THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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 adviser immediately.

SINO HUA-AN INTERNATIONAL BERHAD

(Company No. 732227-T)
(Incorporated in Malaysia under the Companies Act 2016)

CIRCULAR TO SHAREHOLDERS IN RELATION TO THE

PROPOSED ISSUANCE OF REDEEMABLE CONVERTIBLE NOTES ("NOTES") WITH AN AGGREGATE PRINCIPAL AMOUNT OF UP TO RM150 MILLION ("PROPOSED NOTES ISSUE")

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser

kenanga

Kenanga Investment Bank Berhad
Company No. 15678-H
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice of Extraordinary General Meeting ("**EGM**") of Sino Hua-An International Berhad ("**SHIB**") to be held at Banquet Hall, The Royal Selangor Golf Club, Jalan Kelab Golf, Off Jalan Tun Razak, 55000 Kuala Lumpur, Wilayah Persekutuan on Thursday, 5 September 2019 at 10.00 a.m. or at any adjournment thereof, together with the Form of Proxy are enclosed with this Circular.

You are entitled to attend and vote at the EGM or appoint a proxy or proxies to attend and vote on your behalf. If you wish to do so, you may deposit the Form of Proxy at Securities Services (Holdings) Sdn. Bhd. at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan not less than forty-eight (48) hours before the time and date stipulated for the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

Last day, date and time for lodging the Form of Proxy	: Tuesday, 3 September 2019 at 10.00 a.m.
Day, date and time of the EGM	: Thursday, 5 September 2019 at 10.00 a.m.

This Circular is dated 21 August 2019

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

ACP	:	Advance Capital Partners Pte Ltd (*UEN 200506044H*), incorporated under the Companies Act (Cap 50) of Singapore as an exempt private company limited by shares
Act	:	Companies Act, 2016 of Malaysia, as amended from time to time including any re-enactment thereof
A.I.	:	Artificial Intelligence, which refers to the capacity of a machine to imitate intelligent human behaviour
AOF's Agent	:	Any authorised agent to act for and on behalf of the Subscriber in respect of all its rights, obligations and entitlements set out under the Subscription Agreement
AOF or the Subscriber	:	Advance Opportunities Fund (*CT 168559*), incorporated under the Companies Law (2018 Revision) of Cayman Islands. B.W.I as an exempted company with limited liability
ASEAN	:	Association of Southeast Asian Nations
Bistromalones	:	Bistromalones (PJ) Sdn Bhd (1155961-V)
Bistromalones Group	:	Bistromalones group of companies, including Bistromalones and the other ten (10) entities as listed in Appendix I(C) of this Circular which shall become the subsidiaries or associated company of Bistromalones upon completion of the proposed acquisition of Bistromalones.
Board	:	Board of Directors of SHIB
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities	:	Bursa Malaysia Securities Berhad (635998-W)
CAGR	:	Compound annual growth rate
Circular	:	This circular to the shareholders of SHIB in relation to the Proposed Notes Issue dated 21 August 2019
CMSA	:	Capital Markets and Services Act, 2007 of Malaysia, as amended from time to time including any re-enactment thereof
Conversion Price	:	The price at which each Conversion Share shall be issued upon conversion of the Notes, as set out in the Subscription Agreement
Conversion Shares	:	New SHIB Shares to be issued pursuant to the conversion of the Notes at the conversion terms, subject to the terms and conditions as set out in the Subscription Agreement
Director(s)	:	A natural person who holds a directorship with SHIB, whether in an executive or non-executive capacity, and shall have the meaning given in Section 2(1) of the CMSA
EGM	:	Extraordinary general meeting
EPS	:	Earnings per share

F&B	:	Food and beverage
FPE	:	Financial period ended
FY or FYE	:	Financial year ended/ending, as the case may be
GDP	:	Gross Domestic Product
HVAC	:	Heating, ventilation and air conditioning, refers to the technology of indoor and vehicular environmental comfort.
ICT	:	Information and communication technologies
IoT	:	Internet of Things, which refers to the connection of devices to the Internet
Kenanga IB	:	Kenanga Investment Bank Berhad (15678-H)
LAT	:	Loss after tax
LBT	:	Loss before tax
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LOLA Guidelines	:	SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued on 9 March 2015 and revised on 11 October 2018
LPD	:	6 August 2019, being the latest practicable date prior to the issuance of this Circular
LPD of the announcement	:	14 June 2019, being the latest practicable date prior to the announcement in relation to the Proposed Notes Issue
LPS	:	Loss per share
Machine Learning	:	An application of A.I. that provides systems the ability to automatically learn and improve from experience without being explicitly programme
Market Day(s)	:	A day on which Bursa Securities is open for the trading in securities
Maturity Date	:	Three (3) years from the closing date of the first sub-tranche of Tranche 1 Notes
Minimum Conversion Price	:	RM0.18, being the minimum Conversion Price for the Notes to be converted into Conversion Shares
MoPro	:	Mobile Promotion
Mr. Tan	:	Mr. Tan Choon Wee
NA	:	Net assets
Noteholder(s)	:	Holder(s) of the Notes
Notes	:	Redeemable convertible notes comprising redeemable convertible commercial papers (CPs) and/or redeemable convertible medium term notes (MTNs)

PAT	:	Profit after tax
PBT	:	Profit before tax
PRC	:	People's Republic of China
Proposed Acquisitions	:	Proposed acquisitions of TPI, Wavetree and Bistromalones Group
Proposed Notes Issue	:	Proposed issuance of Notes with an aggregate principal amount of up to RM150 million
Providence	:	Providence Strategic Partners Sdn Bhd (1238910-A), being the Independent Market Researcher
Record of Depositors	:	A record of depositors established by Bursa Depository in accordance with the rules of Bursa Depository
RMB	:	Renminbi, being the lawful currency of PRC
RM and sen	:	Ringgit Malaysia and sen respectively, being the lawful currency of Malaysia
R&D	:	Research and development
SaaS	:	Software-as-a-Service, a software distribution model in which a third-party provider hosts applications and makes them available to customers over the Internet
SC	:	Securities Commission Malaysia
SHIB or Company	:	Sino Hua-An International Berhad (732227-T)
SHIB Group or Group	:	SHIB and its subsidiaries, collectively
SHIB Share(s)	:	Existing ordinary shares in SHIB
SME	:	Small medium enterprise
SOP	:	Standard of procedure
Subscription Agreement	:	A conditional subscription agreement dated 14 June 2019 entered into between SHIB and the Subscriber in relation to the Proposed Notes Issue
TGIF	:	TGI Fridays, an American casual dining brand
TPI	:	TouchPoint International Sdn Bhd (1084167-M)
Tranche 1 Notes	:	Tranche 1 of RM50 million comprising 10 equal sub-tranches of RM5 million each
Tranche 2 Notes	:	Tranche 2 of RM50 million comprising 10 equal sub-tranches of RM5 million each
Tranche 3 Notes	:	Tranche 3 of RM50 million comprising 5 equal sub-tranches of RM10 million each
TTP	:	Teh Tarik Place, a franchise brand in Malaysia which is wholly owned and created by Bistromalones Group

USD	:	United States Dollar
VWAP	:	Volume weighted average market price
Wavetree	:	Wavetree PLT (LLP No. LLP0000023-LGN)

All references to "**you**" in this Circular are references to shareholders of SHIB.

Words denoting the singular shall, where applicable, include the plural and *vice versa*. Words denoting the masculine gender shall, where applicable, include the feminine and/or neuter genders and *vice versa*. References to persons shall include corporations.

Any reference to any enactment in this Circular is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular is a reference to Malaysian time, unless otherwise specified.

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TABLE OF CONTENTS

LETTER FROM THE BOARD TO THE SHAREHOLDERS OF SHIB IN RELATION TO THE PROPOSED NOTES ISSUE CONTAINING:

SINO HUA-AN INTERNATIONAL BERHAD
(Company No. 732227-T)
(Incorporated in Malaysia under the Companies Act 2016)

Registered Office:
Level 7, Menara Milenium,
Jalan Damanlela,
Pusat Bandar Damansara,
Damansara Heights,
50490 Kuala Lumpur,
Wilayah Persekutuan.

21 August 2019

Board of Directors

Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar *(Executive Chairman)*
Liu Guodong *(Managing Director)*
Lim See Tow *(Independent Non-Executive Director)*
Liu Xueqiang *(Non-Independent Non-Executive Director)*
Zhai Baoxing *(Independent Non-Executive Director)*

To: The Shareholders of SHIB

Dear Sir/Madam,

PROPOSED NOTES ISSUE

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1. INTRODUCTION

On 14 June 2019, Kenanga IB had, on behalf of the Board, announced that the Company is undertaking the Proposed Notes Issue.

Pursuant to the Proposed Notes Issue, AOF has appointed ACP as AOF's Agent to act for and on behalf of them in respect of all its rights, obligations and entitlements set out under the Subscription Agreement.

On 3 July 2019, Kenanga IB had, on behalf of the Board, announced that the additional listing application in relation to the Proposed Notes Issue have been submitted to Bursa Securities.

On 2 August 2019, Kenanga IB had, on behalf of the Board, announced that Bursa Securities had, *vide* its letter dated 2 August 2019, approved the listing of and quotation for up to 833,333,333 Conversion Shares pursuant to the Proposed Notes Issue on the Main Market of Bursa Securities.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE YOU WITH DETAILS OF THE PROPOSED NOTES ISSUE AND TO SEEK YOUR APPROVAL FOR THE RESOLUTION PERTAINING TO THE PROPOSED NOTES ISSUE TO BE TABLED AT THE FORTHCOMING EGM. THE NOTICE OF THE FORTHCOMING EGM AND THE FORM OF PROXY ARE ENCLOSED IN THIS CIRCULAR.

YOU ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED NOTES ISSUE TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED NOTES ISSUE

2.1 Background

SHIB had, on 14 June 2019, entered into the Subscription Agreement with AOF for the Proposed Notes Issue, which will be issued in three (3) tranches, subject to the terms and conditions as set out in the Subscription Agreement. The Notes are issued in three (3) tranches as the funds raised from the Notes are expected to be utilised over a period of 1 to 3 years and the Company has the sole discretion to exercise its option to issue Tranche 2 Notes and Tranche 3 Notes as and when the need for such funds arises. On the date of the Subscription Agreement and for as long as SHIB's obligations remain outstanding under the Subscription Agreement, the Subscriber will, at any time and from time to time, by delivering a written notice to the Company, appoint an AOF's Agent to act for and on behalf of the Subscriber in respect of all its rights, obligations and entitlements set out under the Subscription Agreement with effect from the date set out in the authorisation notice. Accordingly, the Subscriber had, on the same day, appointed ACP as AOF's Agent.

The Notes are transferable and/or tradable in accordance with the terms and conditions of the Subscription Agreement and will not be listed in any exchange. The Notes may only be offered, sold, or delivered, directly or indirectly, to persons to whom an offer or invitation to subscribe for the Notes and to whom the Notes are issued, which would fall within Schedule 6 or Section 229(1)(b) of the CMSA, as amended from time to time, and in accordance with other selling restrictions as may be applicable outside Malaysia.

The Notes are convertible at the option of the Noteholders into Conversion Shares at the conversion terms and redeemable at the election of SHIB and/or on the Maturity Date in cash, subject to the terms and conditions as set out in the Subscription Agreement.

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2.2 Salient terms of the Notes

Unless otherwise stated or otherwise defined in this Circular, the terms used in this Section shall have the same meanings as those defined in the Subscription Agreement.

The salient terms of the Subscription Agreement are as follows:

Issue instrument	:	1.0% redeemable convertible commercial papers and/or redeemable convertible medium term notes*. ***Note**:* * *The Notes will be issued under a redeemable convertible commercial papers (CPs) and/or redeemable convertible medium-term notes (MTNs) programme whereby the Notes shall have a tenure of (a) in case of CPs, up to one (1) year as the Company may elect; and (b) in case of MTNs, more than one (1) year and up to three (3) years from the first issue date of the Notes as the Company may elect.*
Issue size	:	Up to RM150 million principal amount in aggregate, divided into three (3) tranches, namely: (i) Tranche 1 of RM50 million comprising 10 equal sub-tranches of RM5 million each; (ii) Tranche 2 of RM50 million comprising 10 equal sub-tranches of RM5 million each; (iii) Tranche 3 of RM50 million comprising 5 equal sub-tranches of RM10 million each; and **The issuance of Tranche 2 Notes and Tranche 3 Notes shall be at the option of the Company, in accordance with the terms and conditions of the Subscription Agreement.**
Tenure	:	36 months (3 years) from the closing date of the first sub-tranche of Tranche 1 Notes.
Interest rate	:	The Notes shall bear interest from the respective dates on which they are issued and registered in accordance with the terms and conditions as set out in the Subscription Agreement at the rate of 1% per annum*, payable semi-annually in arrears on 30 June and 31 December in each year in respect of the period from (and including) the closing date of the first sub-tranche of Tranche 1 Notes and the last payment of interest being made on the Maturity Date. For example, the first semi-annual payment of interest shall be made on (a) 30 June 2019 if the closing date of the first sub-tranche of Tranche 1 Notes takes place before 30 June 2019 or (b) 31 December 2019 if the closing date of the first sub-tranche of Tranche 1 Notes takes place after 30 June 2019. If the closing price per Share of the Company falls below the Minimum Conversion Price (as defined below) for more than ten (10) consecutive Business Days∀ (such ten (10) consecutive Business Days period, the “**Initial 10 Business Days Period**”), the interest rate of all outstanding Notes as set out above shall be adjusted upward to 8% per annum (the “**Relevant Interest**”)^ retrospectively from the first Business Day of the Initial 10 Business Days Period (“**Triggering Date**”)#.

Interest rate *(cont'd)*	:	If, after the Initial 10 Business Days Period, the closing price per Share of the Company trades 10% above the Minimum Conversion Price for more than ten (10) consecutive Business Days (such ten (10) consecutive Business Days period, the "**Subsequent 10 Business Days Period**"), the Relevant Interest shall be readjusted downward to 1% per annum from the next Business Day immediately following the expiry of the Subsequent 10 Business Days Period, provided that all accrued and outstanding Relevant Interest and Default Relevant Interest (as defined below) (if any) shall have been paid by the Company to the Noteholder(s) within three (3) Business Days from the expiry of the Subsequent 10 Business Days Period. Subject to the above, the Relevant Interest shall be due and payable by the Company to the Noteholder(s) on the last Business Day of every month ("**Relevant Interest Payment Date**"). In the event the Company fails to pay the Relevant Interest by the Relevant Interest Payment Date, an additional default interest at the rate of 3.0% per month ("**Default Relevant Interest**") shall be compounded on all overdue amount (including the Relevant Interest), commencing from the next day immediately following the Relevant Interest Payment Date up to (and including) the date of actual payment (both before and after judgment[@]) of the Relevant Interest and the Default Relevant Interest. ***Notes**:* * *For the avoidance of doubt, the interest rate of 1% per annum shall only apply to outstanding Notes.* ∀ *Business Day means a day on which banks are open for business in Kuala Lumpur, Malaysia and Bursa Securities is open for trading, ending at 5.00 p.m.* ^ *The rationale for the imposition of Relevant Interest is a compensation mechanism to the Noteholders due to the Noteholders are prohibited from converting the Notes below the Minimum Conversion Price. The interest rate of 8% is a commercial decision agreed upon between the Company and the Subscriber.* # *For the avoidance of doubt, the Relevant Interest applies from the Triggering Date until the next Business Day immediately following the expiry of the Subsequent 10 Business Days Period (as defined above).* @ *The Company will be subject to the payment of Relevant Interest and Default Relevant Interest if the actual payment is made after judgment or pending judgment is delivered.*
Method of issue	:	The Notes will be privately placed to and subscribed by the Subscriber. No offering circular, information memorandum or prospectus will be issued by the Company for the proposed placement of the Notes.
Issue price	:	In relation to each sub-tranche of the Notes, the amount equivalent to 100% of the principal amount of the Notes for such sub-tranche.
Issue and subscription of the first sub-tranche of Tranche 1 Notes	:	The Subscriber in principle has agreed to subscribe up to RM150 million of the Notes, upon the Subscription Agreement being executed. However, the subscription of the first sub-tranche of Tranche 1 Notes is dependent on the fulfilment of the closing conditions as set out in the Subscription Agreement. Once fulfilled, the Subscriber is obliged to subscribe for the first sub-tranche of Tranche 1 Notes. In respect of the first sub-tranche of Tranche 1 Notes, the date falling five (5) market days immediately after the fulfilment of the last of the conditions precedent or such other date as the Company and the Subscriber may agree in writing, such date being the closing date for the first sub-tranche of Tranche 1 Notes.

Issue and subscription of the first sub-tranche of Tranche 1 Notes ***(cont'd)***	:	Subject to the concurrent subscription of sub-tranches, thereafter, the subscription of the subsequent sub-tranches of Tranche 1 Notes is dependent on the Subscriber exercising its right to convert the immediately preceding sub-tranche of Tranche 1 Notes. Once the Subscriber exercises its conversion right in respect of the immediately preceding sub-trance of Tranche 1 Notes, the Subscriber is obliged to subscribe for the next sub-tranche of Tranche 1 Notes, on or before the fifth (5^{th}) business day after the conversion date of the immediately preceding sub-tranche of Tranche 1 Notes ("**Tranche 1 Conversion Date**") or such other date as the Parties may agree in writing, such date being the closing date for such subsequent sub-tranche of Tranche 1 Notes. Having said that, the Subscriber is entitled (at its option) to subscribe for each such subsequent sub-tranche of Tranche 1 Notes notwithstanding the immediately preceding sub-tranche of Tranche 1 Notes has yet to be converted.
Issue and subscription of Tranche 2 Notes and Tranche 3 Notes	:	In respect of Tranche 2 Notes and Tranche 3 Notes, the Company has the option to require the Subscriber to subscribe for such Notes from the Company ("**Option**") at the issue price of the Notes during the period commencing from and including the Conversion Date of the last of the Notes comprised in the last sub-tranche of the preceding tranche of Notes to and including the tenth (10^{th}) business day thereafter or such other periods as the Parties may agree in writing ("**Option Period**"). To exercise the Option, the Company shall notify the Subscriber in writing in the form provided in the Subscription Agreement ("**Exercise Notice**") at any time during the Option Period in respect of the Option. Upon receipt of the Exercise Notice from the Company in respect of Tranche 2 Notes or Tranche 3 Notes, as the case may be, and subject to the fulfilment of the conditions to each of the respective closings of Tranche 2 Notes to Tranche 3 Notes, the Subscriber shall be obliged to subscribe, and the Company shall be obliged to issue, at the issue price of the Notes: (a) the first sub-tranche of Tranche 2 Notes or Tranche 3 Notes, as the case may be, on or before the fifth (5^{th}) business day following the date of the Exercise Notice or such other date as the Parties may agree in writing, such date being the closing date for the first sub-tranche of Tranche 2 Notes or Tranche 3 Notes, as the case may be; and (b) subject to the concurrent subscription of sub-tranches, thereafter, in respect of each subsequent sub-tranche of Tranche 2 Notes or Tranche 3 Notes, as the case may be, on or before the fifth (5^{th}) business day after the conversion date of the immediately preceding sub-tranche of Tranche 2 Notes ("**Tranche 2 Conversion Date**") or such other date as the Parties may agree in writing or on or before the fifth (5^{th}) business day after the conversion date of the immediately preceding sub-tranche of Tranche 3 Notes ("**Tranche 3 Conversion Date**") or such other date as the Parties may agree in writing, as the case may be, such date being the closing date for such subsequent sub-tranche of Tranche 2 Notes or Tranche 3 Notes, as the case may be.
Concurrent subscription of sub-tranches	:	Notwithstanding any provisions in the Subscription Agreement, in respect of each subsequent sub-tranche of Tranche 1 Notes, Tranche 2 Notes and Tranche 3 Notes (other than the respective first sub-tranches): (a) the Subscriber shall be entitled (at its election) to subscribe for each such subsequent sub-tranche notwithstanding the last Note comprised in the immediately preceding sub-tranche has yet to be converted by issuing to the Company a written request; and

Concurrent subscription of sub-tranches ***(cont'd)***	:	(b) the Company shall be obliged to issue each such sub-tranche on or before the fifth (5th) Business Day on receipt of such written request issued by the Subscriber or such other date as the Parties may agree in writing, such date being the closing date of such subsequent sub-tranche.
Conversion terms	:	Each Noteholder has the right to convert any Notes ("**Conversion Right**") into duly authorised, validly issued, fully-paid and unencumbered Shares, at the option of the holder thereof. The number of Conversion Shares to which a Noteholder is entitled on conversion of the Notes shall be determined by dividing the aggregate nominal value of the Notes held by the Noteholder with the applicable Conversion Price, determined in effect on the relevant Conversion Date (as defined below). Fractions of a Conversion Share will not be issued on conversion and no adjustment or cash payment will be made in respect thereof. The Notes will be issued in multiples of RM50,000, and the Noteholder is required to convert the Notes in multiples of RM50,000 should they wish to convert a particular sub-tranche of the Notes.
Conversion period	:	Any time from and including the respective dates on which the Notes are issued and registered in accordance with the Subscription Agreement up to the close of business (at the place where the Note is deposited for conversion, namely, Malaysia) on the day falling seven (7) days prior to the Maturity Date ("**Conversion Period**").
Conversion price	:	The price at which each Conversion Share shall be issued upon conversion of the Notes ("**Conversion Price**") shall be: (i) in respect of Tranche 1 Notes, 85% of the average closing price per Share on any three (3) consecutive market days as selected by the Noteholder(s) during the thirty (30) market days immediately preceding the relevant conversion date on which SHIB Shares were traded on the Main Market of Bursa Securities; (ii) in respect of Tranche 2 Notes, 88% of the average closing price per Share on any three (3) consecutive market days as selected by the Noteholder(s) during the thirty (30) market days immediately preceding the relevant conversion date on which SHIB Shares were traded on Bursa Securities; (iii) in respect of Tranche 3 Notes, 90% of the average closing price per Share on any three (3) consecutive market days as selected by the Noteholder(s) during the thirty (30) market days immediately preceding the relevant conversion date on which SHIB Shares were traded on Bursa Securities; and provided always that the Conversion Price is not less than RM0.18, being the minimum Conversion Price for the Notes ("**Minimum Conversion Price**" or "**MCP**"). If the Conversion Price for each Conversion Share calculated in accordance with the conditions (i) to (iii) above is less than the Minimum Conversion Price, the Conversion Price for each Conversion Share shall be equal to the Minimum Conversion Price.

Conversion price ***(cont'd)***	:	Notwithstanding any other provisions to the contrary, in the event that the three (3) business days as selected by the relevant Noteholder were not consecutive business days, the three (3) business days selected shall be deemed consecutive in nature for the purposes of calculating the Conversion Price, provided that: (a) those consecutive business days that ought to have been selected (to constitute consecutive) were not selected as that they were business days where no trades were done on the Shares on the Main Market of Bursa Securities; and (b) the first (1^{st}) business day immediately thereafter where there were trading in the Shares were selected as a business day in their stead. If, during any period in which the Conversion Price is being determined, the Company shall, amongst other, (i) make a stock split, (ii) consolidate its outstanding Shares into a smaller number of shares, or (iii) re-classify any of its Shares into other securities of the Company, such that the closing price per Share before and after such event does not represent the same economic and financial participation that a holder of a Share would have had without the occurrence of such an event, then the closing price of the Shares for the business days preceding such event shall, for the purposes of such determination be adjusted to reflect the impact of such an event in such a manner as an independent reputable bank (such as but not limited to Bloomberg L.P.) or a reputable firm of investment advisers licensed by the SC would. Such bank or firm may be agreed between the Company and the Noteholders or, if not so agreed, the Company and the Noteholders shall agree to a bank or firm as nominated by the Malaysia Institute of Accountants which it deems is fair and reasonable to make such changes to the closing price.
Conversion date	:	The date on which the emailed completed notice of conversion in the short form as provided in the Subscription Agreement ("**Short Form Conversion Notice**") is received by the Company in accordance with the provision of the Subscription Agreement is herein referred to as the "**Conversion Date**" applicable to such Notes, provided however that the Company may from time to time, pursuant to the Subscription Agreement, give written notice to all Noteholders specifying a period being not more than three (3) business days commencing on the expiry of the notice during which the Notes will not be convertible, provided always that the aggregate of the days on which the Notes are not convertible shall not exceed twelve (12) business days in any calendar year. Where such Short Form Conversion Notice or the original completed and signed conversion notice in the long form as provided in the Subscription Agreement is received during a period in which the Notes are not convertible, the "**Conversion Date**" shall be (other than for the purpose of the determination of the Conversion Price) the business day following the expiry of such period.
Conditions precedent to the closing of the first sub-tranche of Tranche 1 Notes	:	Notwithstanding any other provisions in the Subscription Agreement, the Subscriber shall not be obliged to subscribe and pay for the first sub-tranche of Tranche 1 Notes unless the following conditions precedent shall have been satisfied on or before the date falling six (6) calendar months from the date of the Subscription Agreement or such other date as they may agree in writing or otherwise waived by the Subscriber, if capable of being waived: (a) on the date of the Subscription Agreement, delivery to the Subscriber of a list of the Company's substantial shareholders as at the date of the Subscription Agreement, in such form and substance reasonably satisfactory to the Subscriber;

Conditions precedent to the closing of the first sub-tranche of Tranche 1 Notes ***(cont'd)***	:	(b) on or before the closing date of the first sub-tranche of Tranche 1 Notes, the approval of the Company's shareholders at a general meeting for the invitation for subscription, or the issue, of the Notes and the allotment and issue of the Conversion Shares in accordance with the terms of the Subscription Agreement and, where such approvals are obtained subject to any conditions and/or amendments, such conditions and/or amendments being acceptable to the Subscriber, and to the extent that any such conditions are required to be fulfilled on or before the closing date of the first sub-tranche of Tranche 1 Notes, they are fulfilled. In addition, such approvals shall not be amended, withdrawn, revoked, rescinded or cancelled; (c) (i) on or before the closing date of the first sub-tranche of Tranche 1 Notes, all necessary approvals and/or consents of Bursa Securities or any other relevant regulatory authorities for the issue of the Notes, the allotment and issue of the Conversion Shares upon conversion of the Notes, the listing of the Conversion Shares on the Main Market of Bursa Securities and such other relevant approvals in relation thereto and in connection therewith (collectively referred to as "**Approvals**"), and such Approvals shall not be amended, withdrawn, revoked, rescinded or cancelled and, where such Approvals are obtained subject to any conditions and/or amendments, such conditions and/or amendments being acceptable to the Subscriber, and to the extent that any such conditions are required to be fulfilled on or before the closing date of the first sub-tranche of Tranche 1 Notes, they are fulfilled; (ii) on or before the closing date of the first sub-tranche of Tranche 1 Notes, submit and lodge with the SC all information and documents as may be specified by the SC and in compliance with the CMSA and such other applicable laws and regulations including but not limited to the LOLA Guidelines issued by the SC for the issuance of the Notes ("**Lodgement**"), and such Lodgement shall not be amended, withdrawn, revoked, rescinded or cancelled and, where such Lodgement is subject to any conditions and/or amendments, such conditions and/or amendments being acceptable to the Subscriber, and to the extent that any such conditions are required to be fulfilled on or before the closing date of the first sub-tranche of Tranche 1 Notes, they are fulfilled; (d) (i) all the representations, warranties, undertakings and covenants of the Company (including the warranties) shall be accurate and correct in all respects at, and as if made on, the closing date of the first sub-tranche of Tranche 1 Notes; (ii) the Company shall have performed all of its undertakings or obligations under the Subscription Agreement to be performed on or before the closing date of the first sub-tranche of Tranche 1 Notes; and (iii) delivery to the Subscriber of a certificate to such effect, dated as at that closing date; (e) all other necessary approvals, consents and waivers (including any governmental, regulatory and/or corporate approvals and consents), for the transactions contemplated under the Subscription Agreement (in particular but without limitation the issue by the Company and the subscription by the Subscriber of the Notes, including any shareholders

Conditions precedent to the closing of the first sub-tranche of Tranche 1 Notes ***(cont'd)***	:	or directors' approval and other regulatory and/or corporate approvals and consents required by the Subscriber) having been obtained in form and substance satisfactory to the Subscriber (in its reasonable opinion of the Subscriber) and remaining valid and subsisting as at the closing date of the first sub-tranche of Tranche 1 Notes; and (f) delivery to the Subscriber of the following documents on the closing date of the first sub-tranche of Tranche 1 Notes: (i) the documents listed in Schedule 1 of the Subscription Agreement, which include, the annual financial reports of the Company preceding the relevant closing date, copies of the interim accounts of the Company (if applicable), announcements issued by the Company to Bursa Securities before the relevant closing date, a list setting out the outstanding loans of the Company, a list setting out the names of the substantial shareholders of the Company, a list disclosing all existing and outstanding securities convertible into securities of the same class as the new shares arising from the conversion of the Notes or securities substantially similar to the Notes, a duly executed facility agreement with a facility agent, a duly executed trust deed with a trustee, a duly executed securities lodgement form and a copy of the acknowledgement receipt from the SC on the Lodgement; (ii) a legal opinion issued by the legal advisers to the Company in relation to Malaysian law; (iii) a legal opinion to be issued by the legal advisers to the Company as to PRC laws in respect of the status of the PRC incorporated subsidiary(ies); (iv) certified true copies of (a) the resolutions of the directors of the Company; and (b) the resolutions of the shareholders of the Company, approving the issuance of the Notes and the allotment and issuance of the Conversion Shares in accordance with the terms of the Subscription Agreement; (v) certified true copies of the Approvals; and (vi) such other documents, opinions and certificates as the Subscriber may reasonably require in relation to the Notes issuance. If any of the above conditions precedent are not satisfied or waived by the Subscriber, the Subscription Agreement shall *ipso facto* cease, and the Parties shall be released and discharged from their respective obligations under the Subscription Agreement, except for (a) the liability of the Company for the payment of costs and expenses in relation to the Notes and/or Conversion Shares upon termination of the Subscription Agreement, (b) indemnity by the Company to the Subscriber and if applicable, AOF's Agent, and for each of their respective officers, employees, and agents from and against any and all liabilities, losses, claims, costs , charges and expenses which they might incur or sustain from or in consequence of any misrepresentation or any of the representations, warranties, undertakings or covenants not being correct or fully complied with, and (c) any antecedent breaches (if any) occur prior to the cessation of the Subscription Agreement.

Rights of Noteholders to participate in securities of the Company	:	The Company or any of its subsidiary (if applicable) may offer and sell any securities convertible into securities of the same class as the issued shares or securities substantially similar to the Notes ("**Equity-linked Securities**") provided that, in respect of any proposed private placement of such Equity-linked Securities: (a) the Company shall, and the Company shall procure that the relevant subsidiary (if applicable) shall, offer and sell such Equity-linked Securities to the Noteholders prior to offering such Equity-linked Securities to any other person ("**Right of First Refusal**"); and (b) the Equity-linked Securities shall not be convertible into issued shares at a price which is below the Minimum Conversion Price, unless prior written consent of the Noteholders have been obtained. For the avoidance of doubt, the term "**Equity-linked Securities**" shall exclude (i) any Shares, rights issues, warrants relating to the Shares, or convertible preference shares issued to shareholders of the Company without preference among the shareholders (but so that the exclusion of shareholders who are overseas or on other grounds approved by Bursa Securities shall be deemed not to be a preference of the other shareholders) or (ii) any new securities convertible into securities of the same class as the issued shares or securities substantially similar to the Notes in respect of which the Company or any subsidiary (if applicable) is restricted from doing all of the (a) and (b) provided above by law, the Main Market Listing Requirement or any other applicable regulations. The Right of First Refusal is only exercisable by the Noteholders from and including the date of receipt by such Noteholders of a notice ("**First Right of Refusal Notice**") in writing from the Company setting out the details of such offer to and including the date falling fourteen (14) business days thereafter ("**Exercise Period**"). To indicate that it wishes to exercise the Right of First Refusal, a Noteholder ("**Exercising Noteholder**") shall notify the Company in writing at any time during the Exercise Period that it wishes to exercise the Right of First Refusal. If during the Exercise Period, the Company receives notices from the Noteholders indicating they wish to exercise the Right of First Refusal ("**Valid Exercise**"), the Company or the relevant subsidiary (if applicable) shall issue to each Exercising Noteholder, and each Exercising Noteholder shall subscribe, such Equity-linked Securities in the proportion of each Exercising Noteholder's holding of the Notes relative to the nominal value of all the outstanding Notes held by all the Exercising Noteholders (unless otherwise agreed between the Noteholders). For the avoidance of doubt, on a Valid Exercise, the Company or the relevant subsidiary (if applicable), as the case may be, shall issue, and the Exercising Noteholders shall subscribe for, the entire issue of the relevant Equity-linked Securities*. ***Note**:* ** For clarity purpose, the Exercising Noteholders shall subscribe for the entire issue of the relevant Equity-linked Securities as elected through the Valid Exercise in proportion of the Notes held by the Noteholders respectively, unless otherwise agreed between the Noteholders. As stated in Section 2.6 - Representation and warranties of the Subscriber below, the Noteholders are required not to hold more than 10% interest in the issued share capital of the Company at any time and from time to time without the prior approval of the Company.*

Rights of Noteholders to participate in securities of the Company ***(cont'd)***	:	If there is no Valid Exercise during the Exercise Period, the Right of First Refusal shall be deemed not to have been exercised by the Noteholders, but the Noteholders shall have the right to participate in any such private placement of the Equity-Linked Securities ("**Right of Participation**"), from and including the date of expiry of the Exercise Period to and including the date of expiry of the private placement offer ("**Participation Period**"), in accordance with the following provisions: (a) the Company shall as soon as practicable after the expiry of the Exercise Period issue, or procure the relevant subsidiary (if applicable) to issue, a notice ("**Right of Participation Notice**") to each Noteholder and (where applicable) each other prospective investor; (b) each Noteholder that wishes to exercise the Right of Participation ("**Participating Noteholder**") shall complete and return to the Company or the subsidiary (if applicable), as the case may be, by no later than the date of expiry of the private placement offer, a counterpart of the Right of Participation Notice, indicating therein the nominal value of the Equity-linked Securities ("**Participation Amount**") for which it intends to subscribe; and (c) if the aggregate of the participation indicated by the Participating Noteholders referred to in sub-paragraph (b) above is: (i) less than 20% of the aggregate nominal value offered under such private placement, the Company or the relevant subsidiary (if applicable) is not required to issue the Equity-linked Securities to any Participating Noteholders; (ii) not less than 20% but not more than 50% of the aggregate nominal value offered under such private placement, each Participating Noteholder shall subscribe for, and the Company or the relevant subsidiary (if applicable) shall issue to the relevant Participating Noteholder, the Equity-linked Securities in an amount equal to the Participation Amount in respect of such Participating Noteholder; and (iii) more than 50% of the aggregate nominal value offered under such private placement, the Participating Noteholders shall subscribe for, and the Company or the relevant subsidiary (if applicable) shall issue to the relevant Participating Noteholders, an aggregate of at least 50% of the aggregate amount offered under such private placement, and the part of such amount subscribed for by each Participating Noteholder shall be in the proportion that its holding of the Notes bears to the nominal value of all the outstanding Notes held by all the Participating Noteholders (unless otherwise agreed between the Participating Noteholders). For the period from and including the date on which the Company or the relevant subsidiary (if applicable) issues the First Right of Refusal Notice to and including the last date of the Participation Period, the Company shall close the record at any time and advertise the notice in national newspaper in English language and of daily and general circulation in Malaysia PROVIDED THAT such closure of the record shall not affect any Noteholder's Conversion Right unless such Noteholder is an Exercising Noteholder or a Participating Noteholder, in which event such Noteholder's Conversion Right shall be suspended during such period.

Events of default	:	For so long as there are any Notes outstanding, if any of the following events (each, an "**Event of Default**") occurs: (a) for so long as there are any Notes outstanding, any of the approvals, consents and/or waivers required to be obtained by the Company under the Subscription Agreement are not obtained or are amended, withdrawn, revoked, rescinded or cancelled; (b) where any of the approvals required to be obtained by the Company under the Subscription Agreement were obtained subject to any conditions which were required to be fulfilled, such conditions were not fulfilled; (c) there is a default in any payment by the Company in relation to the terms of payment of interest and/or nominal value due in respect of the Notes as detailed in the Subscription Agreement; (d) there is default by the Company in the performance or observance of any covenant, condition, provision or obligation (including the performance of its obligations to allot and issue Shares arising from the conversion of the Notes as and when the Noteholders exercise its Conversion Rights in accordance with the conditions of the Subscription Agreement) contained in the Notes and on its part to be performed or observed (other than the covenant to pay the nominal value and interest in respect of any of the Notes) and such default continues for the period of seven (7) business days following the service by any Noteholder on the Company of notice requiring the same to be remedied; (e) any other notes, debentures, bonds or other instruments of indebtedness or any other loan indebtedness having an aggregate outstanding amount of over RM50 million or the equivalent in any other currency or currencies (hereinafter collectively called "**Indebtedness**") of the Company or any of the subsidiaries become or becomes prematurely repayable following a default in respect of the terms thereof which shall not have been remedied, or steps are taken to enforce any security therefor, or the Company or any of the subsidiaries defaults in the repayment of any such Indebtedness at the maturity thereof or at the expiration of any applicable grace period therefor or any guarantee of or indemnity in respect of any Indebtedness of others having an aggregate outstanding amount of over RM50 million given by the Company or any of the subsidiaries shall not be honoured when due and called upon; (f) resolution is passed or an order of a court of competent jurisdiction is made that the Company be wound up or dissolved (otherwise than for the purposes of or pursuant to a consolidation, amalgamation, merger, reconstruction or reorganisation that is approved by the Shareholders, as the case may be, and upon which the continuing corporation effectively assumes the entire obligations of the Company, as the case may be, under the Notes); (g) a resolution is passed or an order of a court of competent jurisdiction is made that any subsidiary of the Company be wound up or dissolved otherwise than (i) for the purposes of or pursuant to a consolidation, amalgamation, merger, reconstruction or reorganisation (other than as described in (ii) below) the terms of which have previously been approved in writing by the majority Noteholders, (ii) for the purposes of or pursuant to a consolidation, amalgamation, merger or reconstruction with or into the Company or another subsidiary of the Company, or (iii) by way of a voluntary winding up or dissolution where there are surplus assets in such subsidiary and such surplus assets attributable to the Company and/or any subsidiary are distributed to the Company and/or such subsidiary;

Events of default ***(cont'd)***	:	(h) an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the SHIB Group; (i) (i) the Company or any subsidiary without any lawful cause stops payment (within the meaning of any applicable bankruptcy or insolvency law) or is unable to pay its debts as and when they fall due or (ii) the Company or any subsidiary (otherwise than for the purposes of such a consolidation, amalgamation, merger, reconstruction or reorganisation as is referred to in paragraphs (f) or (g) above) ceases or through an official action of the board of directors of the Company or any subsidiary, as the case may be, threatens to cease to carry on its business, and such action has a material adverse effect on the Group; (j) proceedings shall have been initiated against the Company or any subsidiary under any applicable bankruptcy, reorganisation or insolvency law and such proceedings have not been discharged or stayed within a period of seven (7) business days; (k) the Company or any subsidiary shall initiate or consent to proceedings seeking with respect to itself adjudication of bankruptcy or insolvency, or a decree of commencement of composition or reorganisation or other similar procedures, or the appointment of an administrator or other similar official under any applicable bankruptcy, reorganisation or insolvency law or make a general assignment for the benefit of, or enter into any composition with, its creditors, and such action has a material adverse effect on the Group; (l) a distress, execution or seizure before judgment is levied or enforced upon or sued out against a part of the property of the Company or any subsidiary, which is material in its effect upon the operations of either the Company or such subsidiary, as the case may be, and is not discharged within seven (7) business days thereof; (m) the delisting of the Shares on the Main Market of Bursa Securities or a suspension of trading of such Shares on the Main Market of Bursa Securities for a period of five (5) consecutive Business Days or more save for trading halts made at the request of the Company for pending corporate announcements; (n) the ratio of borrowings of the Company or any of its subsidiaries to the Net Worth[(1)] exceeds 2.5 times; (o) the Net Worth is less than RM50 million; (p) for so long as there are any Notes outstanding the Company engages in any transaction with any hedge fund operating or originating from any part of the world; or (q) any credit facilities granted to the Company or any of its subsidiaries are withdrawn, terminated or suspended for any reason whatsoever, and such action has a material adverse effect on the Group, then any Note may, by notice in writing ("**Relevant Notice**") given to the Company at the designated office by the Noteholder thereof, be declared immediately due and payable whereupon it shall become immediately due and payable at 118% of its nominal value, together with an accrued interest at the rate of 1% per annum on such Notes, without further formality ("**Default Redemption Amount**"). Interests shall accrue on the Default Redemption Amount on a daily basis at the rate of 3% per month ("**Default Interest**") commencing from the business day immediately following the date of the

Events of default ***(cont'd)***	:	Relevant Notice up to and including the date on which the Noteholder receives full payment of the Default Redemption Amount, together with accrued Default Interest. ***Note:*** *(1) Net Worth means, at any time, as stated in the most recent audited consolidated financial statements of the Company and its subsidiaries and thereafter the most recent unaudited interim financial statements of the Company and its subsidiaries as announced to Bursa Securities ("**Accounts**"), the aggregate of the amounts shown in the Accounts as paid-up or credited as paid-up on the issued share capital of the Company and standing to the credit of retained earnings and other capital and revenue reserves and includes minority interests therein; less any amount which is attributable to any debit balance in its statement of profit and loss as shown in the Accounts to the extent not already charged against retained earnings.*
Redemption option	:	The Notes which are not redeemed or purchased, converted or cancelled by the Company will be redeemed by the Company, subject to there being no Event of Default, at 100% of their nominal value on the Maturity Date. The Company shall at least one month prior to the Maturity Date, despatch to all Noteholders, a notice of the Maturity Date. Subject to there being no Event of Default, the Company may at any time and from time to time, purchase the Notes at 115% of its nominal value, or such other amount as may be agreed between the Company, provided that all outstanding costs, fees and interest payable under the Subscription Agreement or the terms and conditions of the Notes shall be fully paid and settled by the Company together with the payment of the Non-Default Redemption Amount and the relevant Noteholder. The Company may redeem the Notes presented for conversion in cash at the Conversion Redemption Amount (as defined below) if the Conversion Price is less than or equal to 65% of the average of the daily traded VWAP per Share for the forty-five (45) consecutive business days period prior to the relevant closing date in respect of each first sub-tranche of the respective tranches of the Notes, at an amount calculated in accordance with the formula as set out below ("**Conversion Redemption Amount**"): $R = N \times \{P + [8\% \times P \times (D/365)] + I\}$ where: "R" : the Conversion Redemption Amount. "D" : the number of days elapsed since the relevant closing date in respect of each sub-tranche of the Notes. "N" : the number of the Notes presented for conversion. "P" : the face value of the Notes presented for conversion. "I" : the remaining unpaid interest accrued on the Notes presented for conversion.
Form and Denomination	:	The Notes are issued in multiples of RM50,000.
Transferability	:	The Notes will be tradable and/or transferable in accordance with the terms and conditions of the Notes.
Rating	:	The Notes will not be rated.

Listing	:	The Notes will not be listed on Bursa Securities. Bursa Securities had, *vide* its letter dated 2 August 2019, approved for the listing of and quotation for the Conversion Shares on the Main Market of Bursa Securities. The Conversion Shares, as and when issued, will be listed on the Main Market of Bursa Securities
Governing law	:	The Notes and the trust deed to be entered into between the Company and the trustee of the Notes will be governed by the laws of Malaysia.

Further details and terms of the Notes in relation to the Proposed Notes Issue are set out in the Subscription Agreement which is made available for inspection as disclosed in Section 5 of Appendix II.

For the avoidance of doubt, the Notes are neither guaranteed nor secured. In the event of default or upon termination of the Subscription Agreement by the Subscriber in accordance with the Subscription Agreement, all outstanding Notes will be immediately due and payable by the Company at 118% of the nominal value together with an accrued interest at the rate of 1% per annum on the Notes. Further, interest shall accrue on the Default Redemption Amount on a daily basis at the rate of 3% per month up to and including the date that the Noteholders receive full payment of the Default Redemption Amount. In addition to the above, upon termination of the Subscription Agreement by the Subscriber, the Company is liable for the payment of:

(i) all costs and expenses already incurred in connection with the preparation of the Subscription Agreement and any other related agreements;

(ii) all fees and expenses of the Company's legal and other professional advisers incurred in connection with the issue of the Notes;

(iii) all costs and expenses incurred in connection with the preparation, printing and authentication of the Notes;

(iv) an administrative fee of 5.0% of the aggregate nominal value subscribed of each sub-tranche of the issued Tranche 1 Notes, Tranche 2 and Tranche 3 Notes payable to the Subscriber or AOF's Agent (if so directed by the Subscriber);

(v) a cancellation fee of S$50,000 to the Subscriber in the event that the Subscription Agreement is terminated for any reason whatsoever except in a case where the necessary authority's approvals, consents and waivers for the transactions contemplated under the Subscription Agreement are not obtained prior to the Closing Date of the first sub-tranche of Tranche 1 Notes (and such failures are not attributable to the negligence or wilful default by the Company or its directors, employee or agents);

(vi) all fees, costs and expenses incurred in connection with the continued listing or listing of the Conversion Shares on the Main Market; and

(vii) all other costs and expenses incurred in connection with the performance by the Company of its obligations under the Subscription Agreement.

No amendment or variation of the Subscription Agreement (including the terms of the Notes) shall be effective unless in writing and signed by or on behalf of the Company and the Subscriber.

The Proposed Notes Issue is expected to raise up to RM50 million through the issuance of Tranche 1 Notes. Further amounts of up to RM100 million may be raised through the issuance of Tranche 2 Notes and Tranche 3 Notes, at the discretion of the Company, subject to the terms and conditions as set out in the Subscription Agreement.

For the avoidance of doubt, no funds will be raised upon conversion of the Notes into new SHIB Shares. The Notes will be constituted by a trust deed to be executed by the Company and the trustee of the Notes at a later date.

2.3 Basis of determining the Conversion Price and the Minimum Conversion Price

The basis for determining the Conversion Price is a commercial decision agreed upon between the Company and the Subscriber. In addition, the discount rates to be applied to the relevant closing prices of SHIB Shares in determining the Conversion Price (i.e. from 10% to 15%) as set out in the Subscription Agreement ("**Conversion Price Discount**") are negotiated and accepted by the Company and the Subscriber from a commercial perspective after taking into consideration their respective commercial and financial requirements i.e. total amount of funds required to be channelled for the projects as discussed in Section 2.9, the flexibility of drawdown and the dilution impact of the conversion of the Notes to the existing shareholders' shareholdings. The Board is of the view that the discount rates to be applied to the relevant closing prices of SHIB Shares in determining the Conversion Price are fair and reasonable.

Minimum Conversion Price

For the avoidance of doubt, the Conversion Price for the Notes has yet to be determined. However, the Company and the Subscriber have agreed to set RM0.18 as the Minimum Conversion Price after taking into consideration, amongst others, their commercial and financial requirements, the prevailing market price and trading history of SHIB Shares. The Minimum Conversion Price of RM0.18 is based on the historical minimum closing price of SHIB Shares from 5 September 2017 up to 5 December 2018 which is RM0.18. The basis is to ensure the Minimum Conversion Price is set at a price not lower than RM0.18, which has been agreed by the Company and the Subscriber after taking cognisance of the recent price performance of SHIB Shares. For illustrative purposes, the closing price of SHIB Share as at 6 December 2018 is RM0.17, which is 5.56% lower than the Minimum Conversion Price.

In determining the Minimum Conversion Price, SHIB has also considered the total amount of funds required to be channelled for the projects as described in Section 2.9. These funds are estimated to be RM150 million in aggregate and would be required over a period of 1 to 3 years. In this regard, the Board considers that the Minimum Conversion Price is set at a reasonable level such that it is not detrimental to the interests of the Group and shareholders and at the same time facilitates the continued operation of the Notes programme over the tenure of the Notes.

For information purpose, the Minimum Conversion Price is at a discount to the following closing market prices of SHIB Shares:

	Closing market price of SHIB Shares	**Discount of the Minimum Conversion Price to the closing market price of SHIB Shares**	
	RM	**RM**	**%**
Closing price of SHIB Shares as at 11 June 2019 *	0.195	0.015	8.33

* *Being the highest price of SHIB Shares for the past 1 month up to the LPD of the announcement.*

For illustration purposes, assuming the relevant conversion dates to be at 14 June 2019, being the LPD of the announcement, the Conversion Price and Conversion Shares to be issued upon the full conversion of the Notes shall be at Minimum Conversion Price as follows:

Tranche	**Conversion Price Discount**	**Principal Amount RM million**	**[(1)]Conversion Price RM**	**Conversion Shares**
Tranche 1 Notes	15%	50	0.18	[(2)]277,777,777
Tranche 2 Notes	12%	50	0.18	[(2)]277,777,777
Tranche 3 Notes	10%	50	0.18	[(2)]277,777,777
			Total	**833,333,333**

Notes:

(1) The average closing price of SHIB Shares for the three (3) consecutive market days from 3 June 2019 to 7 June 2019 is RM0.17, being the lowest average closing price for the three (3) consecutive market days during the thirty (30) market days up to and including the LPD of the announcement. As the average closing price is lower than the Minimum Conversion Price, the Minimum Conversion Price is used as the Conversion Price in the above illustration.

(2) Rounded down to the nearest digit.

In the event the entire Notes are converted at the Minimum Conversion Price, a maximum number of 833,333,333 Conversion Shares will be issued upon the full conversion of the Notes. Similarly, a maximum number of 277,777,777 Conversion Shares will be issued upon the conversion of Tranche 1 Notes based on the Minimum Conversion Price.

The Proposed Notes Issue will result in the existing shareholders' shareholdings in SHIB to be proportionately diluted as a result of the increase in the total number of issued SHIB Shares arising from the conversion of the Notes.

For illustration purposes, the impact of the Proposed Notes Issue to the issued share capital of SHIB, net assets and gearing of SHIB and the substantial shareholders' shareholdings shall be computed based on the Minimum Conversion Price are set out in Section 6 of this Circular.

2.4 Ranking of the Conversion Shares

The Conversion Shares shall, upon allotment and issuance, rank *pari passu* in all aspects with the existing SHIB Shares, save that the Conversion Shares will not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid where the entitlement date is prior to the date of allotment and issuance of the Conversion Shares.

2.5 Background information on the Subscriber and ACP

The Subscriber is proprietary fund established in the Cayman Islands in 2006 and has its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, of which, Mr. Tan is the principal and sole director.

The Subscriber manages its own funds and investment portfolios and invests in a variety of financial instruments including but not limited to investing in quoted securities through a private unlisted debt-to-equities convertible instrument named as redeemable convertible notes in Malaysia. The Subscriber has entered into subscription agreements with other listed companies in Malaysia as set out below:

(i) Priceworth International Berhad for the issuance of notes of up to RM50 million;

(ii) Censof Holdings Berhad for the issuance of notes of up to RM100 million;

(iii) IDimension Consolidated Berhad for the issuance of convertible preference shares of up to RM20 million;

(iv) Kanger International Berhad for the issuance of notes of up to RM100 million;

(v) DBE Gurney Resources Berhad for the issuance of notes of up to RM50 million;

(vi) XingHe Holdings Berhad for the proposed issuance of notes of up to RM120 million; and

(vii) Eduspec Holdings Berhad for the proposed issuance of convertible preference shares of up to RM60 million.

Mr. Tan has two (2) decades of investment experience in the capital markets and held significant roles in major banking and stockbroking firms since 1991. He was an Associate Director of Institutional Sales in UOB Kay Hian Pte. Ltd. from January 1996 to April 2004 prior to joining RHB Securities Sdn. Bhd. as Head of Institutional Sales and Securities Dealing from May 2004 to March 2005. He has vast experience in marketing financial products such as convertible debts, private placements and initial public offerings and executing program trading for large institutions.

ACP is wholly-owned by Mr. Tan and has a registered office at 10 Anson Road, #16-16, International Plaza, Singapore 079903. ACP has been appointed by the Subscriber, to act for and on behalf of the Subscriber, in respect of all its rights, obligations and entitlements set out under the Subscription Agreement, with effect from the date set out in the authorisation notice, issued by the Subscriber to the Company, on or around the date of the Subscription Agreement. ACP shall be entitled to (or the Subscriber shall be entitled to procure ACP to), do and execute all such matters, acts and things (including but not limited to delivery or receipt of any notices, execution of such documents or undertaking of such matters, as required under the terms of the Subscription Agreement).

2.6 Representations and warranties of the Subscriber

(i) The Subscriber represents and warrants to the Company that it has full power, authority and capacity to enter into and perform the Subscription Agreement in accordance with its terms;

(ii) The Subscriber represents that it is subscribing for the Notes for investment purposes only and has no intention of influencing the management or exercising control over the Company; and

(iii) The Subscriber agrees that (a) there will be no conversion of the Notes by the Subscriber to transfer a controlling interest in the Company such that the Subscriber becomes a controlling shareholder of the Company within the ambit of the Listing Requirements without the prior approval of the shareholders of the Company in a general meeting, and (b) collectively, or together with their Affiliate[(1)] not to hold more than 10% interest in the total number of issued share capital of the Company, at any time and from time to time without the prior approval of the Company[(2)].

***Notes**:*

*(1) "**Affiliate**" means with respect to any person, any other person that, directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with that person. For the purposes of this definition, the term "**control**" (including the terms "**controlled by**" and "**under common control with**") as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management of that person whether through ownership of shares, voting securities or otherwise.*

(2) In the event such approval is obtained, the Subscriber shall not convert the Notes such that it will hold a controlling interest in the Company without the prior approval of the Company's shareholders, which will be sought at a separate extraordinary general meeting.

In the event that shareholders' approval is obtained for the Subscriber to hold a controlling interest in the Company and the Subscriber thereby holds more than 33.0% interest in the Company (or such other percentage as may be prescribed in the Code and the Rules), the Subscriber would have to undertake a mandatory general offer for the remaining SHIB Shares and other securities, if any, not already held by it.

In addition, in the event such shareholders' approval is obtained, the major shareholders of the Company may collectively hold more than 75.0% of the outstanding SHIB Shares which would result in the Company not being in compliance with the public shareholding spread requirement under the Listing Requirements. However, the public shareholding spread of the Company as at the LPD is 56.11% and therefore, upon the full conversion of the Notes at the Minimum Conversion Price, the public shareholding spread of the Company will potentially be reduced to 32.20%.

Notwithstanding the above, as the Subscriber agree not to hold more than 10% interest in the Company's issued share capital, the Subscriber is expected to amongst others, divest the Conversion Shares via the open market on a progressive basis, in tandem with the progressive subscription and the conversion of the Notes to facilitate the issuance and subscription of all three (3) tranches of the Notes.

Further, pursuant to the global certificate, definitive certificate and the transfer form to be issued to/by (as the case may be) any Noteholder(s) as provided by the trust deed in relation to the Proposed Notes Issue, each and every Noteholder(s) is/are required to comply with the following:

(a) *not to convert the Notes to transfer a controlling interest in the Company such that the Noteholder becomes a controlling shareholder of the Company within the ambit of the Listing Requirements prior to obtaining the necessary approval from the shareholders of the Company at a general meeting; and*

(b) *not to hold more than 10% interest in the issued share capital of the Company, either individually or together with any other person that, directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with the Noteholder, at any time and from time to time without the prior approval of the Company.*

In view of the above, the Company expects to continue to comply with the public shareholding spread requirement under the Listing Requirements upon full conversion of the Notes.

2.7 Underwriting arrangement

The Proposed Notes Issue will not be underwritten as the Subscriber has been identified and the Subscription Agreement has been entered into on 14 June 2019.

2.8 Public Shareholding Spread

As at the LPD, the Company's public shareholding spread based on 1,122,307,817 existing SHIB Shares is 56.11%. In the event the entire Notes are converted at the Minimum Conversion Price, a maximum number of 833,333,333 Conversion Shares will be issued upon the full conversion of the Notes. Therefore, the proforma public shareholdings of the Company would potentially be reduced to 32.20%.

Notwithstanding the above, as the Subscriber and/or the Noteholder(s) agree not to hold more than 10% interest in the total number of issued share capital of the Company, at any time and from time to time without the prior approval of the Company, the Subscriber and/or the Noteholder(s) are expected to amongst others, divest the Conversion Shares via the open market on a progressive basis.

In view of the above, the Company expects to continue to comply with the public shareholding spread requirement as set out in Paragraph 8.02(1) of the Listing Requirements upon full conversion of the Notes.

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2.9 Utilisation of proceeds

The Proposed Notes Issue is expected to raise gross proceeds of up to RM150 million which shall be utilised in the following manner:

Purpose	Notes	RM million	Estimated timeframe for utilisation*
Business expansion and working capital for TPI#	(a)	27.0	Within three (3) years
Business expansion and working capital for Wavetree#	(b)	25.0	Within three (3) years
Business expansion and working capital for Bistromalones Group#	(c)	40.0	Within three (3) years
Business expansion and working capital for Bistromalones Group in China#	(d)	22.0	Within three (3) years
Working Capital for SHIB's core business	(e)	26.2	Within three (3) years
Estimated expenses in relation to the Proposed Notes Issue :	(f)		
(a) Professional fees, regulatory fees, printing and advertising costs		1.6	Within one (1) month
(b) Upon issuance, redemption and/or implementation of the Proposed Notes Issue which includes, inter-alia, the administrative fees and the annual fee^		8.2	Within three (3) years
Total		**150.0**	

***Notes**:*

* *As the Notes will be issued in tranches and sub-tranches as set out in Section 2.2, the proceeds to be raised will be utilised from the date of issuance of the respective sub-tranches and within the timeframe stated above.*

\# *As at the LPD, the Proposed Acquisitions are still pending completion. The purchase considerations for TPI and Wavetree are RM10 million each whereas the purchase consideration for Bistromalones Group is RM8 million. All the purchase considerations will be fully satisfied via cash which may be generated either from internally generated funds, external borrowings and/or some form of fund raising exercise, if deemed necessary. Nevertheless, barring unforeseen circumstances, the Proposed Acquisitions are expected to complete by end 2019, or at such other extended dates as may be mutually agreed between the parties.*

^ *Please refer to Note (f) of this section for the breakdown of the utilisation of RM8.2 million.*

The details of the proposed utilisation of proceeds are as follows:

(a) Business Expansion and Working Capital for TPI

SHIB had, on 3 April 2019, announced the proposed subscription of new ordinary shares and acquisition of ordinary shares in TPI representing in aggregate of 51% of the enlarged issued share capital of TPI ("**Proposed TPI Acquisition**"). The remaining 49% of the enlarged issued share capital of TPI resides with the original founder shareholders of TPI, Ng Chee Seng and Amirrudin Yahaya, holding 44.1% and 4.9% respectively.

TPI is principally involved in the R&D and provision of professional services relating to enterprise mobile applications, smart city platform and ecosystem enablement which include, amongst others, conducting businesses in payment, loyalty, e-wallet, analytics and others services.

TPI has developed the Mobile Community Plan, a community building smart city platform that enables local authorities to engage with the community intelligently via a mobile app. Mobile Community Plan is currently deployed as the official community mobile application in the city of Putrajaya. Further information on TPI is set out in Section 4.4 and Appendix I(A) of this Circular.

SHIB intends to utilise up to RM27 million# of the proceeds to finance the business expansion and working capital for TPI, details of which are set out below:

Note	Projects (Purposes)	Allocation (RM'million)	Timeframe (months)
(i)	Development of Smart Hospital Solution Breakdown: - Hardware R&D and manufacturing: RM3.0 million - Software Platform: RM1.5 million - Sales & Marketing: RM1.5 million	6.0	36
(ii)	Smart City Projects Breakdown: - Platform Development & Infrastructure: RM4.5 million - Business Development, Sales & Marketing: RM3.0 million - User and Merchant Acquisition: RM4.5 million	12.0	36
(iii)	Sales Force Automation Solution Breakdown: - SaaS Platform Development: RM2.0 million - Sales & Marketing: RM1.0 million	3.0	12
(iv)	e-Wallet License Application and related marketing activities Breakdown: - License & Regulatory Costs: RM2.0 million - Marketing: RM2.0 million	4.0	12
(v)	General Working Capital	2.0	24
	TOTAL	**27.0**	

***Note**:*

\# *For information purposes, the RM27 million will be injected into TPI in the form of shareholder's advances from SHIB, which will in turn be utilised to finance the business expansion and working capital for TPI. The shareholder advances will carry an interest at the rate of 5.0% per annum and shall be repaid by TPI in full over a period of 3 years.*

***Notes**:*

(i) *TPI is developing a full scale smart hospital solution incorporating IoT hardware and software platform to address the industrial 4.0* market needs amongst private and public healthcare providers in Malaysia and overseas. The immediate target customer base of TPI's smart hospital solutions would be large healthcare groups in Malaysia such as the KPJ Group and IHH, whilst the medium term focus of TPI includes expanding its smart hospital solution business to regional markets in the South East Asia.*

Note:

* *The fourth industrial revolution also referred to as "**Industry 4.0**" is a move towards digitalisation which was on the basis of cyber-physical production system (CPPS), merging of real and virtual worlds.*

  Industry 4.0 introduces the "smart factory", in which cyber-physical systems monitor the physical processes of the factory and make decentralised decision. The physical systems become IoT enabled, communicating and cooperating with each other and with humans in real time via wireless web.

The smart hospital solution project involves the development and manufacturing of customised hardware equipment to provide patients vital sign sensor and tracking, equipment location and utilisation tracking, environmental monitoring, integrated building management and mobile computing devices of staff. The total cost comprises RM1.0 million on the electronic design, system design, mechanical design and prototyping of hardware, RM0.3 million on the development of embedded operating system and firmware and a further RM1.5 million on the hardware production cost which includes component sourcing, production set up and production run. Additionally, a further RM0.2 million from the proceeds will be utilised for the final product testing and certification as required by the authorities.

The software platform includes data management and reporting, A.I. and big data analytic and integration with hospital information system. Of the RM1.5 million, RM0.5 million will be utilised to acquire intellectual properties and licenses of software components necessary for the implementation of A.I., facial recognition and predictive analytic. A further RM1.0 million will be utilised for the software development resources, project implementation and project management resources for the back-end integration with customer's hospital information system. This enables the digitalisation and integration of value chains, product and service offerings and business models as well as improves communication with patients.

RM1.5 million raised from the Notes will be utilised for the marketing, branding and advertising of the smart hospital solution. This includes general sales and marketing activities such as advertising, promotion, road shows and exhibition. Additionally, the proceeds will also be utilised to develop a better network with the regional partners and resellers as well as the marketing expenses for selected pilot projects.

(ii) *A smart city refers to a city that incorporates ICT to enhance the quality and performance of urban services such as energy, transportation and utilities in order to reduce resource consumption, wastage and overall costs. TPI received a Letter of Intent from Putrajaya Corporation in 2015 to develop and deploy a Smart City Mobile Platform for the city of Putrajaya. TPI and Putrajaya Corporation are finalising the definitive agreement which forms part of the Smart Putrajaya 10-year blueprint. The expected timeline to sign the agreement is by the fourth quarter of 2019. The project includes the official Putrajaya mobile application, Mobile Community Plan, as well as various features to be developed to provide digital services to the residents and visitors of Putrajaya. The project will be further developed to include a mobile e-commerce platform with hyperlocal and personalised promotions to drive online-to-offline transactions for Putrajaya merchants. The cost of the development of the platform and infrastructure for the smart city project is estimated at RM4.5 million. Out of the RM4.5 million, RM2.5 million will be utilised for the software development resources, including in the areas of decision logic and predictive analytic and RM2.0 million will be utilised in the acquisition of cloud infrastructure for the commercial roll out of the mobile e-commerce platform, designed to scale to support a nationwide growth trajectory.*

Additionally, RM3.0 million raised from the Notes will be utilised for the business development, sales and marketing of the smart city projects. This includes general sales and marketing activities such as advertising, promotion, road shows and exhibition.

Furthermore, RM4.5 million from the proceeds raised is used for user and merchant acquisitions for the e-commerce business platform of the smart city project in the form of promotional campaigns and road shows, which involves expansion of the customer and merchant base of using the said e-commerce business platform. The immediate target customer base for this platform is the municipal councils, state governments as well as various government ministries in Malaysia. In addition, the platform will also be offered to venue owners and communities that provide substantial captive user base.

(iii) *One of TPI's core products is a mobile-app and cloud based sales force automation platform, designed to provide end-to-end mobile sales force management for enterprise customers such as telcos, banks, fast-moving consumer goods and utility companies. The cloud based sales force automation platform has been commercially rolled-out to Flir Asia Sdn Bhd, one of the end-users of TNB Distribution in August 2014. The sales force automation platform has also been commercially rolled-out to U Mobile Sdn Bhd, one of the Malaysian mobile telecommunications service providers in two phases (first phase in December 2018 and second phase in April 2019). Currently there is one (1) enterprise customer for this cloud based service. The key features of the platform are to provide near real-time visibility into the on-site visitation performed by sales personnel, service teams, contractors, etc. The platform also includes a comprehensive work-flow management component to support customised visitation checklist and intelligence data capturing. As of now, the sales force automation platform has been fully developed and commercially roll-out to enterprise customers in utility service industry, telecommunication providers.*

TPI intends to utilise RM1.5 million to further develop the platform into a SaaS solution in order to target SME sectors by offering a subscription based model with self service capability. This includes the development of native mobile applications for tablets and mobile devices. A further RM0.5 million is to be utilised to develop integration layer with several leading customer relationship management solutions currently in the market, in order to tap into existing installed user base.

Additionally, RM1.0 million of the proceeds will be used for marketing and advertising, partner and channel development, and other activities to support the commercialisation of this digital solution such as social marketing and road show campaigns.

(iv) *As part of the initiative to include financial technology revenue models into existing product offering, TPI intends to utilise RM2.0 million to apply for an e-money license with the authorities, and/or to identify suitable acquisition targets with the said license, depending on the expected market consolidation of current e-money providers and the impending Real-Time Retail Payments Platform (RPP) which is part of BNM's Interoperable Credit Transfer Framework (ICTF), which is expected to come into effect in 2020/2021. The e-money license will enable TPI to incorporate e-wallet feature in the Smart City Mobile Platform and to further support the cashless mobile e-commerce applications such as loyalty and rewards, parking payment, electronic bus ticketing, facility booking. Additionally, the e-money license will also allow TPI to build and operate own payment getaway for online transactions, thereby reducing or eliminating service charges paid to third party payment getaway providers.*

Additionally, RM2.0 million from the proceeds will be utilised for marketing purpose includes branding and above-the-line marketing campaigns (e.g. television, radio or internet) which is focused on creating product and brand awareness, while promoting user downloads. This proceed will also include efforts in merchant acquisition in the form of promotional campaigns and road shows which involves acquiring new merchants by implementing the said digital wallet service in the merchant's shop.

(v) *TPI will utilise the RM2.0 million from the proceeds for general working capital which include, amongst others, repayment of trade creditors and other operating expenses such as utilities, administrative overheads and office expenses which include, amongst others, computer, printers, telephone line, internet service as well as office supplies such as printer ink, stationery, furniture and other office consumables.*

(b) Business Expansion and Working Capital for Wavetree

SHIB had, on 3 April 2019, announced the proposed acquisition of business and assets including of intellectual property right owned by Wavetree ("**Proposed Wavetree Acquisition**")*.

Wavetree is primarily involved in the digital industry and specifically designs, manufactures, engineers and implements IoT to provide for cost savings in manpower and logistics, and enable automation and predictive analytics through the research, development and solution implementation of IoT technologies for industrial, agricultural, commercial and healthcare applications.

Wavetree has developed an integrated IoT platform ("**SensorHub**"), which forms the baseline technology for its Industrial IoT and Agriculture IoT solutions. SensorHub is commercially deployed as SensorHub v1.0 platform in May 2018 and is used to capture real-time data that is used to monitor and automate HVAC and various intelligent building management subsystems, resulting in substantial tangible return on investment in the forms of energy savings for the company. SensorHub is an end-to-end platform that has been commercially deployed in 25 locations of one of Malaysia's largest hypermarket chain, providing automatic wireless environmental sensing. Further information on Wavetree is set out in Section 4.4 and Appendix I(B) of this Circular.

***Note**:*

* *As announced by the Company on 3 April 2019, upon completion of the Proposed Wavetree Acquisition, the business and assets including of intellectual property right owned by Wavetree will be transferred to the nominee company of the Company, namely Fancy Celebrations Sdn Bhd ("**FCSB**"), a wholly owned subsidiary of the Company. Eventually, the Company shall have an effective interest of 51% in FCSB whilst the remaining 49% shall be owned by Ng Chee Seng, being one of the vendors of Wavetree, via a shareholders agreement. Thereafter, Wavetree is expected to contribute 51% share of its financial results to the Company as stated in Section 6.4 of this Circular.*

SHIB intends to utilise up to RM25 million for several business plans of Wavetree as follows:

Note	**Project (Purposes)**	**Allocation (RM'million)**	**Timeframe (months)**
(i)	Working Capital for IoT for Palm Oil Plantation Platform Breakdown: - Hardware R&D, Production: RM5.0 million - Software Platform R&D: RM4.0 million - Sales & Marketing: RM3.0 million over 3 years	12.0	36
(ii)	Industrial IoT Platform Breakdown: - Hardware R&D, Production: RM4.5 million - Software Platform: RM3.5 million - Sales & Marketing, Business Development: RM2.0 million	10.0	18
(iii)	General Working Capital	3.0	24
	TOTAL	**25.0**	

***Notes**:*

(i) Wavetree's current IoT for palm oil plantation platform has been deployed in May 2018 in several plantations in Malaysia, Indonesia and South America, providing automatic data capturing, equipment tracking, weather stations and wireless sensors. The immediate target customer base for the palm oil plantation platform includes medium to large oil palm plantation companies in Malaysia and Indonesia, nominally with total planted areas of 10,000 hectare and above. To date, the IoT platform of Wavetree is deployed in 2 Indonesian oil palm plantation companies, 2 Malaysian oil palm plantation companies and 1 South American oil palm plantation company, covering a total area under management of approximately 25,000 hectare. The revenue model for the palm oil plantation platform includes one-time engineering consultancy services, hardware sales and project implementation services, as well as a recurring revenue component stemming from the subscription to SensorHub which provides back haul connectivity and cloud platform data access.

The proceeds raised from the Proposed Notes Issue will be utilised to further research, develop and manufacture different types of sensor hardware and to address the needs of oil palm plantation operators more efficiently. Out of the proceeds raised from the Notes, RM2.0 million is earmarked for research, electronic and mechanical design, as well as the prototyping of various sensors supporting multiple IoT communication protocol such as low-power wide-area network and nanosatellite networks. A further RM0.5 million will be used for the testing, qualification and certification of such sensor devices in order to comply to local regulatory requirements. RM2.5 million will be utilised for the production of these IoT sensor devices, including component sourcing, production set up, production run and associated packaging costs.

Additionally, the Company will utilise RM4.0 million for the R&D of the software platform for the palm oil plantation. The total cost comprises RM2.0 million on the R&D of software platform which includes, amongst others, novel technologies in A.I. and predictive analytic, including image analysis and deep neural networks, to be applied to Agriculture IoT use cases, RM1.0 million on acquiring subject matter expertise in agronomy and agriscience, as well as collaborative R&D projects with strategic partners and a further RM1.0 million on IP acquisition and/or licensing of advanced visualisation platforms that forms a critical part of the overall Agriculture IoT solution.

Moreover, RM3.0 million from the proceeds of the Notes is earmarked for sales and marketing activities, including branding and advertising initiatives as well as business development activities, including advocacy activities amongst industry associations, government agencies and value-added partners to achieve greater market awareness and increase adoption. The company also intends to establish regional sales and support offices in potential locales in Indonesia in order to give its customers better service as well as streamline the logistics and project its implementation processes.

(ii) The SensorHub platform has been implemented to provide industrial IoT application in June 2018 which is offered as a subscription service that will generate recurring revenue, based on the scope and scale of each customer's implementation. There will also be a one-time engineering and system implementation services contributing to the revenue stream. The initial market focus will consist of large retail chains and warehousing and logistic players, where their large facilities can benefit from using Industrial IoT technologies to help streamline operations and reduce costs.

Wavetree intends to utilise RM4.5 million from the proceeds to finance the development of hardware for a subscription-based Industrial IoT Solution platform, based on the enhancement and expansion of the current Industrial IoT solution which had already deployed in 25 stores nationwide for an international hypermarket chain. The total cost comprises the utilisation of RM2.5 million on the design and development, prototyping and field testing of various sensors, spanning applications such as power consumption monitoring, environmental monitoring, mechanical sensors in manufacturing, etc and a further RM2.0 million to be used for the production of the resultant IoT sensor devices, including testing and certification.

Besides, RM3.5 million from the proceeds will be utilised to further enhance the SensorHub platform will be further enhanced with A.I. and Machine Learning capabilities .This comprises RM2.0 million on the research and software development, including building in-house data science and subject matter expertise in industrial applications of IoT and RM1.5 million on the acquisition and provisioning of cloud computing infrastructure to support the commercial roll out of the Industrial IoT solution platform.

Additionally, RM2.0 million from the proceeds will be used to develop product branding, sales and marketing of said platform, including advertising, trade shows and exhibitions. The company intends to also develop a network of selected reseller, system integrator partners, both locally and regionally in order to address a wider geographical market.

(iii) RM3.0 million from the proceeds will be utilised as the general working capital which include amongst others, repayment to trade creditors and other operating expenses such as utilities, administrative overheads, and office expenses which include, amongst others, computer, printers, telephone line, internet service as well as office supplies such as printer ink, stationery, furniture and other office consumables.

(c) <u>Business Expansion and Working Capital for Bistromalones Group within Malaysia</u>

SHIB had, on 3 April 2019, announced the proposed acquisition of the entire equity interest in Bistromalones, including the shares in the entities it will acquire with the details as set out in Appendix I(C), for a total purchase consideration of RM8.0 million, to be fully satisfied in cash ("**Proposed Bistromalones Acquisition**")*. Bistromalones is principally engaged in operating a restaurant business and investment holding.

Bistromalones Group has been one of the leading operators in the F&B casual dining space for over the past 20 years. The 2 core brands owned by Bistromalones Group comprise TGIF (for the Malaysia region) and TTP. Further information on Bistromalones Group is set out in Section 4.4 and Appendix I(C) of this Circular.

Note:

∗ *As announced by the Company on 3 April 2019, the Company has also entered into a Call Option Agreement ("**COA**") with Craveat Management Sdn Bhd ("**CMSB**") for the granting by the Company of a call option for CMSB to require the Company to sell up to 49% of the entire paid up capital in Bistromalones to CMSB after the completion of the Proposed Bistromalones Acquisition. Barring any changes in the shareholding structure, Bistromalones will become a 51% owned subsidiary of the Company in the event the call option under the COA is fully exercised by CMSB. Thereafter, Bistromalones Group is expected to contribute 51% share of its financial results to the Company as stated in Section 6.4 of this Circular.*

Bistromalones Group intends to utilise up to RM40 million for the business expansion of TGIF and TTP in Malaysia as follows:

Note	Project (Purposes)	Allocation (RM'million)	Timeframe (months)
(i)	Expand the number of TGIF restaurants/outlets in West and East Malaysia by a further 10 new outlets and re-imaging of the existing 8 outlets Breakdown: - Capital Expenditure for new outlets: RM 20.0 million - Re-imaging of the existing 8 outlets: RM5.0 million	25.0	36
(ii)	Opening of approximately 15 TTP proprietary restaurants/outlets in Malaysia Breakdown: - Capital expenditure for new outlets: RM10.0 million	10.0	36
(iii)	Setting up of a manufacturing base for the production and distribution of TTP products and retailing them in the commercial market Breakdown: - Set up for new production facility: RM3.8 million - Set up of distribution centre (including vehicles):RM0.7 million - Marketing and retailing costs: RM0.5 million	5.0	36
	TOTAL:	**40.0**	

***Notes**:*

(i) *Bistromalones Group currently owns and operates 8 TGIF outlets in Malaysia which include 5 outlets in Klang Valley, 2 outlets in Penang and 1 outlet in Johor. Upon completion of the Proposed Bistromalones Acquisition, SHIB Group plans to open a further 10 new outlets across Malaysia and the estimated capital expenditure includes the franchise fee and rental deposits required for each outlet. The cost of opening the new outlet is estimated at RM2.0 million per outlet resulting in a total funding cost of RM20 million. The targeted number of new TGIF outlets in each location to be opened in the next 3 years are tabled as follows:*

Location	***No. of outlets***
Klang Valley	*4*
Penang	*1*
Johor	*3*
Sabah	*2*
Total number of outlets	***10***

In addition to the opening of new outlets, re-imaging of the existing 8 outlets is in the pipeline to maintain a fresh appeal consistent with the brand image. The progressive re-imaging of the 8 outlets is estimated to require an investment of RM5.0 million.

(ii) *There are currently 20 existing TTP outlets in Malaysia of which 2 TTP outlets are owned by the Bistromalones Group with the remaining 18 TTP outlets are operated and owned by franchisees. The SHIB Group intends to expand a further 15 new TTP outlets within the next 3 years. TTP outlets are currently located within Klang Valley. Thus, SHIB Group plans to further venture into the central KL city area which would potentially have a huge demand as well as expand to the other urban cities in Malaysia. The estimated capital expenditure including rental deposits, renovation, kitchen equipment and furniture required for each outlet is estimated at RM0.67 million resulting in a total funding cost of about RM10 million.*

The targeted numbers of new TTP outlets in each location to be opened in the next 3 years are tabled as follows:

Location	***No. of outlets***
Klang Valley	*5*
Melaka	*2*
Johor	*3*
Penang	*3*
Perak	*2*
Total number of outlets	***15***

(iii) *With the expansion of the number of TTP outlets both owns and franchised, the SHIB Group plans to utilise RM3.8 million to set up a new production facility in the Klang Valley which can accommodate contract production and the production of proprietary retail TTP products. The investment required for the new production facility will include the acquisition of a semi-industrial factory and equipment. A distribution centre is also targeted to be set up in the northern part of Malaysia to cater for the increased number of outlets in the said region which would create more cost and timing efficiency. The cost of setting up a distribution centre is estimated at RM0.7 million. With the strong brand recognition of TTP, the SHIB Group is ready to foray into the ready-to-cook retail segment via the development of retail products such as the sambal paste, instant teh tarik and frozen roti canai dough. These products will be distributed in local retail market and via international retail distribution channels. Thus, certain funding costs of RM0.5 million will be required for the marketing and retailing of this new revenue stream which includes, amongst others, brand development, brand awareness in the retail market and marketing of the brand via digital media.*

(d) <u>Business Expansion and Working Capital for Bistromalones Group in China</u>

SHIB intends to utilise up to RM8 million for opening of TGIF restaurant branches and up to RM14 million for opening of TTP restaurant branches in China (with Headquarters in Malaysia) as follows:

Note	Project (Purposes)	Allocation (RM'million)	Timeframe (months)
(i)	Expansion of TGIF restaurants into China Breakdown: - Capital Expenditure for new outlets: RM8.0 million	8.0	36
(ii)	Expand the number of TTP restaurants/outlets in China by a further 10 new outlets Breakdown: - Capital Expenditure for new outlets: RM12.0 million - Marketing cost: RM2.0 million	14.0	36
	TOTAL:	**22.0**	

Notes:

(i) Currently, there are only 3 TGIF outlets in Beijing owned by Chaswood Restaurant Management (Beijing) Co. Ltd. (a wholly-owned subsidiary of Chaswood Resources Sdn Bhd). For information purposes, as at the LPD, Bistromalones is a wholly owned subsidiary of Chaswood Resources Sdn Bhd. New trade areas have been identified for which the locations are strategic for the opening of new TGIF outlet. SHIB Group is targeting to open another 3 new outlets in Beijing in the next 3 years. The process of setting up new outlets would also include obtaining the approval from the franchisor and local authorities such as fire department and local licensing authority. The estimated capital expenditure including franchise fee and rental deposits required for each outlet is estimated at RM2.67 million, resulting in a total funding cost of about RM8 million for 3 TGIF outlets.

(ii) Currently there is no TTP outlet in China yet. However, part of the TTP regional expansion plans is to expand the brand into China through the opening of its own outlets initially and eventually licensing into the rest of the country. The Group plans to introduce the TTP brand into China beginning with Beijing and Shanghai. The Group believes that the food offering and concept of TTP is palatable to the Chinese market and is scalable given its smaller size and lower investment cost per outlet. The estimated capital expenditure (including rental deposits) required for each TTP outlet is estimated at RM1.2 million, resulting in a total expected cost of RM12 million for 10 TTP outlets for the next 3 years. The Group also expects funding costs of about RM2.0 million for the branding and marketing of the brand in this market for the new outlet openings and the retailing of TTP products. The targeted number of new TTP outlets in each city to be opened in the next 3 years are as follows:

Location	***No. of outlets***
Beijing	*5*
Shanghai	*5*
Total number of outlets	***10***

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(e) Working Capital for SHIB's core business

Approximately RM26.2 million of the proceeds will be utilised for the working capital for the Company's current core business (manufacturing and sales of metallurgical coke and its by-products) operations. The working capital is expected to be utilised in the following manner which shall include, but are not limited to, payments to trade suppliers and other third party trade creditors and general expenses such as utilities charges, staff related expenses and other operating expenses including, amongst others, marketing.

Purposes	Allocation (RM'million)	Timeframe (months)
Trade suppliers and other third party trade creditors	10.0	36
General operating expenses:		36
• Utilities	6.0	
• Staff related expenses such as staff incentives, training, safety awareness programmes, staff welfare, allowances and etc.	3.0	
• Administrative expenses	3.0	
Other miscellaneous expenses e.g. marketing	4.2	36
Total	**26.2**	

(f) Estimated expenses in relation to the Proposed Notes Issue

The estimated expenses in relation to the Proposed Notes Issue are inclusive of professional fees, regulatory fees, administrative fees, printing and advertising costs as follows:

	RM' million	RM' million
Upon setting-up the Notes programme:		
(a) Professional fees$^{(1)}$	1.2	
(b) Regulatory fees	0.1	
(c) Printing and advertising costs	0.3	1.6
Upon issuance, redemption and/or implementation of the Proposed Notes Issue which includes, inter-alia, the administrative fees and the annual fee:		
(a) Professional fees$^{(1)}$	0.6	
(b) Administrative fees$^{(2)}$	7.5	
(c) Regulatory fees	0.1	8.2
Total		**9.8**

Notes:

(1) The professional fees include the fees payable to, among others, the principal advisers and the solicitors for the Proposed Notes Issue as well as the lead arranger and the facility agent in relation to the Proposed Notes Issue.

(2) The administrative fees are calculated based on 5% of the aggregate amount of the Notes amounting to RM150 million. The administrative fees will only be payable to the Subscriber or AOF's Agent (if so directed by the Subscriber) upon the subscription of the Notes for each sub-tranche.

In the event the actual amount varies from the above estimated amount during the point of utilisation or the drawdown, the excess or deficit, as the case may be, will be adjusted from/to the amount earmarked for working capital. Pending utilisation of the proceeds from the Proposed Notes Issue, the proceeds will be placed in deposits with reputable financial institutions or short-term money market instruments, as the Board may deem fit. Any interest income earned from such deposits or instruments will be used as working capital of the Group.

As set out in Section 2.2, the Proposed Notes Issue comprises three (3) tranches, of which Tranche 2 Notes and Tranche 3 Notes can be issued at the Company's option during the Option Period, subject to the terms and conditions of the Subscription Agreement. Thus, the Company will exercise the said option if such funds are required for the purposes set out above.

Tranche 1 Notes will be issued upon the conditions precedent of the Subscription Agreement being met. Thus, in the event the Company chooses not to issue the subsequent tranches and only raises gross proceeds of RM50.0 million via the issuance of Tranche 1 Notes, it shall be utilised in the manner as set out below:

Purposes	RM million	Estimated timeframe for utilisation
Business Expansion and Working Capital of TPI(1)	10.5	Within 18 months
Business Expansion and Working Capital of Wavetree(1)	7.0	Within 18 months
Business Expansion and Working Capital of Bistromalones Group within Malaysia(1)	12.0	Within 18 months
Business Expansion and Working Capital of Bistromalones Group in China(1)	5.7	Within one (1) year
Working Capital for SHIB's core business(1)	10.0	Within one (1) year
Estimated expenses in relation to the Proposed Notes Issue(2):		
(a) Professional fees, regulatory fees, printing and advertising costs;	1.6	Within one (1) month
(b) Upon issuance redemption and/or implementation of the Proposed Notes Issue which includes, inter-alia, the administrative fees and the annual fee(2)	3.2	Within three (3) years
Total	**50.0**	

***Notes**:*

(1) The remaining expenditure will be funded via other sources of funding such as internally generated funds, equity funding or bank borrowing, which will be determined at a later juncture.

(2) The estimated expenses in relation to the Proposed Notes Issue are inclusive of administrative fees payable to the Subscriber or AOF's Agent (if so directed by the Subscriber) in respect of the Tranche 1 Notes, professional fees and regulatory fees. The administrative fees in respect of Tranche 1 Notes are RM2.5 million, which is calculated based on 5% of the aggregate amount of the Tranche 1 Notes amounting to RM50.0 million.

Notwithstanding the proposed utilisation of the issuance of Tranche 1 Notes above, the Company may determine and vary the utilisation of the Notes based on the requirements of the Group at the point of issuance as reflected in the table in Section 2.9, subject to making the relevant announcements and in compliance with the Listing Requirement including obtaining shareholders' approval, if required.

Presently, the Proposed Acquisitions are still pending completion, and the Board shall take all reasonable steps to enable completion of the Proposed Acquisitions. However, in the event the Proposed Acquisitions could not be completed, the Company shall explore other potential business ventures and/or opportunities, details of which cannot be determined at this juncture, and shall use the proceeds raised from the Notes for these new ventures or opportunities.

For the avoidance of doubt, no proceeds will be raised from the conversion of the Notes.

2.10 Key Management Personnel of TPI, Wavetree and Bistromalones

The Company does not intend to hire any new staff for the new businesses at this juncture. The Board is of the view that the existing expertise and key management team of each new business have played a vital role in leading the growth of the new businesses. Therefore, each existing key management team of TPI, Wavetree and Bistromalones are expected to continue managing the business operation respectively after the Proposed Acquisitions are completed. The experience and capabilities of each key management personnel of TPI, Wavetree and Bistromalones are set out as follows:

TPI

(i) Mr. Ng Chee Seng

Mr. Ng Chee Seng, age 42, is the Chief Executive Officer, Director as well as the co-founder of TPI. He graduated from University of New Brunswick, Canada with a Bachelor of Science in engineering, majoring in electrical & computer engineering and subsequently completed coursework for Master of Applied Science (M.A.Sc.)(Systems) in Carleton University, Canada.

He is a serial entrepreneur with over 20 years of experience in founding and growing technology companies. He is the co-founder of Okulus Networks Inc., a technology start-up in Ottava which has been funded via venture capital and successfully undergone trade sale in 2008. Besides, he co-founded Free Alliance Sdn Bhd which is a Khazanah Nasional funded wireless sensor solutions company with successful commercial deployments in healthcare, manufacturing, education, logistics and transportation.

He is responsible for providing visions and leadership in TPI corporate strategy and partnership as well as the ecosystem development.

(ii) En. Amirrudin bin Yahaya

En. Amirrudin bin Yahaya, age 41, is the Chief Technical Officer, Director as well as the co-founder of TPI. He graduated from University of Putra Malaya with a Bachelor of Science in electrical and computer engineering. He has over 20 years of experience in enterprise software engineering and deployment.

He has held various senior positions in multinational corporations such as Dell and Worldgroup Consulting.

He is responsible for overseeing the technology R&D and software architecting of TPI's products and services.

(iii) Mr. Kong Chia-Huung

Mr. Kong Chia-Huung, age 46, is the Chief Operating Officer of TPI. He graduated from University of Nebraska-Lincoln, United States with a Bachelor of Science in Business Administration and subsequently Master of Business Administration degree in business computer information system from University of North Texas, United States.

He has held various managerial positions in technology companies servicing public and private sectors such as government agencies, automotive, financial institutions, education, fast moving consumer group, oil & gas, manufacturing, F&B and retail industries.

He is responsible for overseeing the business development, marketing and branding, business operation and project delivery of TPI.

(iv) Puan Aidawati binti Dahari

Puan Aidawati binti Dahari, age 49, is the business development manager of TPI. She graduated with a Bachelor's degree in Accountancy from International Islamic University Malaysia and is a Chartered Accountant with the Malaysian Institute of Accountants.

She has over 20 years of experience in corporate finance, restructuring, investment and venture capital, human capacity building, business development as well as strategic business consultation of SME and aviation sector. She has held various managerial positions in consultation services companies in Malaysia.

She is responsible for overseeing the business development operations, partnership development, ensurance of customer satisfaction, project delivery and development of team members.

<u>Wavetree</u>

(i) Mr. Ng Chee Seng

Mr. Ng Chee Seng, age 42, is the Chief Executive Officer, Managing Partner as well as the co-founder of Wavetree. He graduated from University of New Brunswick, Canada with a Bachelor of Science in engineering, majoring in electrical & computer engineering and subsequently completed coursework for Master of Applied Science (M.A.Sc.)(Systems) in Carleton University, Canada.

He is a serial entrepreneur with over 20 years of experience in founding and growing technology companies. He is the co-founder of Okulus Networks Inc., a technology start-up in Ottava which has been funded via venture capital and successfully undergone trade sale in 2008. Besides, he co-founded Free Alliance Sdn Bhd which is a Khazanah Nasional funded wireless sensor solutions company with successful commercial deployments in healthcare, manufacturing, education, logistics and transportation.

He is responsible for providing visions and leadership in Wavetree corporate strategy and partnership as well as the ecosystem development.

(ii) Mr. Teoh Tong Eng

Mr. Teoh Tong Eng, age 45, is the Chief Operating Officer of Wavetree. He graduated from Coventry University, United Kingdom with a Bachelor's degree in Computer Science. He has over 20 years of experience in leading the technical role in technology companies.

He has held various managerial positions in technology companies such as Cap Gemini Ernst & Young Malaysia, Obtech Asia Pacific and Avanet System Sdn Bhd.

He is responsible in overseeing the overall solution direction/map, products development, project management, project delivery and managing overall project budget and cost.

(iii) Mr. Cheng Teh Kian

Mr Cheng Teh Kian, age 41, is the Chief Technical Officer of Wavetree. He graduated from University of Multimedia, Cyberjaya with a Bachelor's degree of Engineering (Honours) Electronics. He has over 15 years of experience in software and product development.

He has held various technical lead and managerial positions in technology companies which involved in product development and R&D such as Panasonic AVC Networks Kuala Lumpur Malaysia Sdn Bhd as a software engineer, AIC Display Sdn Bhd as a senior software engineer and Entrypass Corporation Sdn Bhd as an R&D Manager.

He is responsible in overseeing technical R&D, A.I. development of A.I. and IoT and embedded software development.

Bistromalones

(i) Mr. Lee Yew Jin

Mr. Lee Yew Jin, age 45, is the Chief Executive Officer of Bistromalones. He graduated from David's College, Malaysia with a higher diploma in hotel catering and management in 1994. He has more than 20 years of experience in managing and operating the F&B brands.

He held various managerial positions in F&B players such as Domino's Pizza, Only World Group, Baker's Cottage, Dome Café and McDonald's.

Mr. Lee Yew Jin is responsible for providing strategic direction and overseeing the overall business operations of Bistromalones Group. Under the leadership of Mr Lee Yew Jin, the operations and processes of Bistromalones Group have been streamlined, resulting in improvements in team unity and operational efficiency of Bistromalones Group.

(ii) Mr. Tham Keen Tek

Mr. Tham Keen Tek, age 44, is the Chief Financial Officer of Bistromalones. He graduated from University Malaya with a Bachelor's degree in Accountancy in 1999 and is a qualified Certified Public Accountant with the Malaysia Institute of Certified Public Accountants. He has more than 15 years of experience in audit, accounting, financial reporting and business planning in large corporations which including 10 years of experience in retail as well as F&B industry.

He is responsible in overseeing the finance, accounting and internal audit aspects of Bistromalones Group.

(iii) Mr. Mel-Vinder Singh Dhillon

Mr. Mel-Vinder Singh Dhillon, age 52, is the Vice President of Internal Operations of Bistromalones. He graduated from Flinders University, Adelaide with a Bachelor of Arts (Social Science) degree in 1992. He has more than 25 years of experience in managing and operating restaurant business.

He held various positions from restaurant manager, kitchen manager, general manager, regional manager to director of operations before being promoted to his current position as the Vice President of Internal Operations of Bistromalones.

He is responsible in overseeing the internal operations of Bistromalones Group which including, amongst others, human resources, IT and procurement as well as the overall operations of TTP including the franchising business.

(iv) Mr. Alexandar A/L Antone

Mr. Alexandar A/L Antone, age 36, is the regional manager of TGIF. He graduated from Universite De Toulouse Le Mirail with a Bachelor's degree in hospitality and tourism management, majoring in international hotel and restaurant management in 2007. He has more than 16 years of experience in hospitality and restaurant industries.

He held various positions including restaurant manager, kitchen manager, general manager, senior general manager before attaining his current position as the regional manager of TGIF.
He is responsible for overseeing the TGIF operations in Malaysia such as ensuring the TGIF brand's standards are maintained, developing the team members and instilling practices among the team to ensure operational effectiveness and service quality.

3. RATIONALE FOR THE PROPOSED NOTES ISSUE

3.1 Value creation and impacts of the Proposed Notes Issue

(i) Value creation of the Proposed Notes Issue

The Proposed Notes Issue will enable the Company to pursue for the business expansion and raise working capital for the existing and new businesses to be acquired, namely TPI, Wavetree and Bistromalones Group. The Group has been solely operating in China and relying on a single source of business in the manufacturing and sale of metallurgical coke and its by-products ("**Existing Primary Business**"). The Existing Primary Business is highly dependent on the steel industry, which has over the years caused the Group to operate in a challenging business environment, such as the implementation of the trade protectionism policy by the United States against China, which has also weighted down the steel industry. As such, the Proposed Notes Issue will enable the Group to expand its new businesses into mobile and digital solutions industry, particularly enterprise mobile and IoT solutions, as well as F&B service industry.

SHIB had engaged Providence, an independent market researcher, to perform a study on mobile and digital solutions industry and F&B service industry. The findings of the said study are as follows:

- Based on the independent market research conducted by Providence, the mobile and digital solutions industry in Malaysia is anticipated to grow from an estimated RM7.9 billion in 2017 to RM8.4 billion in 2019 at a CAGR of 3.1%. Meanwhile, the global IoT market is anticipated to reach USD 772.5 billion in 2018 and forecast to increase to USD1.1 trillion in 2021, growing at a CAGR of 12.5% over the period. In Malaysia, the economic potential of IoT is forecast to be RM9.5 billion gross national income creation by 2020 and is expected to reach RM42.5 billion in 2025. IoT is dependent of the use of technology and hardware, and thus will create opportunities for analytics, applications and services, computing and storage, communication and networking as well as hardware, power and protocols.

  As such, the prospects of TPI and Wavetree are expected to grow in tandem with the growing digital solutions industry and also the key demand drivers of the said industry as stated below:

  (i) increase usage of internet that will facilitate the growth in adoption of digital solutions;

  (ii) various government initiative to support the growth of the digital solutions industry such as smart city projects;

  (iii) potential growth from the proposed development of smart cities; and

  (iv) growing number of enterprises that indicates and increase in demand of digital solutions from new enterprises.

- Providence also forecasts the F&B service market in Malaysia to continue growing at a CAGR of 4.5% to RM43.7 billion, by 2020. The market in Malaysia is expected to be driven by the rising income levels which would lead to greater spending power for dining out, evolving F&B trends in Malaysia as well as the growing number of shopping complexes in the country which has led to an increasing number of dining options in Malaysia.

  Thus, the growth potential of F&B service market in Malaysia is attractive and will bode well for the prospects of SHIB's entry into the market through the acquisition of Bistromalones Group.

SHIB envisages the expansion of the new businesses as described in Section 2.9 will provide additional sources of revenue to contribute positively to the Group's future earnings and improve the financial performance of the Group and eventually, contributing to a potential increase in shareholders' value.

Barring any unforeseen circumstances, the Proposed Acquisitions are expected to complete by end 2019 and the expansion into the new businesses is expected to be carried out in the next three (3) years in line with the duration of the Proposed Notes Issue of up to three (3) years.

(ii) Impact of the Proposed Notes Issue to the Shareholders

As detailed in Section 6.1, the Proposed Notes Issue will result in a proportionate dilution to the shareholders' shareholdings. Nonetheless, it is expected that there will be no change in the Company's major shareholder pursuant to the Proposed Notes Issue as the Subscriber and/or the Noteholder(s) shall not hold more than 10% interest in the total number of issued shares of the Company at any time and from time to time without the Company's prior approval as set out in Section 2.6 herein.

Despite the dilutive impact on the shareholders' shareholdings, the shareholders should also consider the rationale and the potential benefits from the Proposed Notes Issue which is expected to create value to the Group as mentioned in Section 3 herein.

3.2 Adequacy of the Proposed Notes Issue in addressing the Group's financial requirement

The Board, after due consideration of the various fund raising options, is of the view that the Proposed Notes Issue is the most appropriate avenue of raising funds to address the Group's financial requirements based on the following:

(i) Flexibility in drawdown

The Proposed Notes Issue consists of three (3) tranches. Subject to the terms and conditions of the Subscription Agreement as set out in Section 2.2, SHIB has the sole discretion to exercise its option during the relevant Option Period to issue Tranche 2 Notes and Tranche 3 Notes as and when the need for such funds arises. As mentioned in Section 2.9, the proceeds raised from the Proposed Notes Issue are expected to be utilised over a period of up to three (3) years and this is in line with the duration of the Proposed Notes Issue of up to three (3) years.

Therefore, the shareholders will not incur any immediate unnecessary dilution to their respective shareholdings from the Proposed Notes Issue if there is no necessity for raising funds further under Tranche 2 Notes and Tranche 3 Notes. In comparison, other types of securities such as issuance of new shares e.g. private placement, or any other convertible instruments such as redeemable preference shares will result in an immediate dilution in the shareholders' shareholding in the Company as compared to the progressive dilution of the Proposed Notes Issue. The Board has also considered other fund raising exercises such as rights issue; however, the success of the rights issue is highly dependent on the prevailing market sentiment and economic conditions the Company is in.

(ii) Cost effective and expeditious alternative source of finance

The Proposed Notes Issue will enable SHIB to raise funds via the hybrid market, that is, between the debt market where gearing, security or rating may be an issue, and the equity market where current market conditions may not be conducive.

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The Proposed Notes Issue also enables the Company to raise funds in a cost effective manner. Based on the 1% interest rate of the Notes, the annualised cost in relation to the expenses for the Proposed Notes Issue is only 2.17% of the full issuance size of the Notes as compared to the Company's cost of equity of 20.1%[(1)] as at the LPD. For the avoidance of doubt, the abovementioned cost of the Proposed Notes Issue will only be incurred upon the drawdown of the Notes. As set out in Section 2.9(f), the RM8.2 million cost related to the Proposed Notes Issue shall be incurred only upon issuance of the Notes in full tranches. In addition, the Notes are being privately placed to and subscribed by a pre-identified investor, which allows the Company to save costs on road shows and marketing to potential investors as well as raising funds in an expeditious manner.

***Note**:*

(1) Source: Bloomberg

(iii) The Proposed Notes Issue also provides liquidity of the ordinary shares upon conversion of the Notes and increases the investor pool of the Company by providing opportunity for the investors to participate in the equity of the Company. Conversion of the Notes into shares will also lead to an improvement in the net assets of the Company.

Premised on the above, the Board believes that the Proposed Notes Issue together with the utilisation of proceeds therefrom, barring any unforeseen circumstances, is adequate to fulfil the Group's immediate financing requirements to improve its financial performance and thereby, enhances its shareholders' value.

3.3 Financial information of the Group

The revenue and profit or loss before taxation of the Group for FY2016 to FY2018 is set out as below:

	Audited			Unaudited
	FY2016 RM'000	**FY2017 RM'000**	**FY2018 RM'000**	**FPE 31 March 2019 RM'000**
Revenue	40,575	891,691	996,388	237,627
PBT/(LBT)	(227,459)	80,807	23,213	(4,187)
PAT/(LAT)	(227,459)	80,807	29,595	(4,187)

(i) <u>Financial commentary for FY2016</u>

For the FY2016, the Group registered a consolidated revenue of RM40.6 million. This represents a decrease of approximately 85% from RM270.8 million recorded in FY2015. Such a large decline in revenue was primarily attributed by the temporary cessation of production and leasing out of some of its coke ovens, commencing 1 February 2016 over a period of one year. The rationale for entering into such a leasing arrangement at that material point of time was a strategically deliberate move undertaken by the management as the steel and coke industry were fraught with excess capacity and cagey market sentiment due to the still unsettling oversupply situation. In respect thereof, the Group therefore was only able to earn transactional revenue for one month period throughout the financial year in question.

In addition to the deliberate scaling down of production capacity and thus the ensuing relatively lower sales volume, the decline in consolidated revenue of the Group was also caused by a 15% fall in the average price of coke from RMB795/tonne to RMB679/tonne recorded by the Group during the relevant month in the financial year under review. Concurrently, the dip in the net prices of the by-products experienced in this financial year further depressed the Group's revenue. With the exception of the price of ammonium sulfate and coal gas which saw an increase of 6% and 0.2% respectively, the other by-products namely tar oil and crude benzene suffered a decline of 15% and 5% respectively in their average prices during the relevant month in this financial year compared to those registered in FY2015.

In tandem with the decrease in the average prices of metallurgical coke mentioned above, the average prices of coking coal, being the primary raw material for the production of metallurgical coke, had also declined during the relevant month in the FY2016. With a decrease of about 17% in the average price of coking coal, the cost of sales recorded by the Group dropped accordingly to RM45.4 million in this financial year under review, representing a decrease of 85% from RM306.7 million recorded in FY2015.

Based on the foregoing, the Group turned in a gross loss of RM4.8 million for FY2016.

During FY2016, the Group earned approximately RM15.2 million in other income compared to only approximately RM1.7 million acquired in FY2015. Such an extensive increase in other income was primarily due to the lease rental received for those coke ovens that were leased out during the year.

The relatively high operating expenses of RM237.8 million incurred by the Group during FY2016 was mainly due to an impairment made on some of the trade receivables which have been outstanding for a protracted period of time amounting to RM33.3 million, as well as the consequence of impairing the carrying value of the Group's property, plant and equipment ("**PPE**") amounting to RM152.6 million to reflect the lower value of the said assets due to low utilisation arising from a lack of demand precipitated by the continued challenging and unfavourable environment besetting the coke industry. The diminution in value of the PPE was further substantiated by an independent valuation commissioned on the said asset in an effort to ascertain its "Fair Value less Cost to Sell" according to the prevailing adopted accounting policy.

Premised on the above, with the inclusion of the Group's other income, operating expenses and finance costs, the Group recorded a loss for the year amounting to RM227.5 million. This translated to a LPS of 20.27 sen.

(ii) Financial commentary for FY2017

For FY2017, the Group registered a consolidated revenue of RM891.7 million. This represents a significant increase of approximately 20.98 times from RM40.6 million recorded in the preceding financial year. Such an increase in revenue was primarily attributed to the fact that the Group has resumed its coke business operations in February 2017, following the expiry of its one-year leasing arrangement in respect of its operationalised coke ovens which covered a substantial part of the FY2016. As a consequence thereof, throughout FY2016 the Group was only able to earn transactional revenue from only a one-month period.

In addition to the above, given the fact that the steel and coke industry have substantially recovered in 2017, the Group saw a 191% increase in the average price of coke from RMB679/tonne to RMB1,981/tonne during the relevant month(s) in FY2016 and FY2017, respectively. The resurgence of the industry from its doldrums has also seen a 103% improvement in the price of tar oil which contributed approximately 6% of the total revenue of the Group. Such supplemented contribution was more than sufficient to negate the effects of a 28% decrease seen in the price of coal gas which represented approximately 7% of the total revenue.

In tandem with the substantial increase in the average price of coke mentioned above, the average prices of coking coal, being the primary raw material for the production of metallurgical coke, has also increased 119% from RMB561/tonne to RMB1,229/tonne during the relevant month(s) in FY2016 and FY2017, respectively. With such increase in the average price of coking coal, the cost of sales recorded by the Group has also increased 17.41 fold accordingly to RM790.8 million in FY2017 under review from RM45.4 million recorded in FY2016.

Based on the foregoing, the Group turned in a remarkable gross profit of approximately RM100.9 million for FY2017 as compared to a loss of RM4.8 million in FY2016.

During FY2017, the Group earned a relatively meagre other income amounting to approximately RM2.0 million compared to approximately RM15.2 million derived in the FY2016. The seemingly exceptionally high other income recorded in FY2016 was primarily due to the lease rental received from the operationalised coke ovens that were leased out during that year in question. However, other income has normalised in the FY2017 to only include the typical disposal of scrap metals, miscellaneous items and penalty imposed on staff for violation of any company policies.

Operating expenses for FY2017 has also normalised to approximately RM21.9 million, a stark reduction from RM237.8 million incurred by the Group in FY2016. The latter seemingly hefty operating expenses was primarily due to the impairment made on some of the trade receivables and PPE during FY2016 which was beleaguered by the then challenging business environment and unfavourable industry landscape.

Premised on the above, with the inclusion of the Group's other income, operating expenses and finance costs, the Group recorded a commendable profit for the year amounting to approximately RM80.8 million and an EPS of 7.20 sen during FY2017. In contrast, the Group suffered a substantial loss for the year amounting to approximately RM227.5 million and a LPS of 20.27 sen in FY2016.

(iii) Financial commentary for FY2018

In the FY2018, the Group registered a consolidated revenue of RM996.4 million. This represents an increase of approximately 11.7% from RM891.7 million recorded in FY2017. Such increase in revenue can be attributed primarily to the fact that the Group did not have a complete 12-month revenue recognition in FY2017 (recap: the 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 FY2018. Notwithstanding the above consequential lowered overall sales volume in FY2017, the average coke price during the current financial year has declined by approximately 3.9% to RMB1,905/tonne from RMB1,981/tonne in 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 FY2017 had inherently resulted in an overall reduced cost of sales during that year compared to what was registered in FY2018. Cost of sales in FY2018 stood at RM950.3 million, representing an increase of approximately 20.2% from RM790.8 million recorded in FY2017. Such an increase was also supported by the hike in the average price of raw material, namely coking coal, which saw an increase of approximately 5.2% from RMB1,229/tonne in 2017 to RMB1,292/tonne in 2018.

Premised on the above, the Group turned in a gross profit of approximately RM46.1 million for FY2018. This was however significantly lower than that registered in FY2017 of RM100.9 million for the very reason that the bullish sentiments seen in the coke industry in 2017 was ephemeral and did not continue into FY2018.

During FY2018, the Group earned a relatively meagre other income amounting to approximately RM0.9 million compared to RM2.0 million derived in FY2017. Other income is derived mainly from the periodic disposal of scraps and miscellaneous items as well as penalties/fines imposed on staff for any violation of company policies and rules.

Administration and operating expenses for FY2018 was recorded at approximately RM22.6 million, representing a slight increase of 3.2% from approximately RM21.9 million in FY2017. Administration and operating expenses constitute general administrative and sales expenses, social development contributions, etc.

Finance cost is primarily attributed to the interest element of the RMB40.0 million short term loan facility procured by Linyi Yehua Coking Co. Ltd. (the Group's wholly-owned subsidiary) sometime late-September 2017. As a result thereof, the finance cost recorded in FY2017 amounting to approximately RM0.2 million was attributed to only about 3 months remaining period of the year compared to that in FY2018 of approximately RM1.2 million whereby a full 12-month interest period was included.

Towards this end, with the inclusion of the Group's other income, administration and operating expenses and finance cost, the Group still managed to turn in a relatively decent profit before taxation of approximately RM23.2 million.

The above Group's profit was further elevated with a credit of approximately RM6.4 million resulting from the recognition of previously unrecognised deferred tax asset (unutilised tax losses which are eligible to be carried forward for future utilisation) in FY2018. As a result thereof, the Group registered a profit for year of approximately RM29.6 million and an EPS of 2.64 sen during FY2018, despite being beset with challenging business environment and headwinds during such period. This is in contrast to the profit of approximately RM80.8 million and EPS of 7.20 sen recorded in FY2017.

(iv) Financial commentary for FPE 31 March 2019

During the quarter under review, the Group recorded a consolidated revenue of RM237.6 million compared to the corresponding quarter of the preceding year of RM265.5 million. Such reduction in revenue during the current quarter under review can be primarily attributed to a lowered sales volume by 11% compared to that achieved in the corresponding quarter of 2018. This was brought about by the sporadic local government directive to curb production of heavy industries during certain periods over the quarter under review in an attempt to address and manage the pollution level affecting the area/region.

By virtue of the abovementioned across the board production curb, the average selling price of metallurgical coke saw an increase of approximately 4% to RMB1,990 per tonne in the current quarter compared to RMB1,920 per tonne recorded in the preceding year corresponding quarter. Notwithstanding that, the positive impact of such price increase however was not adequate enough to fully negate the contrived decline in sales volume (as mentioned above), during the period in question.

The overall revenue was further weighted down by the decrease in the contribution from the by-products, which in total saw a decline of approximately 18% during the current quarter compared to that of the preceding year corresponding quarter. In view of the above, the Group registered an overall reduction in its total revenue in the current quarter under review of approximately 11%, compared to the preceding year corresponding quarter.

Concomitant to the reduction in sales volume, the lower production volume resulted in the Group's cost of sales to be reduced by 7% to approximately RM236.5 million in the current quarter under review from approximately RM253.7 million in the previous year corresponding quarter. This is notwithstanding the fact that the average coal price has increased by approximately 8% from RMB1,318 per tonne in the previous year corresponding quarter to RMB1,420 per tonne in the current quarter under review.

Given the above circumstances and the then prevailing pricing dynamics of the metallurgical coke and coking coal, the Group recorded a lower gross profit of approximately RM1.1 million in the current quarter under review compared to approximately RM11.9 million in the preceding year corresponding quarter.

Other income included sales of scraps and penalties/fines imposed on staff and employees who violated the company's prescribed rules and standard operating procedures during the quarter under review.

Operating expenses incurred by the Group were lower at approximately RM5.4 million in the current quarter under review compared to approximately RM6.3 million in the same quarter last year. Operating expense included staff salary, depreciation, minor repair and maintenance, electricity charges, etc.

After taking into consideration the weight of the operating expenses incurred, the Group turned in a net loss position of approximately RM4.2 million in the current quarter under review compared to a net profit of approximately RM5.5 million in the preceding year corresponding quarter.

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4. INDUSTRY OVERVIEW AND FUTURE PROSPECTS

4.1 Overview and outlook of Malaysia economy

The outlook for the Malaysian economy remains resilient in the near term despite considerable external and domestic headwinds. Supported mainly by domestic demand, real GDP is projected to expand 4.8% and 4.9% in 2018 and 2019, respectively. Private sector expenditure, in particular, household spending will remain as the anchor of growth following a continuous increase in employment and wage amid benign inflation. Meanwhile, private investment will be supported by new and on-going projects in the services and manufacturing sectors. On the contrary, public expenditure is expected to grow marginally in 2018 and contract in 2019 following the lower capital outlays by public corporations.

From the supply side, the services sector is expected to remain as the largest contributor, namely wholesale and retail trade, finance and insurance as well as information and communication subsectors, benefitting from steady consumer spending. The manufacturing sector is projected to register a firm growth primarily driven by continuous demand for electronics and electrical ("**E&E**"). Agriculture and mining sectors are expected to rebound in 2019 after recording a marginal contraction in 2018 following an increase in the production of crude palm oil and liquefied natural gas. Meanwhile, the construction sector is expected to moderate following the near completion of infrastructure projects as well as property overhang, particularly in the non-residential segment.

Malaysia's external position is projected to remain resilient in line with steady global economic and trade performances. However, exports are expected to moderate mainly due to slower global trade and investment activities. At the same time, the current account surplus is expected to narrow following widening deficits in the services and income accounts.

(Source: Economic Outlook 2019, Ministry of Finance Malaysia)

The Malaysian economy grew by 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 (4Q2018:5.7%), 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 expanded at a faster pace of 6.3% (4Q 2018: 4.0%), attributable to higher growth in spending on supplies and services.

The services sector growth moderated as the wholesale and retail trade subsector registered slower growth following the post-tax holiday normalisation. However, this was partially offset by higher car sales following the release of new models. Growth in the finance and insurance subsector was sustained, supported by higher insurance premiums relative to claims which offset slower financing. The utilities subsector recorded an improvement given higher demand for electricity, particularly from households amid warmer weather conditions. The information and communication subsector remained supported by demand for data communication services.

Growth in the manufacturing sector moderated, mainly driven by the slowdown in the E&E and primary-related clusters. The slower growth in the E&E cluster was due to lower global demand for semiconductors. The implementation of stricter vehicle emission standards in the European Union and expiring tax rebates for cars in the PRC weighed on 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 agriculture sector's growth rebounded due to the strong recovery in oil palm yields from the adverse weather last year. Additionally, natural rubber production improved as higher rubber prices spurred more tapping activities during the quarter.

Growth in the mining sector declined further as oil production was affected primarily by unplanned facility closures in Peninsular Malaysia and Sabah. Growth was also weighed by weaker natural gas production as operations were affected by unplanned closure of gas facilities in Sarawak.

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 a 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 the Malaysian Economy in the First Quarter of 2019, Bank Negara Malaysia)

4.2 Overview and outlook of the ICT industry in Malaysia

Technological innovations have advanced rapidly transforming the world at an incredible speed, enabling businesses to be more prominent and efficient. Disruptive technology redefines boundaries through improved connectivity and replacing traditional market operations. Digitalisation is both an enabler and a disruptor of businesses (International Monetary Fund, 2018), digital technology such as big data analytics, A.I., IoT and cloud computing assists businesses and individuals in enhancing their capabilities. Disruptive technology will change the way society live, work and play. Adopters of these technologies are transforming their industries, by providing more flexible, precise, higher quality and customised goods and services. As a result, many products including driverless cars, buses and trains; autonomous robots; drones; smart cities and steaming virtual reality are innovations in the market.

Smart Factory

There are many software applications available for firms to transform operational data into business insights known as smart factory, a new manufacturing concept that will enhance competitiveness. The factory of the future operates autonomously to identify and repair any malfunctions through combined technologies such as a smart sensor, A.I., big data analytics and IoT. These technologies enable all relevant information to be flashed for real-time monitoring without disrupting factory operations and production lines.

Sensor Technology

Smart cameras featuring a range of megapixel resolutions, camera dimensions, advanced technologies and value added analytic functions are already taking place. These developments satisfy the needs of a diverse range of applications to achieve unobstructed monitoring of wide and open areas such as airport terminals, shopping malls, train stations and offices. With this technology, it provides high accuracy of counting people and objects analysis, while optimising security management and able to enhance in-store management through traffic data and visual analytics.

Social and Commerce Activities

In Malaysia, smartphones remain the most popular means for users to access the internet enabling the country to attain a mobile-oriented society. In 2017, there were 35.3 million mobile broadband subscriptions as compared to 2.6 million fixed broadband subscriptions. The majority of internet users subscribe as compared to 2.6 million fixed broadband subscriptions. The majority of internet users subscribe internet for communication, social networking, obtaining information and entertainment, study, work-related, online shopping, government services and financial activities (Malaysian Communications & Multimedia Commission, 2017).

The survey reflects the rising popularity of digital platforms and more broadly the role of technology in driving social and economic activity. In this regard, technology has certainly transformed our daily activities for social networking, online commerce and information seeking. This development is expected to drive e-commerce's contribution to GDP to surpass RM170 billion by 2020 and further projected to reach RM400 billion by 2025 (Malaysia Digital Economy Corporation ("**MDEC**"), 2017).

The growth in the information and communication subsector is projected to increase 8.1% in 2018 and 8% in 2019 mainly due to higher usage of broadband services and smart applications. Furthermore, increased digitalisation activities in the economy are expected to bode well for the subsector. The implementation of the Mandatory Standard on Access Pricing is expected to reduce broadband prices and improve service quality, benefitting consumers and boosting growth of the subsector.

(Source: Chapter 3, Economic Report 2019, Ministry of Finance Malaysia)

Digital economy

Characterisation of the digital economy began in the 1980s with mass produced personal computers. This was followed by advanced computerised manufacturing in the 1990s and e-commerce and off-shoring in the 2000s. The current digital trend is centred on integrating digital technologies into daily life and business operations. This phase of digitalisation can be succinctly described as technologies that fuse the digital, physical and biological worlds and permeate across industries and economies. These are underpinned by a myriad of technological trends, in particular, the IoT, big data analytics, A.I. and cloud computing:

	Definition	Examples of applications
Big data analytics	Real time analysis using high volume of data	Transaction analysis for targeted advertising Traffic management
IoT	Sensor-enabled objects connected via Internet	Remote monitoring Wearables and autonomous cars
Cloud computing	Large data pool stored on the web instead of hardware	Alternative for acquiring and managing IT infrastructure Web-based applications
A.I.	Software that learns and adapts	Image recognition for early risk detection and treatment in medicine Develop and execute investment strategies

A macroeconomic perspective of the digital landscape in Malaysia

In Malaysia, households, businesses and the Government alike have embraced digitalisation. From 2005-2016, internet users doubled to 21 million; mobile-cellular penetration doubled to 44 million subscriptions and fixed-broadband users doubled to 3 million. As at 2015, 83% of Government services are provided via online platforms.

The pervasive nature of digital platforms makes it hard to capture the full extent of digitalisation in Malaysia. A useful start is the performance of the ICT sector, where technology intensity is high and digital activities are concentrated. From 2011-2016, the ICT sector's value-added growth outpaced that of non-ICT sectors (ICT: 7.8% vs non-ICT: 6.9%). Of note, e-commerce activities almost doubled over the same period (2016: RM74.6 billion; 2011: RM44.6 billion). This reflects the rising prominence of digital platforms and, more broadly, the role of technology in driving economic activity. While the growth of value-added in ICT has outpaced non-ICT, in contrast, employment in ICT lags behind the non-ICT sectors. In one aspect, this suggests that ICT's productivity is higher vis-à-vis the non-ICT sector. On the other hand, it also potentially reflects the changing labour needs of the economy. Therefore, digital transformation and automation could render some segments of labour redundant and demand new skill requirements in jobs.

Given the pervasiveness of the ICT sector's development for the broader economy, the linkages between ICT and other sectors in the economy was evaluated by using the input-output Cumulative Production Structure (CPS) framework to estimate backward and forward linkages*.

***Note**:*

* *"Backward linkage" describes the digital services sector's use of resources from other sectors as an input of production; while "Forward linkages" describes other sectors' use of resources from the digital services sector as an input of production.*

Two key trends are observed: Firstly, the backward linkage multipliers have increased, showing that as the range of ICT and computer services have expanded significantly since 2005, so have the resources that it draws from other sectors in order to provide the services. Secondly, forward linkages have also increased. This reflects firms' increased use of internet, e-commerce and other online services as an integral aspect of their business operations.

Acknowledging the importance of the digital economy, the Government is undertaking concerted efforts to spur digital transformation. The MDEC is tasked to spearhead Malaysia's Digital Hub and various Technopreneurship programmes to attract global and local tech start-ups. This resulted in related investments of RM16.3 billion in 2016. The Digital Free Trade Zone initiative launched in 2017 under the National eCommerce Strategic Roadmap aims to boost SME export contribution to USD38 billion and create 60,000 jobs by 2025. To advance progress in big data analytics, the ASEAN Data Analytics eXchange initiative trains companies and facilitates experimentation of new solutions. On talent, MDEC has developed university and industry-led partnerships to build the requisite expertise in data professionals and cybersecurity.

Digital technologies are now wide-spread and pervasive. New opportunities have emerged beyond e-commerce to robots and A.I., which are quickly becoming indispensable in some industries. Malaysia has achieved some early success. Modernising regulations, empowering talent with future skills and universal access to world-class infrastructure will accelerate the pace of digitalisation and unlock the next frontier of productivity gains, higher income and social transformation. As a small open economy, Malaysia's competitiveness is no longer limited to its traditional physical factor endowments - land, capital and labour, but will be enhanced by its penchant for unlocking ideas and innovation in the digital economy. Malaysia will thrive with the opportunities that lie ahead with these digital frontiers.

*(Source: Outlook and Policy in 2018, Bank Negara Malaysia ("**BNM**") Annual Report 2017, BNM)*

The 2019 Budget accorded emphasis to improving socio-economic wellbeing, strengthening social protection programmes, improving employability and initiatives to raise productivity, particularly for SMEs. To further enhance Malaysia's overall economic competitiveness, the Government of Malaysia will also continue to provide funds and incentives to accelerate SMEs' adoption of digital technology and transition towards the fourth industrial revolution.

(Source: Outlook and Policy in 2019, BNM Annual Report 2018, BNM)

4.3 Overview and outlook of the F&B service industry in Malaysia

The F&B and accommodation subsector is expected to record a strong growth of 8.1% in 2018 mainly supported by domestic tourism activities and increased patronage of restaurants. The subsector is projected to expand 6.9% in 2019 in tandem with aggressive promotional activities for Visit Malaysia 2020 and attractive tour packages offered via online travel fairs. In addition, the operationalisation of several new shopping centres and supporting retail components in Klang Valley, Pulau Pinang and Johor are anticipated to provide additional impetus to the growth of the subsector.

(Source: Chapter 3, Economic Report 2019, Ministry of Finance Malaysia)

The overall F&B segment market size in Malaysia, depicted by food service value, grew from RM31.3 billion in 2013 to RM38.4 billion in 2017, registering a CAGR of 5.2%.

As a subset of the overall F&B segment, casual dining accounts for 32.0% of the total market size in 2017. The casual dining segment grew at a CAGR of 4.8% during the period of 2013 to 2017, from RM10.2 billion to RM12.3 billion.

The total number of casual dining F&B establishments in the country has increased from 8,865 outlets to 9,331 outlets between 2013 and 2017. Casual dining outlets account for a significant share of the total F&B outlets, contributing to 26.2% as of 2017. The growth in the F&B industry in Malaysia, particularly the casual dining segment, is anticipated to be mainly driven by increasing disposable income, evolving F&B trends and increasing number of shopping malls in the country.

Several local F&B chains, including those in the casual dining segment, have shown continuous growth amidst acceptance among Malaysians. Examples of local F&B chains which have become prominent brands are Marrybrown, OldTown White Coffee, PappaRich, Rotiboy, Sushi King, Tealive and Teh Tarik Place. Some of these chains have also expanded to overseas markets, catering services and/or offering retail products. Local F&B chains may offer their franchise licences for sale, whereby franchisees would be given assistance with setting up an outlet, marketing, operations and staff training.

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

Rising income levels leading to greater spending power for dining out

Malaysia is a developing country with positive economic growth, with its GDP per capita growing from RM33,714 in 2013 to RM38,887 in 2016. 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 RM38.4 billion in 2017, registering a CAGR of 5.2%.

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.

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 is shaped by consumer trends, which evolve as consumer demands change. Recent trends in F&B in Malaysia include:

- types of F&B outlet (e.g. themed cafes, food trucks, speakeasy bars);
- ingredients (e.g. salted egg yolk);
- healthy options (e.g. poke bowls, keto-friendly menu); and
- specific dishes (e.g. burnt cheesecakes, unicorn cakes).

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.

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 that 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 18.2 million square metres in 2017, registering a CAGR of 6.6% during this period. There is a total of 997 shopping malls in Malaysia as at 2017, with 258 of them being in the Klang Valley.

(Source: Providence)

4.4 Prospects of the TPI, Wavetree, Bistromalones Group and the enlarged Group

Prospect of TPI

TPI is one of the technology leaders in the digital business transformation solution space in Malaysia, providing game changing enabling platforms for digital economy and Industry 4.0.

TPI has developed Mobile Community Plan, a proven community building smart city platform that enables local authorities to engage with the community intelligently via a mobile app. Having been developed over the past 4 years, Mobile Community Plan is currently deployed as the official community mobile application in the city of Putrajaya. It allows the local authority and its respective departments to reach out to the community dynamically via its data driven service delivery and also to sustain a high level of engagement with the members of community which includes, amongst others, residents, visitors, local businesses and tourists. Mobile Community Plan also incorporates with the features such as location-targeted news and alerts and digital services such as facility booking, mobile payment collection and events listing.

In addition, Mobile Community Plan also helps Putrajaya to build a safer and more secure community with an in-app panic button, crowd-sourced feedback and complaints management feature. Mobile Community Plan also brings about a myriad of convenience features including mobile app parking payment and bus ticketing, helping Putrajaya to deliver smart mobility services.

The MoPro component within Mobile Community Plan is developed to drive Online-to-Offline ("**020**") commerce which links the customers to local businesses in a targeted and personalised manner. 020 commerce is a business strategy designed to find customers online and bring them to the real-world store as well as create a seamless digital experience before, during and after for the users. By becoming a MoPro merchant, businesses can leverage on the user base of Putrajaya mobile app to provide delivery-friendly, digitally savvy products and services to the captive customer base in Putrajaya. As a smart Putrajaya's digital economy pillar, MoPro enables a cashless and cashier-less capability to local businesses allowing them to grow their businesses around a strong hyperlocal community sentiment.

Mobile Community Plan also supports Putrajaya's strategy in growing its tourism economy, by incorporating a 'freemium' virtual tour guide feature with rich context-aware interaction and content to its annual 8 million visitors and tourists. TPI will also be partnering up with Tourism Malaysia to promote the mobile app as a tourism platform overseas.

With a long-term partnership model, the initial revenue model of the Mobile Community Plan is focused on providing event ticketing and various payment aggregation and payment collection services, where a commission and service fee-based model is expected to generate on-going volumetric transactional revenue. Subsequently, MoPro will be activated to provide hyperlocal mobile e-commerce platform to local businesses, generating a transaction-based commission revenue stream. Additional revenue source such as a pay-per-use virtual tour guide feature will be enabled to monetise the platform from visitors and tourists. It is expected that the revenue from TPI will contribute to SHIB profit in the year 2021 onwards.

With a comprehensive list of key components, Mobile Community Plan is poised to help any township, city and state government to drive towards a smart digitally engaged community that emphasises on data driven service delivery and digital economy. TPI is currently in talk with numerous venue owners, cities and state governments to deploy Mobile Community Plan in the coming months, targeting to sign up 5 communities or cities in the next 12 months.

Prospect of Wavetree

Wavetree has developed an integrated IoT platform, SensorHub, which forms the baseline technology for its Industrial IoT and Agriculture IoT solutions. SensorHub is an end-to-end platform that has been commercially deployed in 25 locations of one of Malaysia's largest hypermarket chain, providing automatic wireless environmental sensing. SensorHub is used to capture real-time data that is used to monitor and automate HVAC and various intelligent building management subsystems, resulting in substantial tangible return on investment in the forms of energy savings in less than a year. Wavetree will be generating revenue primarily through offering its IoT Platform solutions to agriculture and Industry 4.0 customers with a model consisting of hardware sales, design and implementation services, and a monthly subscription to the cloud platform. It is expected that the revenue from Wavetree will significantly contribute to SHIB profit in the year 2020 onwards.

This industrial IoT platform incorporates A.I. and Machine Learning components that makes it well suited for other applications such as manufacturing automation, automated warehousing and logistics, environmental monitoring in retail and commercial buildings, etc. By leveraging on the expertise and market presence of our partners to provide business application friendly solutions, SensorHub will transform the industries by providing ready-to-consume data that will drive decision logic for improved efficiency and cost savings.

SensorHub is also a commercially deployed end-to-end Agriculture IoT platform in oil palm plantation which has successful implementation across Malaysia, Indonesia, and South America covering an area of over 20,000 hectares by using a myriad of wireless sensors which are designed to operate effectively in an oil palm plantation environment. By using A.I. algorithms to correlate and analyse these agronomic and operational data, SensorHub helps plantation operators to identify problematic areas, visualise operational inefficiencies and enable data driven SOPs to optimise resources, lower costs and increase yield.

By leveraging on the same baseline technology, SensorHub's Agriculture IoT platform will continue to be developed and enhanced to cater to other crops such as rubber, rice, fruits, etc.

Prospect of Bistromalones Group

Bistromalones Group has been one of the leading operators in the F&B casual dining space for over the past 20 years. The 2 core brands of Bistromalones Group comprise TGIF (for the Malaysia region) and TTP.

TGIF

Founded in 1965, TGIF is one of the leading American casual dining brands and was the pioneer of the international franchise format. Since then, TGIF has opened over 900 outlets in 60 countries (outside of the United States).

TGIF is one of the most established American casual dining brands in Malaysia and Bistromalones Group has been the exclusive franchisee of the TGIF brand since 1994. Bistromalones Group currently operates 8 TGIF outlets in Kuala Lumpur, Johor and Penang. In view there are significant growth opportunities in Malaysia with the core base of the 8 outlets, SHIB Group targets to open another 10 new outlets over the next 3 years with expansion into greater Kuala Lumpur, Johor, Penang and East Malaysia.

TGIF has recently developed a new improved concept code named called "Future Fridays" which allows for a smaller footprint and aims to be more relevant to the millennial. Bistromalones Group is expected to expand the TGIF brand based on this newer concept and direction.

Aside from Malaysia, Bistromalones Group has the opportunity to expand its casual dining business into China beginning with the 2 key cities, Beijing and Shanghai. Long recognised as the leading American casual dining brand in these cities, Bistromalones Group is establishing a development plan with TGIF International in China. The Group targets to open 3 new TGIF outlets in Beijing in the next 3 years.

TTP

TTP is one of the leading emerging franchise brands in Malaysia and is wholly owned and created by Bistromalones Group. Having been a successful franchisee of TGIF for the past 2 decades, Bistromalones Group has used its experience to create the franchise model for a localised version of the café concept. Using a strong Malaysia flavor and branding, TTP offers affordable local cuisine with all the usual Malaysian favourites such as Teh Tarik, Roti Canai, Mee Mamak, Nasi Goreng, etc.

The TTP brand currently has 2 owned outlets, a central kitchen and 18 franchise outlets in Malaysia. The potential for this brand is significant and the Group has planned to expand a further 15 self-operating outlets in the central KL city area as well as the other urban cities in Malaysia within the next 3 years.

Outside of Malaysia, the brand also has tremendous growth potential in the region. The first international outlet was opened in Brunei early this year and has proven successful with 2 more outlets in Brunei in the planning stages by the same franchisee.

SHIB Group has targeted China as a market that has penchant for Malaysian flavoured food and plans to expand the TTP brand in China. The Group targets to set up a total of 10 self-operating TTP outlets in Beijing and Shanghai in the next 3 years as described in Section 2.9 of this Circular.

Prospect of SHIB Group and the enlarged Group

Markets and economies around the world have started to take the hit in 2018 and it is widely touted that the landscape for 2019 will take on a lacklustre outlook. As the world economy stumbles into 2019, China is expected to contemporaneously continue with its anaemic economic growth, with several analysts forecasting a lower still growth of 6.0 to 6.5% (the weakest expansion in nearly 30 years of China history), compared to what it had managed to achieve in 2018. Admittedly, economic reports, data and analysis abound appear to suggest that challenging times are looming and market sentiments are going to be sullen. This is primarily precipitated by the still ongoing US and China trade tension, the potential geopolitical risks out of Europe and the Middle East, the inconclusive deal for Britain's exit from the European Union and the slew of prospective negative implications on Britain ensuing that, the rate hike path that the US Federal Reserve is expected to pursue, the projected global GDP growth that is already beginning to taper off as seen in the weakness in some key economic indicators, the potential unwinding of major Central Banks' balance sheet as well as the negative impact of the continued weakened global commodity prices.

In acknowledging the intimate correlation between the health of the economy with that of the steel and coke industry, it is inevitable to expect the latter to also be faced with trying times ahead. By looking at China itself, industry experts are forecasting steel production to ease by 2.8% in 2019 and 2.2% in 2020, stemming from the abovementioned economic slowdown (as well as the determined removal of highly-polluting and inefficient obsolete capacity from the system). However, this is not expected to push up the steel and coke prices as China's domestic steel consumption is projected to correspondingly fall by 2.0% in 2019 and 2.3% in 2020 due to the very reasons above.

On a macro level, China's factory activities have already started to contract towards the end of 2018 and the said contraction is expected to continue in the foreseeable immediate future. The official PMI – the first snapshot of China's economy – had fallen below the 49.4 in December, below the 50-point mark that separates growth and contraction, a recent National Bureau of Statistics survey showed. This is the first contraction since July 2016 and the weakest reading since February 2016. The specific steel industry-PMI fell to 44.2 point. New factory orders, an indicator of future activity, continued to soften, reinforcing views that business conditions in China will likely get worse before they get better.

In view of the malaise described above, the Chinese government is expected to roll out more economic support measures in the immediate future on top of a raft of initiatives that have been earmarked for implementation this year. In the early months of 2019, China raised infrastructure spending with a USD34 billion (equivalent to approximately RMB230 billion) railway investment and its central bank loosened the screws on banks to encourage them to lend more. The amount of cash lenders must hold as reserves (Reserve Requirement Ratio – "RRR") will be cut by a further one percentage point, its fifth such cut in the span of one year. The said RRR cut is expected to release approximately RMB800 billion of liquidity into the economy and will offset a funding squeeze in the economy. In mid-January 2019, the People's Bank of China pumped a net RMB560 billion into the financial system, the biggest one-day addition on record. In addition, the Chinese government also had announced a three-year package of tax cuts for small and micro-sized businesses – the backbone of the economy – and said that a new targeted funding tool would commence.

Notwithstanding the above, the management is inclined to believe that the phenomenon of a slowdown is temporary and merely a natural course of an economic cycle, coupled with the fact that the Chinese government has adequate capabilities to take the appropriate remedial steps, as mentioned above, to avert an economic meltdown. To view it under a positive perspective, a slowdown is just a correction of the imbalances and exuberance that have built up over the years. It may be painful, unpleasant but wholly natural and necessary. But like in any such phase, there are also opportunities that emerged. Therefore the Group will not sit on its laurels and is taking proactive steps to seize the opportunity to diversify into other areas of business that are available for sale under the current circumstances.

Since its incorporation, the Group has only been operating in China and relying on a single source of business, i.e. that of manufacturing and sale of metallurgical coke and its by-products. The strategy of sole reliance on a single business source which is highly dependent on the steel industry, has over the years caused the Group to operate in challenging business environment and industry landscape and such circumstances had accordingly resulted in uncontrollable volatility in the Group's financial position. To a large extent, the Group's financials were subjected to the vagaries of the market at large which dictates the dynamics of the commodity prices, in particular that of metallurgical coke (finished product) and coking coal (raw material), both of which prices cannot be controlled by the Group. Numerous past and painful experiences serve as testimonies as to how various geopolitical and economic turn of events can have a direct impact on the steel industry as a whole and by extension that of metallurgical coke.

Premised on the above, the management had conceived a sustainable business strategy for the Group moving forward by proposing to venture into other areas of business in an effort to mitigate the risks of solely relying on only one business source which in turn is heavily dependent on a single industry, i.e. the steel industry. Additionally, the said strategy is envisaged to provide the Group with a diversified income stream, from which it can derive alternative source of revenue and profits in the future to supplement that of its existing metallurgical coke business and hopefully to pick up the slack during periods of undesirable lull in the metallurgical coke business. Additionally, the Group had all this while been operating only in China and does not have any business presence in Malaysia, despite it being a listed entity in Malaysia. As such, the management sees these business diversification and repositioning strategy as also an opportunity to establish the Group's footprint in Malaysia, as well as to broaden the Group's revenue base and profitability which subsequently lead to a potential increase in the shareholders' value, thereon after.

Towards this end, the management has proposed to gain a foothold into the tech-enabling business via Proposed TPI Acquisition and Proposed Wavetree Acquisition. TPI is principally involved in enterprise mobile development applications with the main objective of providing enabling technological solutions to drive intelligent automation and connecting communities through the use of technology via a common platform; Wavetree is principally involved in industrial wireless sensors and IoT. Another acquisition is in relation to a more traditional brick and mortar consumer business in the casual dining industry via the initial acquisition of 100% of Bistromalones (with a Call Option granting up to 49% of equity interest in Bistromalones to the management of the same subject to the satisfaction of the level of profit guarantee and successful achievement of targeted business geographical milestones by the management of Bistromalones). The acquisition will form part of the anchor merchants for the abovementioned community platform by TPI and will also be the showcase for how traditional businesses can use technology to enable better access to market and operational efficiencies.

(Source: Management of SHIB and the annual report of SHIB for FY2018)

5. RISK FACTORS

5.1 Risk relating to the Proposed Notes Issue

(i) **Dilution risk of the existing shareholders' shareholding in SHIB and impact on SHIB share price**

The existing shareholders' shareholding in SHIB will be diluted in the event the RM150 million Notes are converted into 833,333,333 Conversion Shares at the Minimum Conversion Price. Pursuant thereto, there will be a surge in the supply of SHIB Shares in the market and the Noteholder(s) might emerge as the controlling shareholders after the completion of the Proposed Notes Issue. Notwithstanding the above, as set out in the Subscription Agreement, the Subscriber agrees not to hold more than 10% interest in the total number of issued shares of the Company, at any time and from time to time without prior approval of the Company. In addition, the aforementioned limitation of interest in the total number of issued shares of the Company shall also apply on each and every Noteholder(s) and the same will be stated in the transfer form, global certificates and definitive certificates of the Notes.

As the share price of SHIB might be affected due to the disposal of SHIB Shares by the Subscriber and/or Noteholder(s) in order to maintain their shareholding of 10%, the Board will ensure that the abovementioned risk will be mitigated through, amongst others, enhancing shareholders' and business value of the Proposed Notes Issue as described in Section 3.1.

(ii) **Delay, non-completion or non-subscription of the Proposed Notes Issue**

There is a possibility that the Proposed Notes Issue may not be completed in time due to failure in fulfilling the conditions precedent as set out in the Subscription Agreement within the stipulated timeframe. In addition, the Proposed Notes Issue is also conditional upon the approval of the Company's shareholders and other relevant authorities and parties. There is no assurance that the Company will be able to obtain all the requisite approvals.

In the event the conditions precedent are not fulfilled and/or the Company is unable to obtain the requisite approvals for the Proposed Notes Issue, the Subscription Agreement will be terminated and the Company will be unable to obtain the funds for the purposes as set out in Section 2.9.

The Board will take all reasonable steps to ensure that the conditions precedent stated in the Subscription Agreement are met within the stipulated timeframe in order to complete the Proposed Notes Issue.

Further, in the event that the price of the SHIB Shares falls below or near the Minimum Conversion Price, the Subscriber may choose to delay or not to subscribe for subsequent sub-tranches of the Notes. As a result, the Company will also not be able to raise the funds needed for the purposes as set out in Section 2.9.

Nonetheless, in the event of a delay or unsuccessful completion of the Proposed Notes Issue, even after obtaining all the requisite approvals, and/or in the event of non-subscription of the Notes by the Subscriber, SHIB shall look at other fund raising options such as additional bank borrowings or fund raising via the 10% placement under Sections 75 and 76 of the Act.

(iii) **Ranking of the Noteholders**

The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Company, ranking equally and rate-ably without any preference among themselves, and save as otherwise provided under any applicable laws or regulations, equally with all other unsecured obligations (other than subordinated obligations, if any) of the Company from time to time. As such, the Notes will rank above the Company shares in the ranking of securities of the Company.

Thus, in the event of liquidation and/or winding up of the Company, the Noteholders will be paid ahead of the shareholders and the amount recovered by the shareholders may not be sufficient to compensate the shareholders' initial cost of investment.

Notwithstanding the above, the Board will take all reasonable steps to ensure that the Company will continue as a going concern and will not be wound up and/or liquidated.

5.2 Risk relating to TPI and Wavetree

(i) **<u>Dependence on key personnel</u>**

The limited availability of suitable talents in Malaysia, conversant in the latest IoT and digital mobile technologies present the most critical risk to the successful development and implementation of product offerings of TPI and Wavetree. The continuous innovation crucial to the business' intensive focus in delivering disruptive technology-based solutions also requires experienced and qualified technical personnel in intellectual property creation and commercialisation.

Continuing successes of TPI and Wavetree depend, to a certain extent, on the capabilities and continuing efforts of key management personnel as well as the ability to retain and attract skilled technical personnel. The loss of key personnel may have an unfavourable and material impact on the financial performance of TPI and Wavetree.

Although TPI and Wavetree will strive to retain its existing key management personnel by offering competitive incentives and remunerations and attract new talent to reduce dependency on its key management team, there can be no assurance that TPI and Wavetree would be successful in doing so. Failure of TPI and Wavetree to do so could adversely affect the future financial performance and in turn, the financial performance of the enlarged SHIB Group.

(ii) **<u>Business and Operational risk</u>**

As the digital platform solutions and IoT solutions enter a high degree of maturity and having gained market validation, the business focus of SHIB Group shifts into an aggressive yet strategic go-to-market phase. This phase will require substantial working capital to be allocated to create market awareness, drive mass market adoption, and in the longer term, to create brand affinity and to solidify the market positioning of TPI and Wavetree in Malaysia as one of the leading operators in digital platform solutions and IoT solutions respectively.

SHIB expects this initial growth stage of TPI and Wavetree to take on an aggressive growth trajectory that will necessitate an accelerated spending in advertising and promotion, talent acquisition and partner/channel network development. The expected revenue generated by TPI and Wavetree during this stage will likely be insufficient to generative positive cash flow; therefore a strong working capital position is crucial.

(iii) **<u>Competition risk</u>**

TPI and Wavetree face competition from new players and existing competitors who may be more aggressive in expanding their business.

As with all disruptive technology solutions, market awareness and readiness play a critical role in the adoption and market uptake, TPI and Wavetree are keenly aware of this pre-requisite and are constantly executing strategic initiatives to turn this risk into a first-mover advantage. While TPI and Wavetree have gained strong initial traction in the market place amongst the more progressive and forward-looking customers and partners, the business growth teams of TPI and Wavetree are also focusing on spurring interest and energise market forces within the government sector in order to generate immediate demands for their innovative digital solutions.

It is also expected that regional and global players to be entering the Malaysian market in the coming years, likely covering the entire value chain from hardware providers, software platform players to application providers. SHIB Group sees this as a long-term business advantage as it will generate market awareness and interests, while presenting TPI and Wavetree with the opportunity to explore partnerships with these global players. The successful partnering with global well-known players will path the way for TPI and Wavetree to bring their digital solutions to a wider market within a shorter time frame, by leveraging on partners' branding and market presence.

5.3 Risk relating to Bistromalones Group

(i) **Bistromalones Group may be affected by reductions in consumer spending as a result of changes in economic conditions**

Bistromalones Group's business is subject to prevailing economic conditions in the countries it operates in. Any adverse changes in the economic conditions may in turn affect consumers' disposable income and consumer spending. The habits of its consumers are particularly sensitive to the state of the economy. In the event of an economic downturn, consumers will tend to become more budget conscious and sensitive to the amount they are willing to spend on food and entertainment.

In mitigating such risk, Bistromalones Group is conscious about the consumers' behaviour and continuously implements marketing strategies to cater the consumers' need including having promotions on affordable value meals for the price-sensitive customers.

(ii) **Bistromalones Group's business will be affected by the availability and price fluctuations of food ingredients**

Bistromalones Group sources its supply of food ingredients mainly in Malaysia. The prices of food ingredients may fluctuate due to various factors beyond its control, such as increase in food prices, outbreak of diseases, droughts, floods, or other disruption on a significant scale. The restaurants are highly dependent on a sufficient supply of food ingredients that meet Bistromalones Group's price and quality requirements. A significant increase in the market price of food ingredients will have an effect on its margins if it is unable to pass such increase in the price of food ingredients to its customers. A material shortage will affect the operation of the restaurants and its financial performance accordingly.

However, given the food ingredients of Bistromalones Group are common supplies in the market, there are flexibilities for Bistromalones Group to procure the ingredients or to substitute supplies from the wide availability of suppliers in Malaysia.

(iii) **Bistromalones Group may be affected by any increase in the rental or the failure to renew its existing leases**

Bistromalones Group operates all its restaurants on leased properties. Since the rental expenses represent a relatively significant portion of the total operating expenses of the restaurants, Bistromalones Group's financial performance will be affected by any substantial increase in rental.

The landlords have the right to review and change the terms and conditions of the lease agreements upon expiry of the existing leases. There is no assurance that Bistromalones Group would be able to renew the relevant lease agreements on terms acceptable to it. The non-renewal of these leases or renewal on less favourable terms may have a negative effect on Bistromalones Group's business and financial performance.

The leases of the restaurants operated by Bistromalones Group in the current locations have been renewed for several terms due to its good relationship with the respective landlords and also the good reputation of the restaurants. Furthermore, Bistromalones Group has been invited to operate its restaurants in the upcoming new shopping malls in Malaysia. Given its historical track record, Bistromalones Group has been given the preferential for site selection and attractive rental rates.

(iv) **Bistromalones Group's business is largely service-oriented and is dependent on good employees**

In addition to Bistromalones Group's management, its continued success depends in part upon its ability to attract, motivate and retain a sufficient number of qualified and skilled employees. If it fails to recruit skilled personnel and to retain its key employees, this may have an adverse impact on its operations and expansion plans.

In mitigating such risk, Bistromalones Group focuses on the development of its employees and conducts series of coach seminar and leadership workshops for its key employees. Bistromalones Group also ensures that its remuneration packages are comparable to its competitors. In addition, Bistromalones Group also practices recognition system at all levels to appreciate the contribution by the employees to the company.

(v) **<u>Bistromalones Group may be affected by the intense competition in F&B service industry</u>**

Bistromalones Group operates in an industry that is highly competitive and is faced with competition from diverse group of restaurant chains and individual restaurant operators. There is no assurance that Bistromalones Group will be able to compete strongly with its existing competitors and future competitors whilst adapting quickly to changing market conditions and trends. Bistromalones Group's business and financial performance will be badly affected if there is any failure by it to remain competitive in terms of its pricing, or there is deterioration in the quality of its food or its level of service.

In order to remain competitive in F&B service industry, Bistromalones Group constantly engages consumers on all platforms including digital and social media to drive the brand visibility and also focuses on local store-marketing, special promotions and innovative menu items to cater for the different needs of consumers.

5.4 Risk relating to digital solutions industry

(i) **<u>Constant evolution of technological trends resulting in the need for continuous innovation to remain competitive</u>**

Over the years, the digital solutions industry has evolved from IT applications (which can automate a specific operational and production process) to IoT (whereby technology is used to facilitate the interconnectivity between objects such as mobile devices, machines, home appliances and motor vehicles). The use of digital solutions and IoT as well as the technological tools is expected to continue to evolve and advance, and this may render the existing solutions and technological tools dated or redundant.

With the industry constantly changing and developing to keep up with market needs and trends, the responsibility falls on the industry players to ensure they can keep up with latest technological developments in order to remain competitive.

TPI and Wavetree, leveraging on the technological innovation and commercial know-how of their technical teams, will continue to focus significant efforts in pursuing R&D in upcoming future technologies and trends. With the enlarged working capital and expanded market presence, these companies will also embark on strategic partnerships with the intention to absorb and integrate future technologies into its core offering.

(ii) **<u>Lack of awareness on the importance of digital solutions</u>**

Digital solutions are essential and important in promoting efficiency of operations in enterprises and cities, but not critical for day-to-day operations. Also, due to the high costs in implementing and maintaining the infrastructures relating to digital solutions and IoT, many SMEs tend to trade-off these expenses for other more critical expenses to their operations. As such, in many cases, most companies and government may not allocate sufficient budget for these solutions.

However, along with the constant evolution of technological trends and advancement of technology, the SMEs tend to increase in awareness on the importance of digital solutions such as big data analytics, IoT and A.I. in improving efficiency and cost saving in their business operations.

With the current government's focus on promoting fourth industrial revolution, as well as BNM's push towards a digital payment society, TPI and Wavetree are perfectly positioned at the forefront of mass adoption of the IoT and smart-city mobile e-commerce space. Through strengthening partnerships with core technology principals such as Microsoft Corporation, International Business Machines (IBM) Corporation and other core technology platform providers, the companies will be well equipped to create market awareness and influence market dynamics towards greater adoption of its offerings. The companies will also be working closely with relevant governmental agencies such as MDEC, Ministry of Science, Technology and Innovation, Ministry of International Trade and Industry and Ministry of Finance, to leverage on go-to-market platforms and programmes to expand market exposures and spur adoption. This includes organising and attending relevant trade shows and industry forums, with the objective of providing thought leadership and market presence amongst targeted audience.

(iii) **<u>Competition from other digital solution industry players</u>**

The digital solutions industry comprises both foreign and local industry players. With the presence of these international companies, industry players face competitive pressures to differentiate and remain sustainable so as to appeal to customers' and end-users' demands. In addition, industry players must also continuously upgrade their technologies through research and development to stay ahead of the competition.

Through strategic partnerships with other digital solution industry players, TPI and Wavetree are expected to remain competitive in its technological leadership and commercial offerings. The companies also intend to generate commercially valuable intellectual property that will be protected via patents and copyrights. TPI and Wavetree will also expand their scope of exploring partnerships in order to bolster their intellectual property assets.

5.5 Risk relating to F&B service industry

(i) **<u>F&B establishments face competition within the F&B service market</u>**

The F&B service market in Malaysia consists of establishments ranging from F&B chains to small independently owned restaurants. It is a highly fragmented industry and industry players compete to attract and retain customers by ensuring the food offering are quality, competitively priced and/or innovative as well as effectively and efficiently managing their operations.

Furthermore, some of these F&B establishments are more reputable than others, enabling them to seek and negotiate more suitable and strategic locations for their restaurants/outlets. This is highly important as the visibility and accessibility as well as high foot traffic locations are contributing factors to the success of a particular F&B establishment.

The aforementioned factors are key differentiators for industry players, and failure on any industry player's part to build on these differentiating factors as a competitive advantage for themselves could cause losses in sales and a decline in customer loyalty to their establishments, leading to a subsequent loss in market share.

Bistromalones Group is dedicated in remaining competitive by constantly engaging consumers on all platforms including digital and social media to drive the brand visibility and also focuses on local store-marketing, special promotions and innovative menu items to cater for the different needs of consumers.

For example, TGIF is an iconic global American brand of over 50 years with its presence on Malaysia for over 25 years and located prominently in popular malls. The brand is popular with families and special occasions such as birthday celebrations and friends gatherings.

Besides, TTP is an established local brand in Malaysia with presence of over 10 years and serving affordable local cuisine in a comfortable and modern ambience. Due to its strong brand recognition and affordability, the number of outlets via franchise has grown locally and is currently venturing into the international market.

(ii) **<u>Reliance on human resources</u>**

The F&B service market is service-oriented, and it is therefore important to ensure that suitable personnel are hired as cashiers and waiter/waitresses as their interaction with customers has an impact on the customers' dining experiences. Inefficient and unfriendly customer service could lead to a loss in sales or loss in repeat customers.

Also, there is an increasing reliance on foreign employees in Malaysia. Some of the foreign employees from countries such as Nepal and Bangladesh may face language and cultural barriers, and it is important for industry players to provide sufficient training to ensure that the quality of customer service is maintained at an acceptable level. Furthermore, while the employment of foreign workers is currently allowed in the retail market, the government may amend policies relating to the employment of foreign workers in the F&B service market and/or introduce new conditions from time to time.

As the F&B service market is dependent on the supply of foreign workers, any scarcity in supply or change in regulations would adversely affect industry players. Furthermore, any increase in the levy or minimum wages for foreign workers or any other additional costs to be paid to the government in relation to the employment of foreign workers would increase retail overheads and directly impact the financial performance of industry players.

In mitigating such risk, Bistromalones Group sources its foreign workers mainly from outsourced agents. Foreign workers with language barrier are usually employed to work in the kitchen to reduce interaction difficulty with the customers. Bistromalones Group also attracts and employs local graduating students from hospitality schools to reduce the dependent on foreign workers.

Nevertheless, Bistromalones Group is streamlining its operations and processes to reduce the number of workers required by utilising technology and applications for customer service such as food ordering in order to create more efficiency and to reduce labour requirements.

(iii) **<u>Adverse economic conditions could have an impact on sales, and this may adversely impact industry players</u>**

The F&B service market is dependent upon the present state of the economy, as a growing economy signifies a population with higher disposable income that has greater spending power, creating demand for F&B establishments. A decline in economic conditions in Malaysia may decrease consumer spending power, which will in turn have a negative impact on the F&B service market.

A slowdown in the economy may cause reduced sales volumes, which could have a negative impact on the overall financial condition of industry players who may not be able to successfully achieve their expected results.

Nevertheless, the casual dining segment is less susceptible to fluctuations in the economy, as the price range for these casual dining F&B establishments are typically low to medium-priced and are perceived as a casual dining-out option. This thus lowers the susceptibility of the casual dining F&B service segment to adverse economic conditions.

Additionally, Bistromalones Group is continuously driving its sales via various marketing strategies such as engaging consumers on all platforms including digital and social media, special promotions and innovative menu items while focusing on operational enhancements that drive cost savings, labour efficiency and margin improvements.

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6. EFFECTS OF THE PROPOSED NOTES ISSUE

In view of the funding requirements of the Company as set out in Section 2.9 of this Circular, it is the intention of SHIB to raise the full principal amount of RM150 million under the Proposed Notes Issue, subject to the terms and conditions as set out in the Subscription Agreement. Accordingly, the pro forma effects of the Proposed Notes Issue herein are based on the assumption that a total of RM150 million will be raised from the Proposed Notes Issue.

As at the date of this Circular, the Conversion Price for the Notes has yet to be determined. It is thus not possible, as at the date of this Circular, to ascertain the effects of the Proposed Notes Issue until the Notes have been issued, converted and/or otherwise redeemed. For illustrative purposes, the pro forma effects of the Proposed Notes Issue as set out in the ensuing sections are based on the Minimum Conversion Price of RM0.18.

6.1 Issued Share Capital

The pro forma effects of the Proposed Notes Issue on SHIB's issued share capital are as follows:

	No. of Shares	RM
Issued share capital as at the LPD	1,122,307,817	1,115,044,734
To be issued pursuant to:		
- Full conversion of the Notes[(1)]	833,333,333	150,000,000
Enlarged issued share capital	**1,955,641,150**	**1,265,044,734**

Note:

(1) Assuming full conversion of all three (3) tranches of the Notes with a total principal amount of RM150 million into 833,333,333 Conversion Shares at the Minimum Conversion Price.

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6.2 NA and Gearing

The pro forma effects of the Proposed Notes Issue on the NA and gearing of the SHIB Group based on the audited consolidated financial statements of SHIB for FY2018 are set out below:

	Audited as at 31 December 2018	Pro forma(I) Upon Proposed Acquisitions [(1)]	Pro forma(II) Upon issuance of the Notes[(4)]	Pro forma (III) Upon full conversion of the Notes
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Share capital	1,115,045	1,115,045	1,115,045	[(5)]1,265,045
Reserves	(563,134)	(563,134)	(563,134)	(563,134)
Accumulated losses	(171,018)	[(2),(3)](171,318)	(171,318)	[(6)](181,097)
Total equity/ NA	**380,893**	**380,593**	**380,593**	**520,814**
No. of Shares in issue ('000)	1,122,308	1,122,308	1,122,308	1,955,641
NA per Share (RM)	0.34	0.34	0.34	0.27
Borrowings (RM'000)	24,055	24,168	164,389	24,168
Gearing (times)	0.06	0.06	0.43	0.05

Notes:

(1) For illustration purpose, the purchase considerations of the Proposed Acquisitions are satisfied entirely from the Group's existing working capital.

(2) After deducting the estimated expenses amounting to RM300,000 in relation to the Proposed Acquisitions.

*(3) In the absence of a purchase price allocation being performed, it is assumed that the excess of the purchase consideration over the fair value of the net identifiable assets is entirely made up of goodwill. This may be subject to changes at a later stage due to goodwill/negative goodwill that may arise from the purchase price allocation exercise based on established fair value of the assets acquired, including the fair value of the identifiable intangible assets, liabilities assumed as of the acquisition date, in accordance with Malaysian Financial Reporting Standard ("**MFRS**") 3, Business Combinations. The excess of the purchase consideration over the fair value of the net assets acquired is allocated to goodwill, or vice versa be reflected as a discount on acquisition.*

(4) In accordance with MFRS 132, the Notes is a financial liability in its entirety. The increase in the Group's total borrowings upon issuance of the Notes is RM140.22 million, being the carrying amount of the Notes after capitalising eligible estimated expenses in relation to the Proposed Notes Issue of RM9.78 million.

(5) Assuming full conversion of all three (3) tranches of the Notes with total principal amount of RM150 million into 833,333,333 Conversion Shares at the Minimum Conversion Price immediately after their issuance.

(6) In accordance with MFRS 9, the estimated expenses amounting to RM9.78 million in relation to the Proposed Notes Issue capitalised is amortised in profit or loss over the tenure of the Notes. However, for illustrative purposes, the estimated expenses of RM9.78 million is assumed to be recognised to profit or loss upon full conversion in Pro forma III.

6.3 Substantial Shareholders' Shareholdings

The pro forma effects of the Proposed Notes Issue on the shareholdings of the substantial shareholders of SHIB based on the Record of Depositors of the Company as at the LPD are set out below:

	As at the LPD				After issuance of the Notes[1]				After full conversion of the Notes			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
Substantial Shareholders	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Rock Point Alliance Pte Ltd	285,000,080	25.39	-	-	285,000,080	25.39	-	-	285,000,080	14.57	-	-
Libran Infinity Inc	74,000,057	6.59	-	-	74,000,057	6.59	-	-	74,000,057	3.78	-	-
Liu Guodong	-	-	(2)74,000,057	6.59	-	-	(2)74,000,057	6.59	-	-	(2)74,000,057	3.78
Rise Business Inc	102,000,038	9.09	-	-	102,000,038	9.09	-	-	102,000,038	5.22	-	-
Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar	12,073,700	1.08	(3)304,492,259	27.13	12,073,700	1.08	(3)304,492,259	27.13	12,073,700	0.62	(3)304,492,259	15.57
Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar	1,221,500	0.11	(4)315,342,959	28.10	1,221,500	0.11	(4)315,342,959	28.10	1,221,500	0.06	(4)315,342,959	16.12
Y.A.M. Tunku Dara Tunku Tan Sri Naquiah Bte Tuanku Ja'afar	1,166,500	0.10	(5)315,397,959	28.10	1,166,500	0.10	(5)315,397,959	28.10	1,166,500	0.06	(5)315,397,959	16.13
Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar	1,176,500	0.10	(6)315,387,959	28.10	1,176,500	0.10	(6)315,387,959	28.10	1,176,500	0.06	(6)315,387,959	16.13
Y.A.M. Tunku Irinah Binti Tuanku Ja'afar	1,154,250	0.10	(7)315,410,209	28.10	1,154,250	0.10	(7)315,410,209	28.10	1,154,250	0.06	(7)315,410,209	16.13
Y.A.M. Tunku Jawahir Bte Tuanku Ja'afar	1,076,550	0.10	(8)315,487,909	28.11	1,076,550	0.10	(8)315,487,909	28.11	1,076,550	0.06	(8)315,487,909	16.13

	As at the LPD				After issuance of the Notes(1)				After full conversion of the Notes			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
Substantial Shareholders	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
Y.M. Tunku Nurul Hayati Binti Tunku Bahador	100,200	0.01	(9)316,465,759	28.20	100,200	0.01	(9)316,465,759	28.20	100,200	0.01	(9)316,465,759	16.18
Y.M. Tunku Mohamed Alauddin Tunku Naquiyuddin	1,500	*	(10)308,810,230	27.52	1,500	*	(10)308,810,230	27.52	1,500	*	(10)308,810,230	15.79
Zhu Qinghua	-	-	(11)102,000,038	9.09	-	-	(11)102,000,038	9.09	-	-	(11)102,000,038	5.22
Noteholder(s)	-	-	-	-	-	-	-	-	833,333,333	42.61	-	-

Notes:

* *Negligible*

(1) *There will be no effect on the substantial shareholders' shareholdings in the Company upon the issuance of the Notes.*

(2) *Deemed interest pursuant to Section 8 of Companies Act, 2016 by virtue of his entire equity interest in Libran Infinity Inc.*

(3) *Deemed interested by virtue of:*

- *Him being the sibling to Y.A.M. Tunku Irinah Binti Tuanku Ja'afar, Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar, Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar, Y.A.M. Tunku Dara Tunku Tan Sri Naquiah Bte Tuanku Ja'afar and Y.A.M. Tunku Jawahir Bte Tuanku Ja'afar;*
- *Him being the father of Y.M. Tunku Mohamed Alauddin Tunku Naquiyuddin;*
- *Him being the spouse of Y.M. Tunku Nurul Hayati Binti Tunku Bahador;*
- *His substantial shareholdings in Syarikat Pesaka Antah Sdn. Bhd. which in turn holds shares in SHIB;*
- *His direct interest of over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *His direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *His direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(4) *Deemed interested by virtue of:*

- *Him being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar, Y.A.M. Tunku Irinah Binti Tuanku Ja'afar, Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar, Y.A.M. Tunku Dara Tuanku Tan Sri Naquiah Bte Tuanku Ja'afar and Y.A.M. Tunku Jawahir Bte Tuanku Ja'afar;*
- *Him being the brother-in-law to Y.M. Tunku Nurul Hayati Binti Tunku Bahador;*
- *His substantial shareholdings in Syarikat Pesaka Antah Sdn Bhd which in turn holds shares in SHIB;*
- *His direct interest of over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *Him being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *Him being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(5) Deemed interested by virtue of:

- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar, Y.A.M. Tunku Irinah Binti Tuanku Ja'afar, Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar, Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar and Y.A.M. Tunku Jawahir Bte Tuanku Ja'afar;*
- *Her being the sister-in-law to Y.M. Tunku Nurul Hayati Binti Tunku Bahador;*
- *Her substantial shareholdings in Syarikat Pesaka Antah Sdn Bhd which in turn holds shares in SHIB;*
- *Her sibling's interest of over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(6) Deemed interested by virtue of:

- *Him being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar, Y.A.M. Tunku Irinah Binti Tuanku Ja'afar, Y.A.M. Tunku Dara Tunku Tan Sri Naquiah Bte Tuanku Ja'afar, Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar and Y.A.M. Tunku Jawahir Bte Tuanku Ja'afar;*
- *Him being the brother-in-law to Y.M. Tunku Nurul Hayati Binti Tunku Bahador;*
- *His substantial shareholdings in Syarikat Pesaka Antah Sdn Bhd which in turn holds shares in SHIB;*
- *His direct interest of over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *Him being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *Him being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(7) Deemed interested by virtue of:

- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar, Y.A.M. Tunku Dara Tunku Tan Sri Naquiah Bte Tuanku Ja'afar, Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar, Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar and Y.A.M. Tunku Jawahir Bte Tuanku Ja'afar;*
- *Her being the sister-in-law to Y.M. Tunku Nurul Hayati Binti Tunku Bahador;*
- *Her substantial shareholdings in Syarikat Pesaka Antah Sdn Bhd which in turn holds shares in SHIB;*
- *Her sibling's interest of over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(8) Deemed interested by virtue of:

- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar, Y.A.M. Tunku Dara Tunku Tan Sri Naquiah Bte Tuanku Ja'afar, Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar, Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar and Y.A.M. Tunku Irinah Binti Tuanku Ja'afar;*
- *Her being the sister-in-law to Y.M. Tunku Nurul Hayati Binti Tunku Bahador;*
- *Her substantial shareholdings in Syarikat Pesaka Antah Sdn Bhd which in turn holds shares in SHIB;*
- *Her sibling's interest of over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *Her being the sibling to Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(9) Deemed interested by virtue of:

- *Her being the spouse of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar;*
- *Her being the sister-in-law to Y.A.M. Tunku Irinah Binti Tuanku Ja'afar, Y.A.M. Tunku Dato' Seri Nadzaruddin Ibni Tuanku Ja'afar, Y.A.M. Tunku Tan Sri Imran Ibni Tuanku Ja'afar, Y.A.M. Tunku Dara Tunku Tan Sri Naquiah Bte Tuanku Ja'afar and Y.A.M. Tunku Jawahir Bte Tuanku Ja'afar;*
- *Her being the mother of Y.M. Tunku Mohamed Alauddin Tunku Naquiyuddin;*
- *Her being the spouse of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has substantial shareholdings in Syarikat Pesaka Antah Sdn Bhd which in turn holds shares in SHIB;*
- *Her being the spouse of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *Her being the spouse of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *Her being the spouse of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(10) Deemed interested by virtue of:

- *Him being the son of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar and Y.M. Tunku Nurul Hayati Binti Tunku Bahador;*
- *Him being the son of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Syarikat Pesaka Radin Sdn Bhd which in turn holds shares in SHIB;*
- *Him being the son of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds shares in SHIB; and*
- *Him being the son of Y.A.M. Tunku Naquiyuddin Ibni Tuanku Ja'afar who has direct interest of over 20% equity interest in Rock Point Alliance Sdn Bhd which in turn holds the entire equity interest in Rock Point Alliance Pte Ltd.*

(11) Deemed interested by virtue of his direct interest of over 20% equity interest in Rise Business Inc. which in turn holds shares in SHIB.

It is expected that there will be no change in the Company's controlling shareholder pursuant to the Proposed Notes Issue as there will be no conversion of Notes by the Subscriber and/or Noteholder(s) to transfer a controlling interest in the Company such that the Subscriber and/or Noteholder(s), as the case may be, become a controlling shareholder of the Company without the prior approval of the Company's shareholders, nor to hold more than 10% interest in the issued share capital of the Company, at any time and from time to time, without the Company's prior approval. In addition, the Conversion Shares are expected to be sold down via the open market on a progressive basis, in tandem with the progressive subscription and conversion of the Notes.

6.4 Earnings and EPS

The Proposed Notes Issue is not expected to have any material effect on the earnings of the Group for FY2019.

Notwithstanding the above, the Proposed Notes Issue is expected to contribute positively to the earnings of the Group in the future financial years when the benefits of the utilisation of proceeds from the Proposed Notes Issue, as set out in Section 2.9 of this Circular, are realised.

Subject to the future earnings of the Group, its EPS may be diluted in the future financial years as a result of the increase in its total number of issued shares arising from the conversion of the Notes into new SHIB Shares.

The Proposed Acquisitions are not expected to have any material effect on the earnings of the Group for FY2019 as the Proposed Acquisitions are expected to be completed by end 2019.

Notwithstanding the above, the Proposed Acquisitions are expected to be earning accretive to the Group in the future financial years when the benefits of the utilisation of proceeds from the Proposed Notes Issue are realised.

For illustration purposes, based on the audited consolidated financial statements of SHIB for the FY2018 and assuming the Proposed Acquisitions has been effected on 1 January 2018, being the beginning of the FY2018 of the Group, the proforma effects of the Proposed Acquisitions on the earnings and the EPS of SHIB Group are set out below:

	Audited FY2018 (RM'000)	**I After the Proposed Acquisitions (RM'000)**	**II After I and assuming full conversion of the Notes (RM'000)**
PAT attributable to shareholders(1)	29,595	29,595	29,595
Contribution from the Proposed Acquisitions attributable to shareholders(2)(3)	-	1,207	1,207
Proforma PAT attributable to shareholders for FY2018	29,595	30,802	30,802
No. of SHIB Shares ('000)	1,122,308	1,122,308	(4)1,955,641
EPS (sen)	2.64	2.74	1.58

***Notes**:*

(1) Based on the latest audited financial results of SHIB Group for the FYE 31 December 2018.
(2) Based on the unaudited financial results of TPI for FYE 30 June 2018, unaudited financial results of Wavetree for FYE 31 December 2018 and unaudited proforma financial results of Bistromalones Group for FYE 31 December 2018 provided by the management of TPI, Wavetree and Bistromalones respectively.
(3) For illustrative purposes, the contribution represents a 51% equity interest share of the financial information in TPI, Wavetree and Bistromalones Group.
(4) Assuming full conversion of all three (3) tranches of the Notes with a total principal amount of RM150 million into 833,333,333 Conversion Shares at the Minimum Conversion Price.

6.5 Convertible Securities

As at the LPD, the Company does not have any other existing convertible securities.

7. HISTORICAL SHARE PRICES

The monthly highest and lowest transacted market prices of SHIB Shares as traded on Bursa Securities for the past twelve (12) months prior to the LPD are as follows:

	High RM	**Low RM**
2018		
August	0.33	0.275
September	0.295	0.245
October	0.285	0.22
November	0.265	0.18
December	0.195	0.13
2019		
January	0.245	0.14
February	0.22	0.17
March	0.30	0.18
April	0.28	0.22
May	0.23	0.165
June	0.20	0.165
July	0.195	0.17

Last transacted price of SHIB Shares on 14 June 2019 *(being the LPD of the announcement in relation to this Proposed Notes Issue)*	RM0.18
Last transacted price of SHIB Shares as at the LPD	RM0.16

(Source: Bloomberg)

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8. APPROVALS REQUIRED

The Proposed Notes Issue is subject to the following approvals being obtained:

(a) Bursa Securities for the listing of and quotation for the Conversion Shares pursuant to the Proposed Notes Issue on the Main Market of Bursa Securities.

The approval of Bursa Securities was obtained *vide* its letter dated 2 August 2019 and is subject to the following conditions:

	Condition	Status of compliance
(1)	SHIB and Kenanga IB must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Notes Issue.	To be complied
(2)	SHIB and Kenanga IB to inform Bursa Securities upon the completion of the Proposed Notes Issue.	To be complied
(3)	SHIB to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Notes Issue is completed.	To be complied
(4)	SHIB to furnish Bursa Securities with a certified true copy of the resolutions passed by the shareholders in general meeting approving the Proposed Notes Issue.	To be complied
(5)	Payment of additional listing fee pertaining to the conversion of the Notes, if relevant. In this respect, SHIB is required to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the conversion of the Notes as at the end of each quarter together with a detailed computation of listing fees payable.	To be complied

(b) the shareholders of SHIB at an EGM to be convened; and

(c) any other relevant authorities, if required.

The Proposed Notes Issue is not conditional upon any proposal undertaken or to be undertaken by the Company.

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

None of the Directors and/or major shareholders of SHIB and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Notes Issue.

10. DIRECTORS' RECOMMENDATION

The Board, having considered all aspects of the Proposed Notes Issue including but not limited to the rationale, justifications and effects of the Proposed Notes Issue, is of the opinion that the Proposed Notes Issue are in the best interest of the Company and is fair, reasonable and on terms that are not detrimental to the interest of the minority shareholders of SHIB. As such, the Board recommends that you vote in favour of the resolution pertaining to the Proposed Notes Issue to be tabled at the forthcoming EGM of the Company.

11. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Acquisitions and the Proposed Notes Issue, there are no other corporate exercises which have been announced by the Company but have yet to be completed as at the LPD.

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances and subject to all requisite approvals being obtained, the Proposed Notes Issue is expected to be completed and the first sub-tranche of Tranche 1 Notes is expected to be issued in the fourth quarter of 2019.

13. EGM

The forthcoming EGM, the notice of which is enclosed with this Circular, will be held at Banquet Hall, The Royal Selangor Golf Club, Jalan Kelab Golf, Off Jalan Tun Razak, 55000 Kuala Lumpur, Wilayah Persekutuan on Thursday, 5 September 2019 at 10.00 a.m. or at any adjournment thereof for the purpose of considering and if thought fit, passing the resolution to give effect to the Proposed Notes Issue.

If you are unable to attend and vote in person at the forthcoming EGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions contained therein as soon as possible and in any event, so as to arrive at Securities Services (Holdings) Sdn. Bhd., Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan, not less than forty-eight (48) hours before the time set for the EGM. The lodging of the Form of Proxy does not preclude you from attending and voting in person at the forthcoming EGM should you subsequently wish to do so.

14. FURTHER INFORMATION

You are advised to refer to the attached appendices of this Circular for further information.

Yours faithfully
for and on behalf of the Board
SINO HUA-AN INTERNATIONAL BERHAD

LIU GUODONG
Managing Director

1. HISTORY AND BUSINESS

TPI was incorporated in Malaysia as a private limited company and commenced its operation in Malaysia on 11 March 2014. The principal activities of TPI are research, development and commercialisation of software technology, products and related professional services. Principally, TPI develops and commercially provides a mobile community platform to state government, city councils, venue owners and organisations as a smart city and/or digital transformation enabler.

TPI primarily engages in the following businesses:
(i) Enterprise software and mobile application development services
(ii) Software platform and product offerings in the form of subscription and licensing
(iii) Online and onsite ticketing platform and services
(iv) Mobile and e-commerce platform and services

The Mobile Community Platform which has been developed by TPI as described in Section 4.4 of this Circular constitutes a significant intellectual property asset of the company. Additionally, TPI has also developed and commercialised a mobile workforce tracking and automation platform known as SpeedReport. TPI has also developed and commercialised a mobile e-commerce platform, MoPro which has been granted a registered trademark by Intellectual Property Corporation of Malaysia.

2. SHARE CAPITAL

As at LPD, the issued share capital of TPI is RM100,000 and the total number of issued shares of TPI is 100,000 ordinary shares.

3. DIRECTORS AND DIRECTORS' SHAREHOLDINGS

The particulars of the Directors and their respective shareholdings in TPI as at the LPD are as follows:

Name	**Designation**	**Nationality**	**Direct Shareholdings**		**Indirect Shareholdings**	
			No.of shares	%	**No.of shares**	%
Ng Chee Seng	Director	Malaysian	51,000	51	-	-
Amirrudin Yahaya	Director	Malaysian	49,000	49	-	-

4. SHAREHOLDERS AND THEIR SHAREHOLDINGS

The particulars of the shareholders and their respective shareholdings in TPI as at the LPD are as follows:

Shareholders	**Country of incorporation**	**No. of TPI ordinary shares**	**Share Capital (RM)**	**Shareholding Percentage (%)**
Ng Chee Seng	Malaysian	51,000	51,000	51
Amirrudin Yahaya	Malaysian	49,000	49,000	49
Total		100,000	100,000	100

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, the details of the associated company of TPI are as follows:

Name	Date of incorporation	Country of Incorporation	Share Capital (RM)	Effective Interest	Principal Activities
Smart City Systems Sdn Bhd (1217252-M)	24 January 2017	Malaysia	100	40%	Smart city systems and applications development and implementation

6. SUMMARY OF FINANCIAL RESULTS OF TPI

The summary of the audited and unaudited financial information on TPI for the FYE 30 June 2016 to FYE 30 June 2018 is set out below:

	FY2016* RM'000	FY2017# RM'000	FY2018# RM'000
Revenue	1,508	882	689
Gross income/(loss)	1,098	381	530
Operating profit/(loss)	479	(95)	157
Profit/(loss) after tax	479	(95)	157
Issued and paid up share capital	100	100	100
Number of issued shares (units)	100	100	100
NA	372	277	434
NA per share	3.72	2.77	4.34
Total borrowings	-	-	-
Net EPS/(LPS)	4.79	(0.95)	1.57
Current Ratio (times)	1.88	1.59	1.82
Gearing Ratio (times)(1)	-	-	-

Notes:
* *Audited financial results*
\# *Unaudited financial results*
(1) Calculated based on total borrowings over NA

<u>Financial commentaries:</u>

FY2016
In FY2016, TPI recorded a revenue of approximately RM1.5 million mainly generated from Turnkey projects i.e. digital on boarding project and Sinar Mas mobile application worker in-field activity traceability project. The gross income in FY2016 amounted to approximately RM1.1 million, representing a gross margin of 73% whereas the recorded PAT amounted to approximately RM479k after taking into consideration of other operating costs such as labour, utilities, office rental and etc. During the current year under review, TPI began the Smart City Platform development and its first prototype was created.

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FY2017

In FY2017, the revenue was reduced from approximately RM1.5 million to RM882k as part of TPI's strategy to reduce turnkey projects and to focus the resources on the development of the Smart City Platform for Putrajaya. This resulted a decline of revenue of approximately 42%. Notwithstanding, TPI continued with some change request (enhancements) works for the 2016 projects. With additional outsourcing costs required for such enhancements works for the turnkey projects as the in-house team focused on the Smart City Platform development, the gross margin of FY2017 reduced to 42% compared to 73% recorded in FY2016. Despite lower operating costs incurred for FY2017 compared to FY2016, the company slipped into a loss position of approximately RM95k.

FY2018

The company continued to focus on the development of the Smart City Platform for Putrajaya in FY 2018 with revenue only coming from change requests of the turnkey projects secured in the previous years. Revenue was further reduced to approximately RM689k compared to RM882k recorded in FY2017, representing a decline of approximately 22%. However, the Smart City Platform development project has started to contribute some ticketing revenue of approximately RM100k to TPI for the year under review. There was no outsourcing costs incurred for the year and as a result of that, the gross margin has improved to 77% in FY2018. The company continued to be cautious in its operation spending and successfully kept its operating costs to much lower level for the current year under review. As a result, TPI recorded a net PAT of approximately RM154k in FY2018 compared to a net LAT of approximately RM95k in FY2017.

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1. HISTORY AND BUSINESS

Wavetree was incorporated in Malaysia as a limited liability partnership ("**LLP**") and commenced its operation in Malaysia on 27 February 2013. The principal activities of Wavetree are the research, development and commercialisation of radio-frequency identification, wireless sensor and IoT technologies and solutions.

Wavetree primarily engages in the following businesses:

(i) Design and manufacturing, integration and commercialisation of the hardware related to radio-frequency identification, wireless sensor and IoT

(ii) Development of related firmware, business application and cloud-based software platforms for IoT solutions

(iii) Research, development and commercialisation of data analytics, A.I. and image analysis related to IoT solutions

2. SHARE CAPITAL

As at LPD, there is no issued share capital for Wavetree as it is an LLP.

3. DIRECTORS AND DIRECTORS' SHAREHOLDINGS

The particulars of the Directors and their respective shareholdings in Wavetree as at the LPD are as follows:

Name	Designation	Nationality	Direct Shareholdings	Indirect Shareholdings
			%	%
Ng Chee Seng	Managing Partner	Malaysian	50	-
Cindy Wong Ling Ping	Partner	Malaysian	50	-

4. SHAREHOLDERS AND THEIR SHAREHOLDINGS

The particulars of the shareholders and their respective shareholdings in Wavetree as at the LPD are as follows:

Shareholders	Country of incorporation	Shareholding Percentage (%)
Ng Chee Seng	Malaysian	50
Cindy Wong Ling Ping	Malaysian	50
Total		**100**

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Wavetree has no subsidiaries and associated companies.

6. SUMMARY OF FINANCIAL RESULTS OF WAVETREE

The summary of the unaudited financial information on Wavetree for the FY2016 to FY2018 is set out below:

	FY2016 RM'000	FY2017 RM'000	FY2018 RM'000
Revenue	100	203	834
Gross income/(loss)	57	166	319
Operating profit/(loss)	38	119	154
Profit/(loss) after tax	38	119	154
Issued and paid up share capital(1)	-	-	-
Number of issued shares (units)(1)	-	-	-
NA	108	227	381
NA per share	-	-	-
Total borrowings	-	-	-
Net EPS/(LPS)	-	-	-
Current Ratio (times)	17.1	17.0	18.4
Gearing Ratio (times)(2)	-	-	-

***Notes**:*

(1) There is no issued and paid up share capital for Wavetree as it was incorporated as an LLP.

(2) Calculated based on total borrowings over NA.

<u>Financial commentaries:</u>

FY2016
In FY2016, Wavetree recorded a revenue of approximately RM100k mainly generated from the sales of IoT devices for oil palm plantation and the provision of its related engineering services. As the first foray into IoT for agriculture, Wavetree started designing and developing specialised IoT sensors for oil palm plantation and began commercially deploying the IoT solution. The limited liability partnership recorded a gross margin of approximately 57%, translating into approximately RM57k gross income for FY2016. After taking into consideration other operating costs, Wavetree has recorded a net PAT of approximately RM38k, representing a net margin of approximately 38%.

FY2017
In FY2017, Wavetree secured more jobs which included provision of engineering services for IoT solution at Sime Darby Plantation and IoT traceability solution for Palmas oil palm plantation in Peru which have doubled the revenue to approximately RM203k compared to approximately RM100k recorded in FY2016. As the result of higher revenue recorded during the year under review, the gross margin improved from 57% to approximately 82% in FY2017. Wavetree recorded higher net profit after tax of RM119k in FY2017 compared to a year earlier due to additional business secured during the year under review. The net margin improved from 38% to 59% in FY2017.

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FY2018

As Wavetree started to gain more footholds in the IoT for the agriculture industry, the revenue in FY2018 expanded more than 4 times to approximately RM834k compared to RM203k recorded in FY2017. Such increase in revenue was mainly due to more business secured which included the implementation of IoT for KLK Plantation in Indonesia and implementation of Industrial IoT platform for Tesco Malaysia.

As the current year under review marked the first large scale deployment of IoT solution for oil palm plantation and IoT Industrial solution, the gross margin was reduced to approximately 38% due to a combination of externally sourced hardware cost and increased project implementation cost from outsourcing of on-site contractors. In view of the additional costs incurred, the partnership only recorded 30% higher in net profit after tax which amounted to approximately RM154k for FYE 2018 compared to RM119k in FYE 2017 despite significant jump in the revenue during the year under review. This translated into a net margin of approximately 18% compared to 59% recorded in the previous year.

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1. HISTORY AND BUSINESS

Bistromalones was incorporated in Malaysia as a private limited company and commenced its operations in Malaysia on 19 August 2015. The principal activities of Bistromalones are operating a restaurant business and investment holding.

Bistromalones is an investment holding company which will own the casual dining under 2 core brands comprising TGIF (for the Malaysia region) and TTP (a franchise brand developed by Bistromalones Group) upon the completion of the Proposed Bistromalones Acquisition.

2. SHARE CAPITAL

As at LPD, the issued share capital of Bistromalones is RM100 and the total number of issued shares of Bistromalones is 100 ordinary shares.

3. DIRECTORS AND DIRECTORS' SHAREHOLDINGS

The particulars of the Directors and their respective shareholdings in Bistromalones as at the LPD are as follows:

Name	Designation	Nationality	Direct Shareholdings		Indirect Shareholdings	
			No.of shares	%	No.of shares	%
Andrew Roach Reddy[(1)]	Director	Malaysian	-	-	100	100
Nicol Roach Reddy	Director	Malaysian	-	-	-	-

Note:
(1) Deem interested by virtue of his shareholding in Chaswood Resources Holdings Ltd which is the holding company of Chaswood Resources Sdn Bhd which in turn is the holding company of Bistromalones.

4. SHAREHOLDERS AND THEIR SHAREHOLDINGS

The particulars of the shareholders and their respective shareholdings in Bistromalones as at the LPD are as follows:

Shareholders	Country of incorporation	No. of Bistromalones ordinary shares	Share Capital (RM)	Shareholding Percentage (%)
Chaswood Resources Sdn Bhd	Malaysia	100	100	100
Total		100	100	100

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5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, Bistromalones has no any subsidiaries and associated companies. However, upon the completion of Proposed Bistromalones Acquisition, the following entities will become the subsidiaries or associated company of Bistromalones as and when the issued share capital of the following companies have transferred to Bistromalones from Chaswood Resources Sdn Bhd with the details as set out below:
.

Name	Date of incorporation	Country of Incorporation	Share Capital (RM)	Effective Interest	Principal Activities
Teh Tarik Place Sdn Bhd	26 October 2006	Malaysia	200,000	100%	Brand owner and restaurant operator
Bistroamericana (TC) Sdn Bhd	19 May 2004	Malaysia	500,000	100%	Restaurant operator
Bistroamericana (PJ) Sdn Bhd	22 July 1994	Malaysia	1,000,000	100%	Restaurant operator
Bistroamericana (BU) Sdn Bhd	5 November 2002	Malaysia	500,000	100%	Restaurant operator
Bistroamericana (QB) Sdn Bhd	2 August 2006	Malaysia	1,000,000	100%	Restaurant operator
Bistroamericana (A) Sdn Bhd	26 October 2010	Malaysia	500,000	100%	Restaurant operator
Bistroamericana (Hartamas) Sdn Bhd	12 November 2008	Malaysia	500,000	100%	Restaurant operator
Bistroamericana (SP) Sdn Bhd	12 July 2007	Malaysia	1,800,000	100%	Restaurant operator
Bistroamericana (BB) Sdn Bhd	13 July 2007	Malaysia	2,300,000	100%	Restaurant operator
Bistroamericana (JB) Sdn Bhd	28 December 1996	Malaysia	1,000,000	20%	Restaurant operator

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6. SUMMARY OF THE FINANCIAL RESULTS OF BISTROMALONES GROUP

The summary of the unaudited proforma financial information of Bistromalones Group* for the FY2016 to FY2018 is set out below:

	FY2016 RM'000	FY2017 RM'000	FY2018 RM'000
Revenue	40,207	35,523	33,887
Gross income	26,336	22,860	22,008
Operating profit [(1)]	5,965	2,660	2,769
PAT[(1)]	3,422	1,338	2,055
Issued and paid up share capital	8,300	8,500	8,500
Number of issued shares ('000 units)	8,300	8,500	8,500
NA	1,807	(21,187)	(66,405)
One-off adjustments[(1)(2)]	2,484	23,428	62,612
NA after one-off adjustments	4,291	2,241	(3,793)
NA per share (RM)	0.52	0.26	(0.45)
Total borrowings[(3)]	2,668	1,937	28[(3)]
Net EPS (RM)	0.41	0.16	0.24
Current Ratio (times)	0.6	0.3	0.2
Gearing Ratio (times)[(4)]	0.6	0.9	(0.01)

***Notes**:*

* *Based on the proforma assuming Bistromalones Group had operated as a single economic entity throughout FY2016, FY2017 and FY2018.*

(1) Includes normalisation adjustments to be reflective of the business structure moving forward after the completion of the acquisition by the Company.

*(2) Includes one-off waiver of inter-company balances with the Chaswood Group and payables assumed to be settled pursuant to the terms under the share purchase agreement ("**SPA**") signed between Chaswood Resources Sdn Bhd and SHIB.*

(3) Borrowings in FY2018 comprise of hire purchase with the remaining of the outstanding borrowings assumed to have been settled pursuant to the SPA.

(4) Gearing ratio represents total borrowings divided by NA after one-off adjustments as mentioned in notes (1) and (2) above.

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Financial commentaries:

FY2016

In FY2016, Bistromalones Group recorded a revenue of RM40.2 million, a decrease of approximately 4% from RM42.3 million recorded in FY2015. The decline in revenue was mainly due to the weaker consumer sentiment since the implementation of the goods and service tax in Malaysia in 2015 and the depreciation of the Malaysian currency which have thus impacted the F&B retail industry. In line with the decrease in revenue, the gross income in FY2016 recorded a correspondent decrease of approximately 5% as compared to FY2015. Nevertheless, the gross income margin improved from 64.9% in FY2015 to 65.4% in FY2016. The improvement was primarily due to the streamlining of the procurement function and menu engineering to improve margins.

Despite the decline in revenue, the operating profit improved in FY2016 as compared to FY2015 mainly due to the focus on operational enhancements and driving margins improvement which resulted in savings in operating costs such as labour, utilities, operating supplies.

FY2017

In FY2017, Bistromalones Group recorded a revenue of RM35.5 million, a decrease of approximately 12% from RM40.2 million recorded in FY2016. The decrease in revenue was primarily due to the continued challenging and market uncertainty resulting in weak consumer sentiment and rising cost of living. In line with the decrease in revenue, the gross income in FY2017 recorded a correspondent decrease of approximately 13% as compared to FY2016. The gross income margin also decreased from 65.4% in FY2016 to 64.4% in FY2017 due to the promotional activities and value driven meals to attract the price sensitive consumers.

The decline in operating profit and profit after tax was in line with the decrease in revenue and gross income.

FY2018

In FY2018, Bistromalones Group recorded a revenue of RM33.9 million, a decrease of approximately 5% from RM35.5 million recorded in FY2017. The decline in revenue was mainly due to the continued weak consumer sentiment coupled with the increase in in competition from new mall openings which has impacted the existing industry players' businesses during this already weakened food and beverage business sector. In line with the decrease in revenue, the gross income in FY2018 recorded a correspondent decrease of approximately 4% as compared to FY2017. Nevertheless, the gross income margin improved from 64.4% in FY2017 to 64.9% in FY2018. The improvement was primarily due to the focus in margins improvement including menu engineering to sell higher margins items.

Despite the decline in revenue, the operating profit improved in FY2018 as compared to FY2017 mainly due to the continued focus on operational enhancements and driving margins improvement which resulted in savings in operating costs such as labour, utilities, operating supplies.

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1. DIRECTORS' RESPONSIBILITY STATEMENT

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

Information on TPI, Wavetree and Bistromalones Group has been confirmed by the directors/management of the respective companies and the responsibility of the Board shall be to ensure that the information concerning TPI, Wavetree and Bistromalones Group is accurately reproduced in this Circular.

Information on ACP, AOF and Mr. Tan Choon Wee was provided by Mr. Tan Choon Wee and the responsibility of the Board shall be to ensure that the information concerning ACP, AOF and Mr. Tan Choon Wee is accurately reproduced in this Circular.

2. CONSENT AND CONFLICT OF INTEREST

Kenanga IB, being the Principal Adviser to the Company for the Proposed Notes Issue, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

Kenanga IB is not aware of any conflict of interest which exists or is likely to exist in its capacity as the Principal Adviser for the Proposed Notes Issue.

Providence, being the Independent Market Researcher for the Proposed Acquisitions, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, the independent market research report and all references thereto in the form and context in which they appear in this Circular.

Providence is not aware of any conflict of interest which exists or is likely to exist in its capacity as the Independent Market Researcher for the Proposed Acquisitions.

3. MATERIAL LITIGATION

As at the LPD, the Group is not involved in any material litigation, claims or arbitration, either as plaintiff or defendant and the Board is not aware and does not have any knowledge of any proceedings pending or threatened against the Group, or of any facts likely to give rise to any proceedings which may materially and adversely affect the financial position or business of the Group.

4. MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

4.1 Material Commitments

As at the LPD, the Board is not aware of any material commitments incurred or known to be incurred by the Group, which may have a material impact on the results or financial position of the Group.

4.2 Contingent Liabilities

As at the LPD, the Board is not aware of any contingent liabilities incurred or known to be incurred by the Group that have not been provided for, which upon becoming enforceable may have a material impact on the results or financial position of the Group.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered office of the Company at 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) from the date of this Circular up to the date of the EGM:

(i) Constitution of the Company;

(ii) Audited consolidated financial statements of the Company for the FY2017 and FY 2018 and the unaudited consolidated financial statements of the Company for the FPE 31 March 2019;

(iii) Letter of consent referred to in Section 2 above;

(iv) Subscription Agreement;

(v) Draft trust deed to be entered into between the Company and the trustee of the Notes in relation to the Proposed Notes Issue; and

(vi) Independent market research report relating to the industry overview on the digital solutions industry and the F&B service market dated 21 August 2019 as prepared by Providence

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SINO HUA-AN INTERNATIONAL BERHAD
(Company No. 732227-T)
(Incorporated in Malaysia under the Companies Act 2016)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting ("**EGM**") of Sino Hua-An International Berhad ("**SHIB**" or "**Company**") will be held at Banquet Hall, The Royal Selangor Golf Club, Jalan Kelab Golf, Off Jalan Tun Razak, 55000 Kuala Lumpur, Wilayah Persekutuan on Thursday, 5 September 2019 at 10.00 a.m. or at any adjournment thereof, for the purpose of considering and if thought fit, passing the following resolution with or without modifications:

ORDINARY RESOLUTION

PROPOSED ISSUANCE OF REDEEMABLE CONVERTIBLE NOTES ("NOTES") WITH AN AGGREGATE PRINCIPAL AMOUNT OF UP TO RM150 MILLION ("PROPOSED NOTES ISSUE")

"**THAT**, subject to the approval of all relevant authorities, approval be and is hereby given to the Company to:

(i) issue up to RM150 million nominal value of Notes, convertible into new ordinary shares in SHIB ("**SHIB Shares**") at a conversion price to be determined in accordance with the terms and conditions of the subscription agreement dated 14 June 2019 entered into between the Company and Advance Opportunities Fund as subscriber in relation to the Proposed Notes Issue ("**Subscription Agreement**"); and

(ii) allot and issue such number of new SHIB Shares pursuant to the conversion of the Notes, from time to time during the tenure of the Notes, credited as fully paid-up, to or to the order of the Notes in accordance with the terms and conditions of the Subscription Agreement;

AND THAT such new SHIB Shares to be issued arising from the conversion of the Notes, shall, upon allotment and issuance, be listed on the Main Market of Bursa Malaysia Securities Berhad and rank *pari passu* in all respects with the then existing SHIB Shares except that they will not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid prior to the relevant date of allotment of the new SHIB Shares;

AND THAT the Board be and is hereby authorised to take all such steps and to enter into all such other agreements, deeds, arrangements, undertakings, indemnities, transfers, assignments and guarantees with any party or parties and to do all acts and things, as the Board may deem fit, necessary, expedient and/or appropriate in order to implement, finalise and give full effect to the Proposed Notes Issue with full powers to sign and execute all documents, make applications to authorities and regulatory bodies for any approvals and consents required and assent to any conditions, modifications, revaluations, variations and/or amendments as may be required or imposed by the relevant authorities and to do all such acts and things in any manner as they may deem necessary or expedient and/or appropriate to implement, finalise and give full effect to the Proposed Notes Issue."

By Order of the Board

CHUA SIEW CHUAN (MAICSA 0777689)
CHIN MUN YEE (MAICSA 7019243)
Company Secretaries

Kuala Lumpur
21 August 2019

Notes:

(i) *In respect of deposited security, only members whose names appear in the Record of Depositors on 29 August 2019 ("General Meeting Record of Depositors") shall be eligible to attend the Meeting.*

(ii) *A proxy need not be a member of the Company. Notwithstanding this, a member entitled to attend and vote at the Meeting is entitled to appoint any person as his proxy to attend and vote instead of the member at the Meeting. There shall be no restriction as to the qualification of the proxy. A proxy appointed to attend, participate, speak and vote at the Meeting shall have the same rights as the member to attend, participate, speak and vote at the Meeting.*

(iii) *The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under the common seal or under the hand of an officer or attorney duly authorised.*

(iv) *A member of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one (1) proxy to attend and vote at the same meetings except where Paragraphs (v) and (vi) below apply. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.*

(v) *Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each Securities Account it holds with shares of the Company standing to the credit of the said Securities Account.*

(vi) *Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) 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.*

(vii) *To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or notarially certified copy of such power of authority, must be deposited at the Company's Registered Office at Securities Services (Holdings) Sdn. Bhd., Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Wilayah Persekutuan not less than 48 hours before the time appointed of holding the above meeting or at any adjournment thereof.*

(viii) *The Personal Data Protection Act 2010, which regulates the processing of personal data in commercial transactions, applies to the Company. By providing to us your personal data which may include your name and mailing address, you hereby consent, agree and authorise the processing and/or disclosure of any personal data of or relating to you for the purposes of issuing the notice of this Meeting and convening the Meeting, including but not limited to preparation and compilation of documents and other matters, whether or not supplied by you. You further confirm to have obtained the consent, agreement and authorisation of all persons whose personal data you have disclosed and/or processed in connection with the foregoing.*

SINO HUA-AN INTERNATIONAL BERHAD
(Company No. 732227-T)
(Incorporated in Malaysia under the Companies Act 2016)

FORM OF PROXY

No of Shares Held	CDS Account No	Shareholder's Contact No

*I/We, (full name in capital letters) ……………………………..

bearing *NRIC No./Passport No./Company No…………………………………………………

of (full address) ....

being a *member/members of SINO HUA-AN INTERNATIONAL BERHAD ("**Company**"), hereby appoint:-

First Proxy "A"

Full Name	NRIC/ Passport No.	Proportion of Shareholdings Represented	
		No. of Shares	%
Full Address			

and/or failing *him/her,

Second Proxy "B"

Full Name	NRIC/ Passport No.	Proportion of Shareholdings Represented	
		No. of Shares	%
Full Address			

100%

or failing him/her, the CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at Banquet Hall, The Royal Selangor Golf Club, Jalan Kelab Golf, Off Jalan Tun Razak, 55000 Kuala Lumpur, Wilayah Persekutuan on Thursday, 5 September 2019 at 10.00 a.m or at any adjournment thereof.

(Please indicate with an "X" in the spaces provided below on how you wish your vote to be casted. If no specific instruction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.)

RESOLUTION	FOR	AGAINST
1. ORDINARY RESOLUTION - PROPOSED NOTES ISSUE		

* Strike out whichever not applicable

Dated this ……………. day of ……………… 2019

……………………………………..………
Signature(s) of Member(s) /
Common Seal

Fold this flap for sealing

Notes:

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AFFIX
STAMP

The Registrar
SINO HUA-AN INTERNATIONAL BERHAD (732227-T)
c/o Securities Services (Holdings) Sdn Bhd
Level 7, Menara Milenium, Jalan Damanlela
Pusat Bandar Damansara, Damansara Heights
50490 Kuala Lumpur, Wilayah Persekutuan.

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