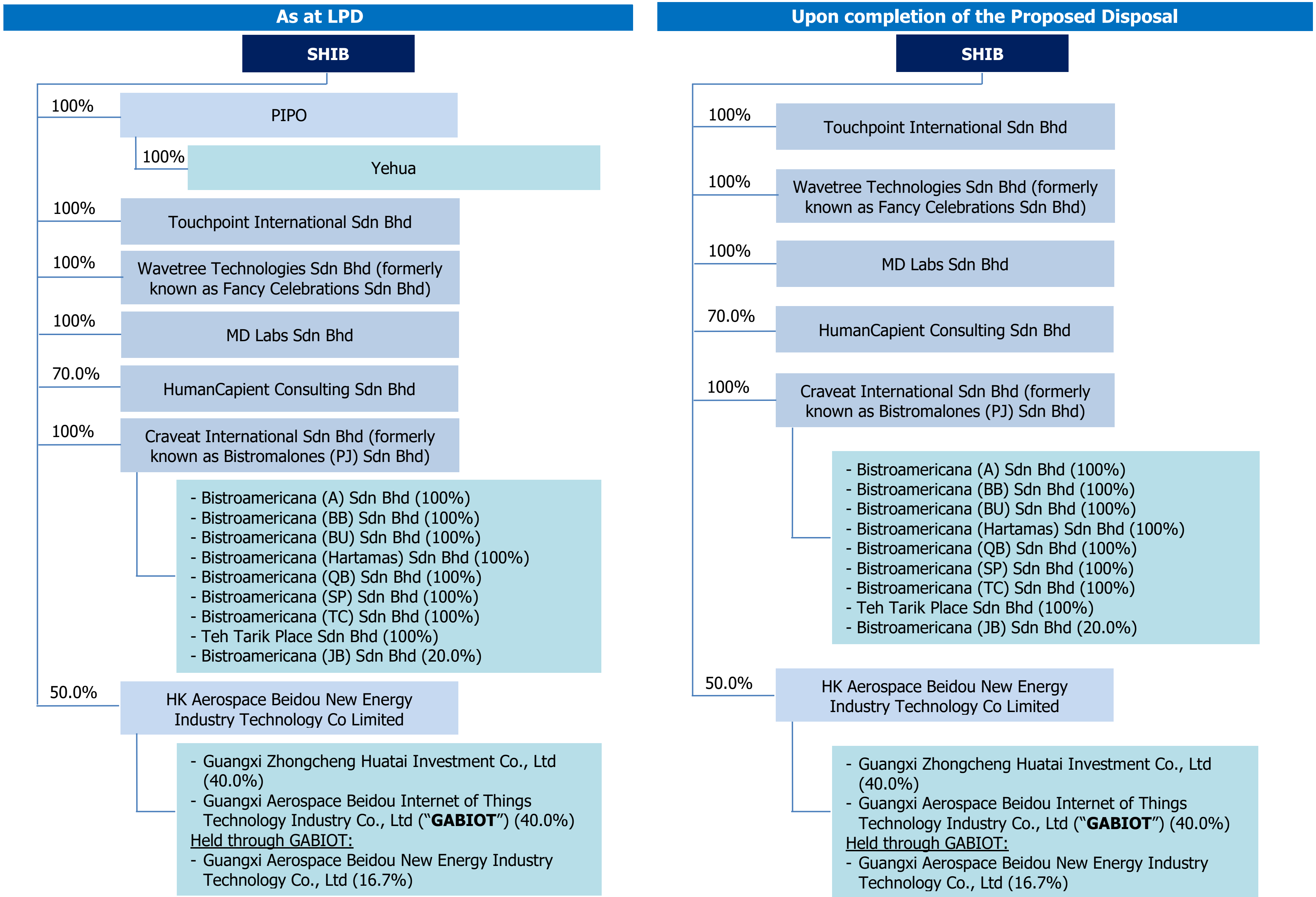
The summarised corporate structure of SHIB Group before and after the Proposed Disposal is as shown below:



2.1 Basis and justification of the Disposal Consideration

The Disposal Consideration was arrived at on a willing-buyer willing-seller basis between SHIB and the Purchaser after taking into consideration, amongst others, PIPO Group's audited consolidated losses and net assets ("**NA**") (both attributable to the owners of the Company) of approximately RM181.96 million and RM72.67 million respectively for financial year ending/ended ("**FYE**") 31 December 2019.

Based on the above, the Disposal Consideration represents a price-to-book ratio of 0.75 times. Based on PIPO audited group account for FYE 31 December 2019, PIPO group is loss making for the FYE 31 December 2019.

The Board has also appointed FHMH Corporate Advisory Sdn. Bhd. ("**FHCA**") on 20 October 2020 as the Independent Adviser for the Proposed Disposal. The preliminary views of FHCA were presented to the audit committee and the Board of SHIB prior to the signing of the Disposal SPA on 6 November 2020. The Independent Adviser had in arriving at their preliminary views, assessed the fairness of the Disposal Consideration based on the preliminary indicative equity value of SHIB's 100% equity interest in PIPO.

2.2 Mode of settlement for the Disposal Consideration

The Disposal Consideration is to be settled entirely in cash in the following manner:

(a) A sum of RMB880,000 (Chinese Renminbi Eight Hundred and Eighty Thousand Only), being 1% of the Disposal Consideration shall be paid by the Purchaser to SHIB upon execution of the Disposal SPA.

(b) A sum of RMB87,120,000 (Chinese Renminbi Eighty Seven Million One Hundred and Twenty Thousand Only) being 99% of the Disposal Consideration shall be paid by the Purchaser to SHIB within 3 months from the date specified in the confirmatory notice executed in accordance to the Disposal SPA by SHIB and the Purchaser subsequent to the last condition set out in the conditions precedent as detailed in the Disposal SPA ("**Conditions Precedent**") being fulfilled and/or waived ("**Unconditional Date**").

Each tranche of the Disposal Consideration may be satisfied either in RMB or any other currency acceptable to SHIB, as long as the total Disposal Consideration is equivalent to RMB88,000,000 (Chinese Renminbi Eighty Eight Million Only).

2.3 Liabilities to be assumed

Save as provided in the Disposal SPA, there are no guarantees and other liabilities, including contingent liabilities in the Disposal Subsidiaries to be assumed by SHIB pursuant to the Proposed Disposal.

2.4 Background information on the Purchaser

Hua Fei Investment Limited ("**HFIL**") (Company No.: 2037227) a company incorporated under the laws of British Virgin Islands ("**BVI**") in accordance with the BVI Business Companies Act with its registered office at OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

As at LPD, the share capital of HFIL is USD10,000 comprising 10,000 ordinary shares. The details of the shareholders and directors of HFIL as at LPD are as follow:-

Names	Nationality	Position	Shares Held (Direct) No. of Shares	%	Shares Held (Indirect) No. of Shares	%
Zhang Cun	Chinese	Director	10,000	100	-	-

2.5 Information on the Disposal Subsidiaries

(a) PIPO

PIPO was incorporated in the BVI as an international business company on 1 July 2003. The principal activity of PIPO is investment holding. PIPO commenced its operation on 15 December 2004.

As at the LPD, the issued share capital of PIPO is USD50,000 comprising 50,000 ordinary shares and it is a wholly-owned subsidiary of SHIB. The directors of PIPO are Liu Guodong, Zhang Tianran, Y.A.M Tunku Naquiyuddin Ibni Tuanku Ja'afar, Cedric Choo Sia Teik and Liu Xueqiang.

PIPO's wholly foreign owned enterprise is Yehua and it does not have any other subsidiaries or associate companies.

Please refer to **Appendix II** of this announcement for further details on PIPO.

<u>Held through PIPO</u>

(b) Yehua

Yehua is an enterprise established in the People's Republic of China ("**China**") on 15 December 2004.

The principal activities of Yehua are manufacturing and sale of metallurgical coke and other related by-products. Yehua commenced its operation on 15 December 2004 and its principal market for its products is China.

As at the LPD, the registered paid-up capital of Yehua is USD98,000,000 and it is a wholly foreign owned enterprise of PIPO.

The directors of Yehua are Liu Guo Dong, Zhen Xian Feng and Liu Xue Qiang. Yehua does not have any subsidiaries or associate companies.

Please refer to **Appendix II** of this announcement for further details on Yehua.

2.6 Original costs and dates of investment

The original date and cost of investment by SHIB in PIPO are as follows:-

Date of investment	Cost of investment
8 May 2006	RM800,000,000

2.7 Financial resources

The Board is satisfied, based on the documents presented to SHIB and a written confirmation from the Purchaser, that it has adequate financial resources to pay for the Disposal Consideration.

3. UTILISATION OF PROCEEDS

The Company intends to utilise the Disposal Consideration from the Proposed Disposal of RMB88.0 million (equivalent to approximately RM54.95 million) in the following manner:

	RM'000	**Expected time frame for utilisation of proceeds**
Partial settlement of purchase consideration to the vendors of Touchpoint International Sdn Bhd (1)	30,000	Within 12 months
Partial settlement of purchase consideration to Wavetree PLT (2)	23,747	Within 12 months
Estimated expenses for the Proposed Disposal ("**Corporate Exercise Expenses**")(3)	1,200	Within 1 month
	54,947	

Notes:

(1) *Pursuant to the share purchase agreement for the proposed acquisition of the entire equity interest in Touchpoint International Sdn Bhd, dated 2 December 2019. The acquisition was completed on 19 December 2019. As at LPD, the amount owing to the vendor is RM36.0 million.*

(2) *Pursuant to the sale and purchase agreement of the business and assets including intellectual property rights owned by Wavetree PLT, dated 2 December 2019. The acquisition was completed on 19 December 2019. As at LPD, the amount owing to the vendor is RM36.0 million.*

(3) *This includes payment of fees to the relevant authorities and advisory fees. If the actual Corporate Exercise Expenses are higher than the amount budgeted, the deficit will be funded out of working capital. Conversely, if the actual Corporate Exercise Expenses are lower than the amount budgeted, the excess will be utilised for working capital.*

The actual proceeds to be raised from the Proposed Disposal are dependent on the final Disposal Consideration. Any excess or shortfall of the actual proceeds raised will be adjusted against the utilisation for the working capital of the Company.

Pending full utilisation of the proceeds as aforementioned, SHIB will place these proceeds (including accrued interest, if any) or the balance thereof in interest-bearing deposit accounts with licensed financial institution(s) or in short-term money market instruments. The interest derived from the deposits with financial institutions or any gains arising from the short-term money market instruments will be used for the working capital requirements of SHIB.

4. RATIONALE FOR THE PROPOSED DISPOSAL

Over the past three (3) financial years/periods, the profit after tax ("**PAT**") of the Coke Business had decreased significantly from RM82.78 million in the FYE 31 December 2017 to a loss of RM181.96 million in the FYE 31 December 2019. The net profit margin of the Coke Business had been shrinking over the past three (3) financial years, from a high of 9.28% in the FYE 31 December 2017 to -23.26% in the FYE 31 December 2019.

The Coke Business suffered a loss of RM66.65 million for the financial period ended ("**FPE**") 30 June 2020 as compared to RM10.56 million loss in the preceding year corresponding period. On the other hand, the profit margin for the Coke Business was -34.89% in the FPE 30 June 2020 as compared to -2.23% in the preceding year corresponding period.

The coke industry has been declining over the years largely due to the subdued domestic demand stemming from the implementation of the Supply Side Structural Reforms ("**SSSR**") and environmental policies. These policies led to, and is expected to continue to lead to, the reduction in capacity and/or closure of steel facilities. As coke is a key material used in steel production, the reduction in number of steel facilities will affect demand for coke.

Moving forward, the coke industry is expected to face multiple challenges. Some of the key challenges include:

(a) lingering uncertainties in the economic environment such as the United States and China trade tensions, which may reduce demand for steel from the United States;

(b) economic and geopolitical risks emanating from the United Kingdom Brexit factor, Europe and the Middle East which have affected the economies in these countries. Thus, lower demand for coke and steel is expected from these countries;

(c) Coronavirus Diresease 2019 ("**COVID-19**") pandemic which led to a slowdown in most economies around the world. The slowdown is expected to lead to lower construction activities in other countries, thus resulting in lower demand for steel and coke.

In addition, the coke industry is also exposed to factors such as higher raw material costs and lower selling price for coke, which have further impacted SHIB Coke Business's financial performance.

Based on the increasing challenging as well as the deteriorating financial performance of the Coke Business, eroding profit margin and the competitive business environment, the Board is proposing to dispose its Coke Business. Upon completion of the Proposed Disposal, SHIB Group will have remaining of its business in the Remaining Businesses.

The Board believes that the Proposed Disposal will enable SHIB to realise its investments in the SHIB Group, thus enabling SHIB to use the proceeds from the Proposed Disposal for the purpose as stated under Section 3 of this announcement in relation to the Remaining Businesses. This will allow the Group to allocate more resources to expand its Remaining Business which is expected to enhance the earnings for SHIB Group. Additionally, the Proposed Disposal is expected to improve the Group's financial position, in particular, its cash position.

5. LISTING STATUS AND FUTURE PLAN OF SHIB

5.1 Listing status

Upon completion of the Proposed Disposal, Bursa Securities may classify SHIB as an "Affected Listed Issuer" under Paragraph 8.03A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**MMLR**") ("**Affected Listed Issuer**"), as the Company may be deemed to have triggered the following prescribed criteria:

(a) suspended or ceased all of its business or major business; or its entire or major operations as a result of the Proposed Disposal; or

(b) has an insignificant business or operations after the completion of the Proposed Disposal.

Notwithstanding the above, in accordance with Paragraph 8.03A(5) of the MMLR, SHIB need not comply with the obligations of an "Affected Listed Issuer" provided that:-

(a) SHIB is able to demonstrate to the satisfaction of Bursa Securities that its remaining business is viable, sustainable and has growth prospects, supported with appropriate justifications; and

(b) in the view of Bursa Securities, SHIB's level of operations warrant continued trading or listing on the Official List of Bursa Securities.

In the event SHIB is classified as an Affected Listed Issuer ("**Condition(s)**"), SHIB is required to regularise its Conditions. Failure to regularise the Conditions may result in suspension and/or subsequent delisting of the ordinary shares in SHIB ("**SHIB Share(s)"** or **"Shares**").

It is the intention of the Board to maintain the listing status of SHIB. As such, SHIB intends to apply to Bursa Securities for waiver for SHIB from being classified as an Affected Listed Issuer in view of its Remaining Businesses after completion of the Proposed Disposal ("**Waiver**").

Additionally, the completion of the Proposed Disposal is subject to, among others, the Conditions Precedent detailed in the Disposal SPA being fulfilled and/or waived. Pursuant to the Conditions Precedent, SHIB is required to obtain approval from Bursa Securities for a waiver from being classified as an Affected Listed Issuer.

5.2 Future plan

The Company's strategic plan is to focus on its Remaining Businesses. The successful execution of the Remaining Businesses may allow SHIB Group to enhance its future revenue and earnings.

SHIB Group will continuously seek viable ventures into the Remaining Businesses, which include, but are not limited to, strategic businesses/ investments, joint ventures, collaborative arrangements, and/ or mergers and acquisitions of suitable businesses/ investments in the respective industries, subject to applicable compliance/ rules required under the MMLR and other relevant acts or authorities applicable at the material times.

Accordingly, the management of SHIB Group may recruit additional personnel who are experienced in the Remaining Businesses to support and strengthen the operations of the Group's Remaining Businesses. Nevertheless, the Board will closely monitor the performance of its Remaining Businesses.

6. OVERVIEW, OUTLOOK AND PROSPECTS

6.1 Overview and prospects of the Malaysian economy

The Malaysian economy was confronted by concurrent supply and demand shocks arising from weak external demand conditions and strict containment measures in 2Q 2020. As a result, the economy registered its first contraction since the Global Financial Crisis (2Q 2020: -17.1%; 3Q 2009: -1.1%). On the supply side, this was reflected in negative growth across most sectors. From the expenditure side, domestic demand declined, while exports of goods and services registered a sharper contraction. On a quarter-on-quarter seasonally-adjusted basis, the economy declined by 16.5% (1Q 2020: -2.0%).

Weak growth was recorded across most economic sectors amid the imposition of the movement control order ("**MCO**"), followed by the Conditional MCO ("**CMCO**") and Recovery MCO ("**RMCO**"), during 2Q 2020.

The services sector contracted by 16.2% (1Q 2020:3.1%). The sector was affected by the implementation of a nationwide restrictive MCO, with only essential services such as food-related retail, utilities, banking, transportation as well as information and communication entities allowed to operate with very limited capacity. The subsequent transition to CMCO in May and RMCO in June provided some relief to businesses in the sector. The lockdown had substantially affected consumer spending and tourism activity, as shown by the significant declines in the wholesale and retail trade, as well as food and beverages and accommodation sub-sectors. The transport and storage sub-sector was impacted by a sudden stop in tourist arrivals due to travel restrictions imposed domestically as well as the international border closures. Growth in the finance and insurance sub-sector was weighed down by lower net interest income, and lower fee-based income amid subdued capital market activity. Meanwhile, growth in the information and communication sub-sector was relatively sustained by the continued high demand for data communication services especially during this period of remote working arrangements.

Domestic demand declined by 18.7% in 2Q 2020 (1Q2020: 3.7%), due mainly to weaker private sector expenditure. Spending by the private sector was impacted by lower income, movement restrictions and subdued consumer and business sentiments. While net exports continued to decline, the contribution of the external sector to the economy improved due mainly to the larger contraction in imports vis-à-vis the previous quarter.

Private consumption growth declined by 18.5% in 2Q2020 (1Q 2020: 6.7%). Household spending was particularly impacted by the strict movement restrictions in the early part of the quarter and income losses amid weak economic conditions. As movement restrictions were gradually relaxed towards the end of the quarter, retail and financing data indicated some improvement in spending, albeit remaining subdued. During this challenging period, stimulus measures such as the disbursement of Bantuan Prihatin Nasional cash transfers, EPF i-Lestari withdrawals and the implementation of the loan moratorium helped to cushion consumption spending. Public consumption continued to expand, albeit at a more moderate pace of 2.3% (1Q 2020: 5.0%). Growth was supported by continued increase in emoluments amid lower spending on supplies and services.

(Source: Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2020, Bank Negara Malaysia)

6.2 Overview and prospects of the China economy

The gross domestic product ("**GDP**") growth of China slowed to 6% in the third quarter, down from 6.3% in the first half of 2019 and 6.6% in 2018. Growth in gross capital formation is estimated to have slowed to 2.8%, weighed down by a combination of tighter domestic financing conditions and weaker investor confidence, amid persistent trade policy uncertainty.

Consumption growth—while slowing from the exceptionally high levels of 2018—has remained resilient, supported by robust growth in real disposable income. While trade flows have weakened, reflecting higher tariffs and softening external demand, falling export growth has been more than offset by a sharp contraction in imports. As a result, net exports have strengthened, contributing about 1.2 percentage points to growth in the first three quarters of 2019.

Fixed asset investment growth fell to a low of 5.2% year-on-year in November and remained unchanged in December. A rebound in commercial vehicle sales has helped ease the contraction in overall vehicles sales. Trade activity has continued to improve. In particular, imports grew by 0.3% year-on-year in November, marking the first year-on-year growth since April. However, export contraction deepened to 1.1% year-on-year led by falling shipments to the United States. Trade policy uncertainty has declined amid a notable de-escalation of trade tensions between China and the United States, but the impact of trade tensions on confidence still lingers.

Consumption growth softened from 9.8% in 2018 to a still robust 6.8% in the first three quarters of 2019. Its contribution to growth declined to 3.8 percentage points year-on-year in the first three quarters of 2019, down from 5.2 percentage points year-on-year during the same period last year. This partly reflected a normalisation from the exceptionally high spending on health care in 2018, partly in response to the relaxation of some price controls on essential medicines, and weaker automotive sales due to stricter emission standards and the withdrawal of electric vehicle subsidies. A rapidly rising household debt service burden has also weighed on consumer spending. Wage growth has moderated due to slower GDP growth and the apparent decline of jobs in the industrial and manufacturing sectors. In addition, policy uncertainty has been weighing on consumption expenditure growth, prompting households to save a growing share of their income.

(*Source: China Economic Update, World Bank, published in December 2019)*

The pandemic is profoundly affecting the region's economies, but the depth and duration of the shock are unusually uncertain. Growth in China is projected to decline to 2.3% in the baseline and 0.1% in the lower-case scenario in 2020, from 6.1% in 2019.

In February, the purchasing managers' index fell below the 50-point mark that separates monthly growth from contraction. The fall was sharper and wider than during the Great Recession, to 36 in manufacturing and 30 in non-manufacturing sectors; the latter had been relatively resilient during the great recession. Industrial production also registered negative growth for the first time in more than 30 years. Estimates based on high-frequency data indicate that China's growth has declined sharply in the first quarter of 2020. But coal consumption, which is a widely followed indicator of electricity generation and hence economic activity, is gradually increasing. It remains to be seen whether the government can switch on economic activity as abruptly as it was switched off. Most large industrial enterprises outside Hubei have resumed production, however, only 74% of their workers have reportedly returned to work, suggesting still less than full capacity utilization. It is conceivable that there is a coordination failure between interdependent firms that is impeding the resumption of production.

(Source: East Asia and Pacific Economic Update, World Bank, published in April 2020)

6.3 Overview and prospects of the Coke industry in China

Coke is a key raw material in manufacturing iron ore and steel. It is manufactured by purifying coking coal until it becomes carbon. In China, coke production has been declining from 479.3 million tonnes in 2013 to approximately 433.0 million tonnes in 2019, recording a negative compounded annual growth rate ("**CAGR**") of 1.7%.[i]

The decline in the coke industry in China has been largely due to the SSSR and environmental policies enacted by the Government of China. Amongst other objectives, the SSSR resulted in the reduction of excess industrial capacity, particularly in the steel industry. The SSSR forced heavy industries, including steel facilities, to reduce capacity reduction and/or completely cease production should they be unable to meet the parameters given on environmental protection, energy consumption, product quality, production standards, legality and safety. As coke is a key material used in the steel production, a reduction in number of steel facilities led affected demand for coke.

In an effort to address the pollution level in the country, the Government of China has also imposed environmental policies. In 2019, the Government of China released a directive to ensure steel facilities meet ultra-low emission standards (which means that emissions of particulate matter, sulphur dioxide and nitrogen oxide will have to be reduced to 10, 35, and 50 milligrams per cubic metre respectively, as opposed to the current standards of 50, 200 and 300 mg/m3) by 2025. Steel facilities that successfully meet these new standards will receive additional financial and tax support, rendering them more competitive than others. This is expected to result in closure of steel facilities that are less competitive. The closure of steel facilities will also lead to less demand for coke.

Concurrent to lower demand from the steel industry in China, the coke industry is also expected to face lower demand from international markets, arising from:

(a) lingering uncertainties in the economic environment such as the United States and China trade tensions, which may reduce demand for steel from the United States;

(b) economic and geopolitical risks emanating from the United Kingdom Brexit factor, Europe and the Middle East which have affected the economies in these countries. Thus, lower demand for coke and steel is expected from these countries;

(c) COVID-19 pandemic which led to a slowdown in most economies around the world. The slowdown is expected to lead to lower construction activities in other countries, thus resulting in lower demand for steel and coke.

In light of the above, the coke industry in China is thus expected to continue to decline.

Notes:
(i) Source: National Bureau Statistics of China

*(Source: Independent Market Research ("**IMR**") report by Providence Strategic Partners Sdn Bhd ("**Providence**") dated 5 November 2020)*

6.4 Overview and prospects of the ICT industry in Malaysia

ICT solutions are solutions which involve the use of technology to perform operational processes and tasks. These solutions can be applied across all sectors and industries, and for businesses of varying sizes. Among the benefits of ICT solutions are improved productivity, greater efficiency, the need for less manpower, as well as ability to collect and analyse data for better decision making.

Over the years, the ICT solutions industry has evolved to include more advanced technologies. Since the 1970s, ICT solutions have been introduced to the global market in the form of internet technology applications which can automate a specific operational and production process.

Today, the introduction of Internet of Things ("**IoT**") has enabled the fourth industrial revolution ("**Industry 4.0**"), whereby technology is used to facilitate the interconnectivity between objects such as mobile devices, machines, home appliances and motor vehicles. This enables the digitalisation and integration of value chains, product and service offerings and business models as well as improve communication with customers. As an illustration, smart thermostats can now control the temperature through turning on heaters and air conditioners when the room is unoccupied; environmental sensors can now control air quality and water content in plantations to increase farming productivity and reduce wastage; and wearable devices can now be used to track and trace vital signs and individuals in hospitals. IoT also enables smart cities.

The ICT solution market size in Malaysia is depicted by the sales of ICT hardware, software and services in the country. The industry grew from RM60.5 billion in 2017 to an estimated RM65.2 billion in 2019 at a CAGR of 3.8%.[i]

Moving forward, the growth of the ICT solutions market in Malaysia is expected to be driven by the following factors:

(a) Increased usage of internet will facilitate the growth in adoption of ICT solutions, including IoT

Over the years, the number of individuals browsing the internet has been growing. Malaysia's internet adoption, represented by broadband subscription, increased from 63.4 percentage points, from 68.3% in 2014 to reach 131.7% in 2019.[ii] Meanwhile, Malaysia's mobile internet adoption, represented by mobile broadband subscription, increased from 17.6 million subscriptions in 2014 to 40.4 million subscriptions in 2019, recording a CAGR of 18.1%.[ii]

As ICT and IoT solutions require strong and stable telecommunication networks to quickly and securely transmit data collected by smartphones, sensors and other technological tools, the growth internet adoption is expected to encourage the proliferation of ICT and IoT solutions.

(b) Various Government initiatives will support the growth of the ICT solutions industry

One of the strategic thrusts of the Eleventh Malaysia Plan is the re-engineering of economic growth for greater prosperity, of which there are 4 focus areas namely the services, manufacturing, agriculture and construction sectors. In the agriculture focus area, among the identified strategies to modernise agriculture in the country include improving productivity and income of farmers, fishermen and smallholders. The adoption of ICT and farming technology will support farm and plantation management as well as allow for precision farming, monitoring and surveillance, dissemination of real-time information on market demand and prices, early detection and warning alerts on disease outbreaks and provide interactive platforms for technical advice. These technologies are expected to improve production efficiency and reduce dependency on labour.

In 2015, MESTECC launched the National IoT Strategic Roadmap, which is a guideline to IoT implementation in the country. The national applied research and development centre, MIMOS Berhad, is tasked with creating a national IoT industry ecosystem that will enable the proliferation of use and industrialisation of IoT as a new source of economic growth. MIMOS Berhad is responsible for strengthening technopreneur capabilities and catalysing an IoT development hub, as well as facilitating research and development of IoT applications and services.

(c) Potential growth from the proposed development of smart cities

Apart from Kuala Lumpur and Cyberjaya, there are several other cities in Malaysia earmarked to be developed as a smart city. This includes Iskandar Malaysia in Johor, Georgetown in Penang and Mukah in Sarawak. Iskandar Regional Development Authority intends to develop Iskandar Malaysia as a smart city by 2025.

(d) Growing number of enterprises indicates an increase in demand from new enterprises

Malaysia has seen a steady growth of newly registered enterprises (as represented by newly registered companies). According to latest available data from the CCM, new enterprises in Malaysia grew from 882,846 in 2009 to 1.3 million in 2019, at a CAGR of 3.9%.[(iii)] This steady growth trend is expected to continue in light of the nation's developing economy over the long-term. The growing number of enterprises registered each year provides opportunities for greater demand for ICT solutions in Malaysia.

Providence anticipates the ICT solutions industry in Malaysia to grow from RM67.5 billion in 2020 to RM72.3 billion in 2022.[(iv)] Meanwhile, the global IoT market is anticipated to reach USD772.5 billion in 2018 and forecast to increase to USD1.1 trillion in 2021, growing at a CAGR of 12.5% over the period. [(v)] In Malaysia, the economic potential of IoT is forecast to be RM9.5 billion GNI creation by 2020 and is expected the reach RM42.5 billion in 2025.[(v)]

Notes:

(i) Source: Providence research
(ii) Source: Malaysian Communications and Multimedia Commissions
(iii) Source: Companies Commission of Malaysia
(iv) Source: Providence
(v) Source: Providence research

(Source: IMR report by Providence dated 5 November 2020)

6.5 Overview and prospects of the E&E industry in China

SHIB is involved in the E&E industry in China through its subsidiary, HK Aerospace Beidou New Energy Industry Technology Co Limited which holds of the intellectual property and global marketing rights of a ultra-capacitor technology and manufacturing operations in China as well as undertake further research and development in international collaborations related to the ultra-capacitor technology.

The total E&E industry size in China, depicted by industry revenue of E&E components, grew from RMB1.4 trillion (RM717.8 billion) in 2013 to an estimated RMB1.9 trillion (RM1.1 trillion) in 2019, registering a CAGR of 5.2%.[(i)] Moving forward, Providence forecasts the E&E industry in China to reach RMB2.1 trillion (RM1.3 trillion) by 2022, registering a CAGR of 2.5% between 2020 and 2022.[(ii)]

The growth of the E&E industry in China is expected to be driven by the following factors:

(a) Growing sales of end-user products in China, particularly for electric vehicles and energy storage system

Electronic components such as batteries are key components in electric vehicles. The number of electric vehicles sold in China increased from 17,600 units in 2013 to 1.2 million units in 2019, registering a CAGR of 102.1%.[(iii)] This has been largely driven by the Government of China's policies to promote the use of electric vehicles in the country. The Government of China aims to have 1 out of 5 cars sold in China to run on alternative fuel by 2025. Several key policies were thus outlined to support the development of electric vehicle industry in the country, including:

- Dual-Credit Scheme for automotive industry to encourage the manufacture of electric vehicles.
- "China 13th Five-Year Plan" that outlined a development plan for the energy sector for 2016-2020. The primary objective of this plan is to build a clean, safe and efficient energy system and place emphasis on promoting electric vehicles. Energy density of lithium cathode material, recycling of used battery and battery recharging network infrastructure form part of the important agendas in the development plan.
- "Energy-Saving and New Energy Automotive Industry Development Plan 2012 - 2020" with a target of 2 million electric vehicles produced by 2020. In order to promote the production of electric vehicles, subsidies will be granted for automotive manufacturer that meet specific requirements.

With the wide spread adoption in green energy resources such as wind and solar power, energy storage systems are becoming important. In addition, energy storage systems are commonly used in the industrial sector in China as a means to reduce electricity costs. Energy storage systems can be charged during low peak hours when electricity costs are significantly lower to be used during high peak hours when electricity costs are higher. The energy storage system market in China, as measured in terms of capacity of energy storage systems in deployment, has been growing healthily having registered a CAGR of 38.0% between 2014 and 2019 from 0.1 gigawatts in 2014 to 0.5 gigawatts in 2019.[iii] The growing energy storage system industry in China is expected to drive demand for batteries and related electronic components.

(b) Growing sales of end-user products globally, particularly for electric vehicles and energy storage systems

The global energy storage system market is also a major market for the E&E industry in China. The growth of the global energy storage system market, as indicated by capacity of annual energy storage systems in deployment, grew at CAGR of 57.9% from 0.2 gigawatts in 2013 to 3.1 gigawatts in 2019.[iii] This growth is supported by better renewable energy production facilities, supportive government policies and incentives, as well as consumer demand for products which require energy storage systems, thus also driving the growth of the E&E industry.

Globally, the number of electric cars sold increased from 0.2 million in 2013 to 4.8 million in 2019, recording a CAGR of 69.8%.[iii] The uptake of electric vehicles looks promising and is attributed to supportive government policies, purchase subsidies, technological advances and environmental awareness. The electric vehicle market is expanding to the electrification of commercial vehicles such as trucks and buses, as well as personal transport modes such scooters and bicycles. As customers anticipate further technological improvements, improved performance and newer models, it is expected that the electric vehicle market will continue growing. This will contribute to the demand for electronic components, being the key components in electric vehicles, benefiting the E&E market in China.

(c) Rapid technological advancements will drive the demand for E&E products

Over the years, technological advancements have led to a greater number of E&E products being invented. These technological advancements vary from product to product, but are generally in terms of size, design, features and performance. As the spending power of the population in China grows, consumers in China would place more importance on keeping up with the latest technology advancements and will thus be more receptive to newer E&E products. The GDP per capita in China increased by 8.7%, from approximately RMB59.3 trillion (RM30.4 trillion) in 2013 to RMB90.0 trillion (RM54.9 trillion) in 2018.[(i)]

Notes:

(i) Source: National Bureau Statistics of China
(ii) Source: Providence
(iii) Source: Providence research

(Source: IMR report by Providence dated 5 November 2020)

6.6 Overview and prospects of the F&B industry in Malaysia

F&B services refer to the provision of services related to the preparation and serving of food and beverages to customers. There are various F&B segments at different price levels, offering a variety of dining options to cater to the diverse demographic of Malaysia. Food culture in Malaysia is diverse, owing to the different ethnic groups and religions in the country.

Full-service restaurants refer to conventional sit-down eateries where patrons are seated and attended to by waiters, with food served directly to their table. Full-service restaurants can be categorised into:

- Casual dining – affordably priced food in a casual atmosphere, catering to the mass market. This segment is popular among families and is suitable for everyday dining. Examples of local casual dining restaurant chains are "Dave's Deli", "GO Noodle House", "Morganfield's", "Sushi King" and "Teh Tarik Place", while international chains include "Chili's Grill & Bar", "TGI Fridays" and "Tony Roma's"; and

- Non-casual dining – more upscale restaurants. Examples of local non-casual dining restaurant chains are "Grand Imperial", "Oriental", "Oversea" and "Tai Thong", while international chains include "Din Tai Fung".

The overall F&B segment market size in Malaysia, depicted by food service value, grew from RM31.3 billion in 2013 to an estimated RM41.1 billion in 2019, registering a CAGR of 4.6%.[(i)]

As a subset of the overall F&B segment, casual dining accounts for 31.9% of the total market size in 2019.[(i)] The casual dining segment grew at a CAGR of 4.3% during the period of 2013 to 2019, from RM10.2 billion to an estimated RM13.1 billion.[(i)] Moving forward, Providence forecasts the total F&B market to reach RM45.5 billion by 2022, registering a CAGR of 3.4% between 2020 and 2022.[(ii)]

The growth of the F&B service market in Malaysia has been, and is expected to continue to be driven by the following factors:

(a) Rising income levels leading to greater spending power for dining out

Malaysia is a developing country with positive economic growth, with its GNI per capita growing from RM36,710 in 2015 to RM45,131 in 2019.[(iii)] As the living standards and disposable income of the population continues to improve, especially for urban households, it is expected to continue contributing to the growth of the F&B market in Malaysia. Specifically, annual expenditure in restaurants rose from RM31.3 billion in 2013 to an estimated RM41.1 billion in 2019, registering a CAGR of 4.6%.[(iii)]

As Malaysia continues to experience a rise in urbanisation, this has led to a change in lifestyle of the population as more women join the workforce and people work longer hours. Consequently, this has increased demand for convenience, which has contributed to the increase in the number of F&B outlets as well as delivery and takeaway services.

Compared to rural dwellers, urban residents have greater spending power and lead busier lifestyles, leading to the demand for dining out. As a result of this, the F&B segment in Malaysia is expected to continue experiencing growth in demand from consumers who do not have the time to prepare their own meals.

(b) Evolving F&B trends in Malaysia are expected to contribute to the growth of the F&B market

Malaysians have diverse tastes and preferences with regards to food. The proliferation of different types of restaurants offering different dining options and a variety of cuisines has been instrumental in the growth of the F&B industry in Malaysia. In addition, Malaysia offers a diverse range of cuisines to cater to the tastes of the population.
The F&B market has also been affected by the use of technology, such as placing orders online, reading and leaving reviews, as well as the use of social media as a marketing tool. As with other sectors of the retail industry, going cashless is also becoming more popular through mobile applications such as Grabpay and Favepay.

The high adaptability and acceptance of Malaysian society towards food has cultivated the preference of dining out. This culture contributes to the continuous growth of the F&B market in Malaysia, including the casual dining segment.

(c) Growing number of shopping complexes increases convenience and dining options for consumers

There is a culture of spending time in shopping complexes among Malaysians. A shopping complex is a one-stop centre offering a variety of activities such as retail, dining, entertainment and recreational sports. In addition, events such as property fairs, education fairs and car promotion events are often held in shopping complexes. Malaysians tend to view shopping complexes as a clean and safe environment which is suitable for family outings and to meet up with friends, in addition to running errands.

The number of shopping complexes in Malaysia continues to demonstrate growth, with total supply of shopping complex space in the country growing from 14.1 million square metres in 2013 to 19.0 million square metres in 2019, registering a CAGR of 5.1% during this period.[iv] There is a total of 1,036 shopping complexes in Malaysia as at 2019, with 266 of them being in the Klang Valley.[iv]

Notes:

(i) Source: Providence research
(ii) Source: Providence
(iii) Source: Department of Statistics Malaysia
(iv) Source: National Property Information Centre

(Source: IMR report by Providence dated 5 November 2020)

6.7 Overview and prospects of the F&B industry in China

The total F&B service market size in China, depicted by food service value, grew from RMB3.2 trillion (RM1.6 trillion) in 2013 to an estimated RMB4.7 trillion (RM2.9 trillion) in 2019, registering a CAGR of 6.6%.[(i)] Moving forward, Providence forecasts the F&B service market in China to reach RMB5.0 trillion (RM3.1 trillion) by 2022, registering a CAGR of 2.1% between 2020 and 2022.[(ii)]

The F&B service market in China has been, and will continue to be driven by the country's rising income levels. The GDP per capita in China increased by 8.7%, from approximately RMB59.3 trillion (RM30.4 trillion) in 2013 to RMB90.0 trillion (RM54.9 trillion) in 2018.[(iii)] The GDP per capita indicates the disposable income of the population. The growth of the disposable income of the population will continue to support the population's growing demand for dining out in restaurants, thus benefitting the F&B service market in China.

In addition, dining at F&B service outlets is a common lifestyle habit amongst both single adults and families in China. Besides being able to provide food and drink, these establishments are also a venue for them to socialise and entertain. It is expected that the trend of dining out in China will continue after the outbreak of COVID-19 has been kept under control in the country.

There is an increasing number of applications in Malaysia which enable delivery services. Delivery service applications such as "Ele.me" and "Meituan" enable F&B service outlets to not only serve the customers patronising their outlet, but also customers ordering through these applications. These delivery service applications have also been essential in allowing F&B service outlets to operate when the Government of China implemented its national lockdown to curb the spreading of the COVID-19 pandemic in the country. It is anticipated that these applications will continue supporting the growth of the F&B service outlets even after the COVID-19 is kept under control.

Notes:

(i) Source: Providence research
(ii) Source: Providence
(iii) Source: National Bureau Statistics of China

(Source: IMR report by Providence dated 5 November 2020)

6.8 Prospects of SHIB Group

SHIB's Coke Business had, over the years, undergone very difficult times and no clear visibility of a sustainable recovery appears to be in sight. This is owing to the fact that the coke industry is continually being affected by hostile industry environment and unfavourable governmental policies. The viability of the coke businesses in particular that of independent coke manufacturers appears to be marred with uncertainties stemming from the structural reforms and environmental policies by the Government of China which resulted in the reduction of capacity and/or closure of steel industry, a key end-user industry for coke. The prospects of the coke industry in China is expected to be challenging moving forward as demand for coke from international markets is expected to be adversely affected by the United States and China trade tensions, economic and geopolitical risks and the COVID-19 pandemic, as illustrated in Section 6.3 of this Announcement. As a result of that, SHIB is contemplating a potential disposal of the Coke Business as soon as practicable in order to address the abovementioned concerns besetting SHIB.

The Board believes that the Proposed Disposal will enable SHIB to realise its investments in the SHIB Group, thus enabling SHIB to use the proceeds from the Proposed Disposal for the purpose as stated under Section 3 of this announcement in relation to the Remaining Businesses. This will allow the Group to allocate more resources to expand its Remaining

Business which is expected to enhance the earnings for SHIB Group. The Remaining Businesses are expected to be able to tap upon the opportunities present in the growing industries, as set out in Section 6.4, 6.5, 6.6 and 6.7 of this Announcement. Additionally, the Proposed Disposal is expected to improve the Group's financial position, in particular, its cash position.

7. RISK FACTORS

The risk factors associated with the Proposed Disposal, which are by no means exhaustive, are as follows:

(a) Non-completion

The completion of the Proposed Disposal is subject to, among others, the Conditions Precedent detailed in the Disposal SPA being fulfilled and/or waived. In the event that any of the Conditions Precedent are not satisfied, fulfilled and/or waived within the prescribed timeframe, the Proposed Disposal may be delayed or terminated and all the potential benefits arising therefrom may not materialise.

There can be no assurance that the Proposed Disposal can be completed and within the time period stipulated in the Disposal SPA.

(b) Listing status

SHIB may be classified as an Affected Listed Issuer pursuant to Paragraph 8.03A of the MMLR upon completion of the Proposed Disposal. In such an event, SHIB is required to regularise its Conditions. The continuous listing of SHIB on the Main Market of Bursa Securities is dependent on the ability of Board and management to formulate a regularisation plan within the stipulated period. The regularisation plan is subjected to, amongst others, the approval of the relevant authorities.

As stated in Section 5.1 of this announcement, it is the intention of the Board to maintain the listing status of SHIB. As such, SHIB intends to apply to Bursa Securities for the Waiver.

Additionally, the completion of the Proposed Disposal is subject to, among others, the Conditions Precedent being fulfilled and/or waived. Pursuant to the Conditions Precedent, SHIB is required to obtain approval from Bursa Securities for a waiver from being classified as an Affected Listed Issuer.

(c) Loss of potential future income from the Coke Business

Upon completion of the Proposed Disposal, the Group will no longer derive any earnings contribution from its Coke Business.

To compensate for the loss of future income, the Group intends to utilise the proceeds from the Proposed Disposal for working capital purposes and also for the expansion of the Group's Remaining Businesses to generate future earnings for the Group.

8. EFFECTS OF THE PROPOSED DISPOSAL

8.1 Share capital

The Proposed Disposal will not have any effect on the issued share capital of SHIB as it does not involve any issuance of new shares in SHIB.

8.2 Substantial shareholders' shareholdings

The Proposed Disposal will not have any effect on the substantial shareholders' shareholdings in SHIB.

8.3 NA and gearing

Based on the audited consolidated balance sheet of SHIB as at 31 December 2019, the pro forma effects of the Proposed Disposal on the NA and gearing of SHIB are as follows:

	(I)	(II)	(III)
	Audited as at 31 December 2019	**As at LPD**	**After Proposed Disposal**
	RM'000	**RM'000**	**RM'000**
Share capital	1,115,045	(1)(2)1,134,045	1,134,045
Reserves	(568,468)	(568,468)	2,640
Accumulated losses	(354,767)	(356,596)	(1,060,636)
Shareholders' equity / NA	**191,810**	**208,981**	**76,049**
No. of ordinary shares in issue ('000)	1,122,308	(1)1,312,308	1,312,308
NA per Share (RM)	0.17	0.16	0.06
Total borrowings (interest-bearing) (RM'000)	2,308	2,308	2,308
Gearing (times)	0.01	0.01	0.03

Notes:

(1) After adjusting for issuance of 190,000,000 SHIB Shares at the issue price of RM0.10 per share pursuant to the conversion of SHIB RCN (as defined under Section 8.5 of this announcement) with nominal value of RM19,000,000.

(2) After adjusted for the estimated expenses of RM1.2 million for the Proposed Disposal.

8.4 Earnings and earnings per Share ("EPS")

The Proposed Disposal is not expected to have any effect on the earnings and EPS of the SHIB Group for the FYE 31 December 2020 as the Proposed Disposal is expected to be completed by the first quarter of 2021.

Based on the Disposal Consideration of RMB88.0 million (equivalent to approximately RM54.95 million) and after taking into consideration the relevant accounting adjustments in relation to the transaction, the Proposed Disposal is expected to generate an estimated proforma one off gain on disposal of approximately RM46 million for the SHIB Group or RM0.04 per SHIB Share.

Upon completion of the Proposed Disposal, the Disposal Subsidiaries shall cease to be subsidiaries of SHIB and the results of the Disposal Subsidiaries shall not be consolidated with the SHIB Group.

For illustration purposes, based on the audited consolidated statement of comprehensive income of the Company for the FYE 31 December 2019, the proforma of the Proposed Disposal on the SHIB Group's earnings and EPS for the FYE 31 December 2019 are as follows:-

	(I) Audited as at 31 December 2019	(II) As at LPD	(III) After Proposed Disposal
	RM'000	RM'000	RM'000
(Loss) attributable to the owners of SHIB	(183,749)	(183,749)	(183,749)
Add: Net gain on disposal	-	-	(2)46,427
Proforma loss attributable to owner of SHIB			(137,322)
Weighted average number of Shares in issue ('000)	1,122,308	(1) 1,312,308	1,312,308
Consolidated LPS (sen)	(16.37)	(14.00)	(10.46)

Notes:

(1) After adjusting for issuance of 190,000,000 SHIB Shares at the issue price of RM0.10 per share pursuant to the conversion of SHIB RCN (as defined under Section 8.5 of this announcement) with nominal value of RM19,000,000.

(2) Net gain on the Proposed Disposal is derived as follows:

No.	Description	RM'000
(i)	Disposal Consideration	54,947
(ii)	Net assets of PIPO Group *	(8,520)
	Net change	**46,427**

* Net assets of PIPO Group as at 31 December 2019 after taking into consideration the relevant accounting adjustments in relation to the Proposed Disposal

8.5 Convertible securities

As at LPD, save for the SHIB redeemable convertible notes with an aggregate principal amount of up to RM150,000,000 ("**SHIB RCN**") as disclosed below, the Company does not have any other existing convertible securities as at the date of this announcement:

Convertible	Amount (RM)	Status
SHIB RCN	23,000,000	Issued and redeemed/converted to SHIB Shares
	127,000,000	To be issued in tranches

The Proposed Disposal will not result in the adjustment to the SHIB RCN.

8.6 Dividends

SHIB currently does not have a dividend policy.

Future dividends payable would depend on inter-alia, the future financial performance of SHIB and its cash availability taking into consideration its working capital requirements, capital expenditure and business expansion plans.

9. APPROVALS REQUIRED

The Proposed Disposal is conditional upon the following:

(a) approval of at least 75% of the total number of issued shares held by the shareholders of SHIB present and voting either in person or by proxy at an extraordinary general meeting to be convened; and

(b) approvals or consents of any other relevant authorities and/or parties, if required.

The Proposed Disposal is not conditional upon any other corporate exercise undertaken or to be undertaken by the Company.

10. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED TO THEM

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

Save for the Proposed Disposal, SHIB and the Purchaser have not entered into any transactions between themselves in the 12 months preceding the LPD.

11. DIRECTORS' RECOMMENDATION

The Board does not intend to seek other alternative bids for the Disposal Subsidiary.

The Board, after taking into consideration all aspects of the Proposed Disposal including but not limited to the Disposal Consideration, the terms of the Disposal SPA, rationale, the financial effects of the Proposed Disposal and the preliminary views of the Independent Adviser, is of the opinion that the Proposed Disposal is in the best interest of the Company.

12. AUDIT COMMITTEE'S STATEMENT

The audit committee of SHIB is of the opinion that the Proposed Disposal is in the best interest of SHIB and that the terms of the Proposed Disposal are fair, reasonable and on normal commercial terms and hence are not detrimental to the interest of the non-interested shareholders. The view of the audit committee was arrived at after having considered, inter alia, the terms and conditions of the Disposal SPA, the rationale for the Proposed Disposal, the prospects of the coke industry in China, the effects of the Proposed Disposal on the Group and the opinion of the Independent Adviser.

13. ADVISER

13.1 Principal Adviser

M&A Securities has been appointed as the Principal Adviser for the Proposed Disposal.

13.2 Independent Adviser

As the Proposed Disposal is a major disposal pursuant to Paragraph 10.11A of the MMLR, SHIB had appointed FHCA on 20 October 2020 as the Independent Adviser to undertake the following in relation to the Proposed Disposal:-

(a) comment as to whether the Proposed Disposal is fair and reasonable in so far as the shareholders are concerned; and

(b) advise the shareholders of SHIB whether they should vote in favour of the Proposed Disposal.

14. PERCENTAGE RATIOS

The highest percentage ratio applicable to the Proposed Disposal pursuant to Paragraph 10.02(g) of the MMLR is approximately 75.87% which has been computed by dividing the total assets of the Yehua[(1)] by the total assets of SHIB based on Yehua and SHIB's audited consolidated financial statements for the FYE 31 December 2019, respectively.

Accordingly, the Proposed Disposal is classified as a major disposal pursuant to the MMLR.

Note:

(1) The audited financial statements of Yehua were use in place of PIPO in view that PIPO is an investment holding company and the financial statements of Yehua were not consolidated by PIPO.

15. ESTIMATED TIMEFRAME FOR COMPLETION

Barring unforeseen circumstances and subject to the fulfilment and/or waiver of all Conditions Precedent detailed in the Disposal SPA, the Proposed Disposal is expected to be completed in the 1st quarter of 2021.

16. DOCUMENTS FOR INSPECTION

The Disposal SPA is available for inspection at the Registered Office of the Company at Securities Services (Holdings) Sdn. Bhd., Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan during normal business hours from Monday to Friday (except public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 11 November 2020.

SALIENT TERMS OF THE DISPOSAL SPA

1. Sale of entire equity interests in PIPO

Subject to the terms and conditions of the Disposal SPA, SHIB agrees to sell and transfer and the Purchaser agrees to purchase and accept the transfer of the entire equity interest in PIPO free from all encumbrances and together with all rights and advantages attaching thereto including but not limited to all bonuses rights, dividends and distributions declared paid or made in respect thereof as at the completion of the Disposal SPA, at the Disposal Consideration on "willing seller willing buyer basis" as at the completion of the Disposal SPA.

2. Disposal Consideration

The total disposal consideration for the Proposed Disposal is RMB88.0 million to be settled in cash by the Purchaser in the following manner:

(a) A sum of RMB880,000 (Chinese Renminbi Eight Hundred and Eighty Thousand Only), being 1% of the Disposal Consideration shall be paid by the Purchaser to SHIB upon execution of the Disposal SPA.

(b) A sum of RMB87,120,000 (Chinese Renminbi Eighty Seven Million One Hundred and Twenty Thousand Only) being 99% of the Disposal Consideration ("**Balance Purchase Price**") shall be paid by the Purchaser to SHIB within 3 months from the Unconditional Date. ("**Completion Period**"). In the event where the Purchaser fails to settle the Balance Purchase Price within the Completion Period, SHIB agrees to grant an automatic extension of thirty (30) days from the expiry of the Completion Period (hereinafter referred to as "**the Extended Completion Period**") subject the payment by the Purchaser of late payment interest at the rate of eight per centum (8%) per annum on the outstanding Balance Purchase Price calculated on a daily basis from the Completion Date until the date of full payment of the outstanding Balance Purchase Price on or before the Extended Completion Date. The late payment interest shall be paid together with the outstanding Balance Purchase Price by the Purchaser.

Each tranche of the Disposal Consideration may be satisfied either in RMB or any other currency acceptable to the SHIB, as long as the total Disposal Consideration is equivalent to RMB88,000,000 (Chinese Renminbi Eighty Eight Million Only).

3. Conditions Precedent

The Disposal SPA is subject to the satisfaction of the following Conditions Precedent within 180 days after this date of the Disposal SPA or such other date as may be mutually agreed in writing by the parties ("**Long Stop Date**"):-

(a) the Purchaser's satisfaction of the results of such legal, commercial and financial due diligence investigations conducted by the Purchaser on PIPO, over the business, affairs, operations, assets and liabilities, prospects and records of PIPO;

(b) the approval of board of directors of the Purchaser for the acquisition of the Sale Shares upon the terms and conditions of the Disposal SPA or such other consent as is required by the Purchaser's board of directors;

(c) the approval of board of directors and/or shareholders of SHIB for the transfer of the Sale Shares to the Purchaser upon the terms and conditions of the Disposal SPA;

(d) the approval of the board of directors of PIPO for the transfer of the Sale Shares to the Purchaser;

(e) the approval from Bursa Securities for a waiver from Paragraph 8.03A of the MMLR, an application of which shall be submitted by SHIB to Bursa Securities, pursuant to the transaction contemplated under the Disposal SPA;

(f) the licences, authorisations, orders, grants, confirmations, permissions, registrations and other approvals necessary or desirable for or in respect of the acquisition of the Sale Shares by the Purchaser and such licences, authorisations, orders, grants, confirmations, permissions, registrations and other approvals remaining in full force and effect, if applicable;

(g) all necessary approvals under applicable competition laws having been obtained from the competition authorities in the relevant jurisdictions of PIPO without the attachment of any terms, conditions, or remedies (whether in the form of commitments or directions), if applicable;

(h) where the terms of any material contract contain any restrictions or prohibition on the change in control of the shareholdings and/or the boards of directors of PIPO or include any right to terminate exercisable prior to or as a result of any matter contemplated by the Disposal SPA, written confirmation in a form and on terms (if any) reasonably satisfactory to the Purchaser by the counterparties, of the waiver of such restrictions or prohibition in relation to any such change arising from the transactions under the Disposal SPA or of any such right to terminate, if applicable;

(i) the issuance of a waiver letter by SHIB to PIPO waiving all their rights of action of any kind, arising in any capacity or in any jurisdiction, against PIPO and its subsidiary or any of their respective officers or employees, including without limitation to the shareholders' loan, and

(j) to comply with the MMLR (including but not limited to Chapter 10 - Transaction), the relevant practice notes, rules and directives issued by Bursa Securities (whichever applicable) to facilitate the transfer of the Sale Shares.

Upon the parties are satisfied that all of the Conditions Precedent have been fulfilled or waived on or before the Long Stop Date, as the case may be, all parties shall execute a confirmatory notice in the form as per Schedule 6 of the Disposal SPA to such effect no later than two (2) business days from the last Conditions Precedent being fulfilled or waived, and parties shall work together towards achieving completion on completion date.

4. <u>Completion</u>

The completion of the Disposal SPA shall take place on or before the expiry of the completion period (3 months from the Unconditional Date) or at such other place or on such other date as may be agreed between the Purchaser and SHIB ("**Completion Date**") whereupon SHIB shall procure that all obligations specified in Schedule 3 (Completion Obligations) of the Disposal SPA to be fulfilled and delivered to the Purchaser.

5. <u>Termination</u>

1. <u>Non-satisfaction or waiver</u>

If the Conditions Precedent are not satisfied or waived on or before the Long Stop Date, Disposal SPA shall terminate and cease to have effect on the Long Stop Date except for:

(i) any surviving provisions under the Disposal SPA; and

(ii) any rights, remedies or liabilities of the parties that have accrued at termination of the Disposal SPA

unless otherwise agreed by the parties in writing.

2. Non-completion

If any completion obligations are not fully complied with by SHIB or the Purchaser by or on the Completion Date, the Purchaser, in the case of non-compliance by SHIB, or SHIB, in the case of non-compliance by the Purchaser, shall be entitled (in addition to and without prejudice to all other rights or remedies available to the terminating party including the right to claim damages) by written notice to the other party served on such date:

(i) to elect to terminate this the Disposal SPA (other than any surviving provisions under the Disposal SPA without liability on the part of the terminating party; or

(ii) to effect completion so far as practicable having regard to the defaults which have occurred; or

(iii) to mutually agree to a new Completion Date, in which case the right to terminate shall apply to completion as so deferred but provided such deferral may only occur once, unless otherwise mutually agreed.

If prior to completion it shall be found that:

(i) any of the warranties was, when given, or will be or would be, at completion (as if they had been given again at completion) not complied with or otherwise untrue or misleading; or

(ii) any party has breached any material term of the Disposal SPA (including without limitation, SHIB' obligations and undertakings under the Disposal SPA,

the non-defaulting party shall be entitled (in addition to and without prejudice to all other rights or remedies available to it including the right to claim damages) by notice in writing to the defaulting party to terminate the Disposal SPA (other than any surviving provisions under the Disposal SPA) or to claim for specific performance of the Disposal SPA against the defaulting party, but failure to exercise this right shall not constitute a waiver of any other rights of the non-defaulting party or its successors in title or its personal representative (as the case may be) arising out of such breach.

INFORMATION ON THE DISPOSAL SUBSIDIARIES

For the purposes of this section, foreign currencies have been translated into their RM equivalents based on the following exchange rates by Oanda currency converter website:

Foreign currency	FYE 31 December 2017	FYE 31 December 2018	FYE 31 December 2019	FPE 30 June 2019	FPE 30 June 2020
	RM	RM	RM	RM	RM
HKD	0.538317	0.519669	0.533175	0.528110	0.531689

1. PIPO

PIPO Group's summary audited financial information for the past 3 financial years is as follows:

	FYE 31 December						FPE 30 June 2019		FPE 30 June 2020	
	2017		2018		2019					
	HKD '000	RM '000	HKD '000	RM '000	HKD '000	RM '000	HKD '000	RM '000	HKD '000	RM '000
Revenue	1,656,443	891,691	1,868,783	996,388	1,471,167	782,203	900,458	472,698	348,607	191,014
Profit/Loss before tax	153,773	82,779	47,319	25,229	(330,510)	(175,728)	(20,121)	(10,563)	(121,631)	(66,646)
Profit/Loss after tax	153,773	82,779	59,287	31,611	(342,235)	(181,963)	(20,121)	(10,563)	(121,631)	(66,646)
Shareholders' funds/ NA	198,034	102,912	219,395	115,864	(138,554)	(72,667)	198,728	105,045	(266,975)	(147,559)
Total borrowings	48,030	24,960	45,549	24,055	-	-	-	-	-	-
Gearing (times)	0.24	0.24	0.21	0.21	-	-	-	-	-	-

2. Commentary on past performance of PIPO Group

FYE 31 December 2018 compared to FYE 31 December 2017

In the FYE 31 December 2018, PIPO Group registered a consolidated revenue of RM996.4 million. This represents an increase of approximately 11.7% from RM891.7 million recorded in the preceding financial year. Such increase in revenue can be attributed primarily to the fact that PIPO Group did not have a complete 12-month revenue recognition in the preceding FYE 31 December 2017 (recap: PIPO Group resumed its coke business operations sometime in February 2017 following the expiry of the leasing arrangement in respect of its operationalised coke ovens) compared to the operations in the current financial year. Notwithstanding the above consequential lowered overall sales volume in the preceding FYE 31 December 2017, the average coke price during the current financial year has declined by approximately 3.9% to RMB1,905/tonne from RMB1,981/tonne in FYE 31 December 2017. The slack resulting from the aforesaid slide in average coke price was fortunately picked up to some extent by the overall increase in the prices of the by-products, i.e. tar oil at 14.3%, ammonium sulphate at 10.9% and coal gas at 21.2%, respectively.

The abovementioned "lack of a complete 12-month operation" phenomenon in the preceding FYE 31 December 2017 had inherently resulted in an overall reduced cost of sales during that year compared to what was registered in the current FYE 31 December 2018. Cost of sales in the current FYE 31 December 2018 saw an increase due to the hike in the average price of raw material, namely coking coal, with an increase of approximately 5.2% from RMB1,229/tonne in FYE 2017 to RMB1,292/tonne FYE 2018.

Towards this end, with the inclusion of PIPO Group's other income, administration and operating expenses and finance cost, PIPO Group still managed to turn in a relatively decent profit before taxation of approximately RM25.2 million compared to RM82.8 million recorded in FYE 31 December 2017.

The above PIPO Group's profit was further elevated with a tax credit resulting from the recognition of previously unrecognised deferred tax asset (unutilised tax losses which are eligible to be carried forward for future utilisation) in the current financial year.

As a result thereof, PIPO Group registered a profit for the year of approximately RM31.6 million despite being beset with challenging business environment and headwinds during the year of 2018. This is in contrast to the profit of approximately RM82.8 million recorded in the relatively fruitful and lucrative preceding financial year.

FYE 31 December 2019 compared to FYE 31 December 2018

For the FYE 31 December 2019, PIPO Group found itself in the red, recording a considerably large consolidated loss for the year amounting to RM182.0 million. In addition to the precipice of the waning Coke Business throughout the financial year, the Group's dismal financial result was further weighted down by the impairment of some of its assets and receivables. This is in stark contrast to the financial performance of PIPO Group registered in the preceding financial year with a consolidated profit of RM31.6 million.

The dismal financial performance of PIPO Group for FYE 31 December 2019 was a culmination of various factors. Its consolidated revenue during the year stood relatively lower at RM782.2 million in comparison to that recorded in the preceding financial year of RM996.4 million, representing a year-on-year decline of approximately 21%. This was attributed to a 20% decline in annual sales volume from 844,224 tonnes in FYE 31 December 2018 to 677,521 tonnes in FYE 31 December 2019 as well as a weakened average coke price of approximately 2.3% from RMB1,905/tonne in FYE 31 December 2018 to RMB1,862/tonne in FYE 31 December 2019. Concurrently, the overall contribution from by-products also fell during the current year, with the average price of tar oil falling 11% and ammonium sulphate 9% compared to those of the preceding year. Only the average price of coal gas saw an increase of about 8%, the quantum of which unfortunately was inconsequential to provide any meaningful inertia to buttress the languid revenue of PIPO Group.

The overall increase in the average price of raw materials, namely coking coal, of approximately 3% from RMB1,292/tonne in FYE 31 December 2018 to RMB1,328/tonne in FYE 31 December 2019 also played a part in further squeezing PIPO Group's coke manufacturing margin, an undesirable phenomenon that had beset the entire industry.

Given the predicament and challenges facing the industry as well as the seemingly lack of clear visibility in regards to the perceivable turnaround of the coke industry, impairments were made on its coke manufacturing assets and receivables, such impairments are deemed necessary and in line with PIPO Group continued assessment on all aspects of its assets life-cycle based on market changes and views such impairment assessment as a healthy industry practice. The impairment recorded, which has no impact on cash, served to create a relatively lighter asset base for PIPO Group by reducing the total carrying value and depreciation charge, going forward. This will thus enable PIPO Group to operate at a lower cost base in the future while enhancing its competitiveness for growth and at the same time improve profitability in the future.

Towards this end, with the inclusion of PIPO Group's other income, administration and operating expenses and finance cost, PIPO Group turned in a consolidated loss after tax for the FYE 31 December 2019 of RM182.0 million, as opposed to a consolidated profit for the year of RM31.60 million in the preceding financial year.

FPE 30 June 2020 compared to FPE 30 June 2019

During the first half of 2020, PIPO Group continued to suffer a considerably large consolidated loss for the period amounting to RM66.6 million, compared to RM10.6 million in the same period last year. The abovementioned loss represented the results of the devastating COVID-19 pandemic which swept across the entire world, in addition to the waning Coke Business during the period under review.

PIPO Group recorded revenue of approximately RM191.0 million in the current period compared to the preceding year corresponding period of approximately RM472.7 million. Such significant reduction in revenue was primarily attributed to significant drop in sales volume compared to that achieved in the corresponding period as a result of lower demand of coke in the midst of the pandemic as well as the government policy of curbing production of highly polluting industry especially those located in the populated areas. The average selling price of metallurgical coke also saw a reduction of approximately 16% coupled with significantly lower contribution from its by-products.

The impact of lower sales volume and the fall in the average coal price of approximately 24% has resulted in overall lower cost of sales in the current period under review compared to the previous year corresponding period.

Operating expenses incurred by the Group were much higher due to the additional expenses incurred in relation to the dry quenching facility of the coke plant. Other operating expenses also included rental, staff salary, depreciation, minor repair and maintenance, electricity charges, etc.

After taking into consideration all of the above financial components, PIPO Group turned in a dismal net loss for the period of approximately RM66.6 million in the first half of 2020 compared to approximately RM10.6 million in the preceding year corresponding period.