THIS INDEPENDENT ADVICE CIRCULAR ("IAC") IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THIS IAC IN CONJUNCTION WITH THE OFFER DOCUMENT DATED 9 JANUARY 2017 ISSUED BY RHB INVESTMENT BANK BERHAD ON BEHALF OF THE OFFEROR (AS DEFINED HEREIN) WHICH HAS BEEN SENT TO YOU.

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. If you have sold or transferred all your Offer Shares (as defined herein) in Shell Refining Company (Federation of Malaya) Berhad ("**SRC**"), you should at once hand this IAC to the stockbroker or the agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

Pursuant to Rule 11 of the Rules on Take-overs, Mergers and Compulsory Acquisitions, the Securities Commission Malaysia ("**SC**") has notified that it has no further comments on the contents of this IAC. However, such notification shall not be taken to suggest that the SC agrees with the recommendation of the Board of Directors of SRC and the independent adviser or assumes responsibility for the correctness of any statements made or opinions or reports expressed in this IAC. The SC is not responsible for the contents of this IAC, does not represent that this IAC is accurate or complete and disclaims any liability for any loss arising from, or due to, your reliance on this IAC.

SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD

(Company No. 3926-U)
(Incorporated in Malaysia under the Companies Ordinances, 1940-1946)

INDEPENDENT ADVICE CIRCULAR TO THE HOLDERS IN RELATION TO THE

UNCONDITIONAL TAKE-OVER OFFER

BY

MALAYSIA HENGYUAN INTERNATIONAL LIMITED
(Company No. LL12508)
(Incorporated in Malaysia under the Labuan Companies Act, 1990)
("OFFEROR")

THROUGH

RHB INVESTMENT BANK BERHAD
(Company No. 19663-P)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

TO ACQUIRE

ALL THE REMAINING ORDINARY SHARES OF RM1.00 EACH IN SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD NOT ALREADY OWNED BY THE OFFEROR AND PERSONS ACTING IN CONCERT WITH IT ("OFFER SHARES") FOR A CASH OFFER PRICE OF RM1.92 PER OFFER SHARE ("OFFER")

Independent Adviser

AmInvestment Bank

AmInvestment Bank Berhad
(Company No. 23742-V)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

This Independent Advice Circular is dated 19 January 2017

DEFINITIONS

Except where the context otherwise requires or where otherwise defined herein, words and expressions defined in the Rules (as defined hereunder) shall have the same meaning when used herein, and the following definitions shall apply throughout this Independent Advice Circular:-

Accepting Holder(s)	:	Holder(s) who accepts the Offer
Acquisition	:	Acquisition of 153,000,000 SRC Shares, representing 51.0% of the voting shares of SRC by MHIL from SOHL at the Purchase Consideration via direct business transaction, which was completed on 22 December 2016
Acquisition Announcement's LFTD	:	29 January 2016, being the last full trading day prior to the release of the press notice dated 1 February 2016 by RHB Investment Bank, on behalf of the Offeror, in relation to the Acquisition.
Act	:	Companies Act, 1965 as amended from time to time including any equivalent statute replacing it
AmInvestment Bank or **Independent Adviser**	:	AmInvestment Bank Berhad, being the independent adviser appointed by the Board to advise the non-interested Directors and the Holders in relation to the Offer
Board	:	Board of Directors of SRC
Bursa Depository	:	Bursa Malaysia Depository Sdn Bhd
Bursa Securities	:	Bursa Malaysia Securities Berhad
Closing Date	:	First Closing Date or such later date(s) in the event the Offer is revised or extended in accordance with the provisions of the Rules or as the Offeror may decide and to be announced by RHB Investment Bank, on behalf of the Offeror, at least 2 days before the Closing Date
CMSA	:	Capital Markets and Services Act, 2007 as amended from time to time
COSA	:	Crude oil supply agreement dated 19 December 2016 entered into by SRC with SIETCO
DCF	:	Discounted cash flow
Dissenting Shareholder(s)	:	Any Holder who does not accept the Offer and/or any Holder who has failed or refused to transfer the Offer Shares to the Offeror in accordance with the terms and conditions of the Offer Document
Distributions	:	Dividend and/or other distributions
EPS	:	Earnings per share
First Closing Date	:	5.00 p.m. (Malaysian Standard Time) on 31 January 2017, being 21 days from the Posting Date. For the avoidance of doubt, as the 21st day from the Posting Date falls on Monday, 30 January 2017 which is not a Market Day, such period is extended until the next Market Day pursuant to Paragraph 2.02, Part A of the Rules
Form of Acceptance and Transfer	:	Form of acceptance and transfer for the Offer Shares, enclosed with the Offer Document
FPE	:	Financial period ended
FYE	:	Financial year ended/ending, as the case may be

Holder(s)	:	Holder(s) of the Offer Shares
IAC	:	This Independent Advice Circular to the Holders dated 19 January 2017 in relation to the Offer comprising the letter from the Board (as contained in Part A of this IAC), the IAL (as contained in Part B of this IAC) and the appendices
IAL	:	Independent Advice Letter from AmInvestment Bank dated 19 January 2017 as set out in Part B of this IAC
Interested Directors	:	Directors of SRC who are deemed interested in the Offer, namely:- (i) Mr. Wang, YouDe; (ii) Mr. Martinus Joseph Marinus Aloysius Stals; (iii) Mr. Wang, ZongQuan; and (iv) Mr. Sun, JianYun
LAT	:	Loss after taxation
LBT	:	Loss before taxation
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities, as amended from time to time
LPD	:	12 January 2017, being the latest practicable date prior to the despatch of this IAC
Market Day(s)	:	A day on which Bursa Securities is open for trading in securities
MHIL or **Offeror**	:	Malaysia Hengyuan International Limited, being the Offeror in respect of the Offer
NA	:	Net assets
Notice	:	Notice of the Offer dated 19 December 2016, served on the Board by RHB Investment Bank on behalf of the Offeror
Notice's LTD	:	16 December 2016, being the last trading day prior to the date of the Notice
Offer	:	Unconditional take-over offer by MHIL, through RHB Investment Bank to acquire the Offer Shares for a cash offer price of RM1.92 per Offer Share, in accordance with the terms and conditions set out in the Offer Document
Offer Document	:	The offer document dated 9 January 2017 which sets out the details, terms and conditions of the Offer together with the Form of Acceptance and Transfer
Offer Period	:	Period commencing from 1 February 2016, being the date of the signing of the SPA until (i) the Closing Date; or (ii) the date on which the Offer lapses, expires or is withdrawn with the prior written consent of the SC, whichever is earlier
Offer Price	:	Cash offer price of RM1.92 (being the RM equivalent of the Purchase Consideration per SRC Share based on the foreign exchange rate of USD1.00:RM4.4310 as at 19 December 2016) per Offer Share

Offer Share(**s**)	:	SRC Share(s) which are the subject of the Offer, comprising the remaining 147,000,000 SRC Shares, representing 49.0% equity interest in SRC not already held by the Offeror and its PACs
Official List of Bursa Securities	:	A list specifying all securities which have been admitted for listing on Bursa Securities and not removed
PACs	:	Persons acting in concert with MHIL for the purpose of the Offer pursuant to Section 216 of the CMSA, namely:- (i) Heng Yuan Holdings Limited; (ii) SHPCL; (iii) Linyi County Linhai Petrochemical Company Limited; (iv) Shandong Linyi County Linoleum; (v) Shandong Linyi County Petrochemical Factory; and (vi) Shandong Hengyuan Petrochemical Group Company Limited
PAT	:	Profit after taxation
PBT	:	Profit before taxation
POA	:	Product offtake agreement dated 19 December 2016 entered into by SRC with Shell Malaysia Trading Sdn Bhd and Shell Timur Sdn Bhd
POA Buyer	:	Shell Malaysia Trading Sdn Bhd and Shell Timur Sdn Bhd collectively, being parties to the POA
Posting Date	:	9 January 2017, being the date of posting of the Offer Document
Purchase Consideration	:	Cash consideration of USD66,300,000 or USD0.43 per SRC Share (for illustration purposes, the total cash consideration is equivalent to RM274,979,250 or RM1.80 per SRC Share based on Bank Negara Malaysia's middle exchange rate of USD1.00:RM4.1475 as at 29 January 2016, being the last full trading day prior to the signing of the SPA). The SPA became unconditional on 19 December 2016 and the Acquisition was subsequently completed on 22 December 2016 at the Purchase Consideration of USD66,300,000 or USD0.43 per SRC Share via direct business transaction (equivalent to RM293,760,000 or RM1.92 per SRC Share based on the bank's over-the-counter rate of USD1.00:RM4.4310 as at 19 December 2016, being the date the direct business transaction was effected).
RHB Investment Bank	:	RHB Investment Bank Berhad, being the principal adviser to MHIL for the implementation of the Offer
RM and **sen**	:	Ringgit Malaysia and sen, respectively
Rules	:	Rules on Take-overs, Mergers and Compulsory Acquisitions
SC	:	Securities Commission Malaysia
Shell	:	Royal Dutch Shell plc
SHPCL or **Ultimate Offeror**	:	Shandong Hengyuan Petrochemical Company Limited
SIETCO	:	Shell International Eastern Trading Company
SOHL	:	Shell Overseas Holdings Limited

SPA	:	Sale and purchase agreement dated 1 February 2016 entered into between MHIL and SOHL in relation to the Acquisition
SRC or **Company** or **Offeree**	:	Shell Refining Company (Federation of Malaya) Berhad
SRC Share(**s**) or **Share**(**s**)	:	Ordinary share(s) of RM1.00 each in SRC
USD	:	United States Dollar
VWAP	:	Volume-weighted average market price

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 neuter gender and vice versa. References to persons shall include corporations, unless otherwise specified.

Unless otherwise indicated, all references to dates and times in this IAC refer to Malaysian dates and times. Where a period specified in the Rules, as appearing in this IAC, ends on a day which is not a Market Day, the period is extended until the next Market Day.

All references to "you" or "Holder" in this IAC are to the holder of the Offer Shares, being the person to whom the Offer is being made.

Any discrepancy in the tables included in this IAC between the amounts listed, actual figures and the totals thereof are due to rounding.

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APPENDICES

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This Executive Summary highlights the salient information of the Offer. You are advised to read the IAC which includes the Letter from the Board (Part A of this IAC) and the IAL from AmInvestment Bank, the Independent Adviser (Part B of this IAC), for further information and recommendation in relation to the Offer.

This IAC should also be read in conjunction with the Offer Document.

1. INTRODUCTION

On 19 December 2016, RHB Investment Bank, on behalf of the Offeror, served the Notice on the Board informing the Company of the Offeror's obligation to extend an unconditional take-over offer to acquire all the remaining 147,000,000 SRC Shares, representing 49.0% of the issued and paid-up share capital of SRC not already held by the Offeror and its PACs for a cash consideration of RM1.92 per Offer Share.

Pursuant to Paragraph 3.06 of the Rules, on 24 November 2016, the Board appointed AmInvestment Bank as the Independent Adviser to advise the non-interested Directors and the Holders in respect of the Offer.

A copy of the Offer Document, which sets out the details, terms and conditions of the Offer as well as the procedures for acceptance of the Offer, was posted to the Holders on 9 January 2017.

You are advised to read this IAC together with the Offer Document and carefully consider the recommendations contained herein before taking any action.

2. SALIENT TERMS AND CONDITIONS OF THE OFFER

The salient terms and conditions of the Offer are as set out below. Please refer to Section 2 and Appendix I of the Offer Document for the full terms and conditions of the Offer and Appendix II of the Offer Document for details on the procedures for acceptance and method of settlement of the Offer.

You do not need to take any action if you do not wish to accept the Offer.

2.1 Consideration for the Offer

The consideration for the Offer is RM1.92 per Offer Share and shall be satisfied in cash. Please refer to further information on the consideration for the Offer as set out in Section 2.1 of the IAL as set out in Part B of this IAC.

2.2 Conditions of the Offer

The Offer is not conditional upon any minimum level of acceptances of the Offer Shares. Please refer to further information on the conditions of the Offer as set out in Section 2.2 of the IAL as set out in Part B of this IAC.

2.3 Duration of the Offer

The Offer shall remain open for acceptances until 5.00 p.m. on 31 January 2017, unless extended by the Offeror and announced by RHB Investment Bank at least 2 days before the Closing Date. Please refer to further information on the duration of the Offer as set out in Section 2.3 of the IAL as set out in Part B of this IAC.

2.4 Method of settlement

The settlement of the consideration for the Offer will be despatched by ordinary mail within 10 days from the date of valid acceptances. Please refer to further information on the method of settlement as set out in Section 2.4 of the IAL as set out in Part B of this IAC.

3. ACCEPTANCES

As disclosed in the Offer Document, as at 3 January 2017, the Offeror and its PACs have not received any irrevocable undertaking from any Holder to accept the Offer.

As at the LPD, there is no announcement made by RHB Investment Bank of any acceptance of the Offer.

4. EVALUATION OF THE OFFER AND RECOMMENDATION

We have assessed and evaluated the terms of the Offer and have set out our valuation in Section 6 of the IAL as set out in Part B of this IAC. In arriving at our recommendation in respect of the Offer, we have assessed the fairness and reasonableness of the Offer in accordance with Paragraphs 1 to 6 of Schedule 2: Part III of the Rules, where the term "fair and reasonable" should generally be analysed as 2 distinct criteria, i.e. whether the offer is "fair" and whether the offer is "reasonable", rather than as a composite term.

You should consider carefully the Offer based on all relevant and pertinent factors and other considerations as set out in the IAL and the Offer Document.

Based on our analysis as set out in Section 6.1 of the IAL, we are of the opinion that the Offer Price of RM1.92 per Offer Share is **NOT FAIR** as:-

(i) it is **lower than** and represents a discount from 53.8% to 59.6% over the range of fair value per SRC Share based on DCF valuation of between RM4.16 and RM4.75 per SRC Share; and

(ii) a. it is **lower than** and represents a discount from 61.13% to 65.76% over the closing market price as well as historical VWAPs of SRC Shares up to the Acquisition Announcement's LFTD ranging from RM4.94 to RM5.6082;

b. it is **lower than** and represents a discount from 17.72% to 47.73% over the closing market price as well as historical VWAPs of SRC Shares up to the Notice's LTD ranging from RM2.3334 to RM3.6735; and

c. it is **lower than** and represents a discount of 23.51% and 23.43% over the closing market price of RM2.51 as well as historical 5-day VWAP of SRC Shares up to the LPD of RM2.5074 respectively.

Based on our evaluation on the reasonableness of the Offer as set out in Section 6.2 of the IAL, we are of the view that the Offer is **NOT REASONABLE** premised on the following:-

(i) Rationale for the Offer

a. the Offeror intends to carry out the required upgrades to the refinery plant to meet the Euro 4M and Euro 5 fuel standards specification requirements which would allow SRC's refinery plant to remain viable and continue as a going concern; and

b. the Offeror intends to strengthen SRC's position as a regional refined product supplier which would be in the best interest of the shareholders of SRC. SHPCL has the experience in operating a refinery plant as part of their larger petrochemical operations and is familiar with production technologies as well as know-how of producing and selling Euro 4 and Euro 5 fuels, which in turn can be transferred to SRC.

(ii) Listing Status

a. the Offeror intends to maintain the listing status of SRC on the Main Market of Bursa Securities, therefore SRC Shares will remain traded on Bursa Securities; and the Offeror will explore various options or proposals to rectify the shortfall in the public shareholding spread of SRC if SRC fails to comply with the public shareholding spread requirements under subparagraph 8.02(1) of the Listing Requirements pursuant to the Offer.

Premised on the above, we are of the opinion that the terms of the Offer are **NOT FAIR** and **NOT REASONABLE.** Accordingly, AmInvestment Bank recommends that the Holders **REJECT** the Offer.

5. IMPORTANT DATES AND EVENTS

Event	Date
Notice served on the Board	19 December 2016
Posting of the Offer Document	9 January 2017
Issuance of this IAC	19 January 2017
First Closing Date [(a)]	31 January 2017

***Note**:-*

(a) The Offer will remain open for acceptances until 5.00 p.m. on the First Closing Date unless extended or revised in accordance with the provisions of the Rules or as the Offeror may decide and to be announced by RHB Investment Bank, on behalf of the Offeror, at least 2 days before the Closing Date. Notices of such extension will be posted to the Holders accordingly.

HOLDERS ARE ADVISED TO CONSIDER CAREFULLY THE INFORMATION CONTAINED IN THE OFFER DOCUMENT AND THIS IAC BEFORE MAKING A DECISION ON THE COURSE OF ACTION TO BE TAKEN.

PART A

LETTER FROM THE BOARD

SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Company No. 3926-U)
(Incorporated in Malaysia under the Companies Ordinances, 1940-1946)

Registered Office:
Level 8, Symphony House
Block D 13
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan

19 January 2017

Board of Directors
Mr. Wang, YouDe *(Chairman, Non-Independent Non-Executive Director)*
Mr. Martinus Joseph Marinus Aloysius Stals *(Managing Director and Executive Director)*
Mr. Wang, ZongQuan *(Non-Independent Non-Executive Director)*
Mr. Sun, JianYun *(Non-Independent Non-Executive Director)*
Y.Bhg. Dato' Seri Talaat bin Haji Husain *(Senior Independent Non-Executive Director)*
Y.Bhg. Datuk Zainun Aishah binti Ahmad *(Independent Non-Executive Director)*
Mr. David Lau Nai Pek *(Independent Non-Executive Director)*
Y.Bhg. Datuk Yvonne Chia *(Independent Non-Executive Director)*
Mr. Heng Hock Cheng *(Independent Non-Executive Director)*

To: The Holders

Dear Sir / Madam,

UNCONDITIONAL TAKE-OVER OFFER BY THE OFFEROR THROUGH RHB INVESTMENT BANK TO ACQUIRE ALL THE REMAINING SRC SHARES NOT ALREADY OWNED BY THE OFFEROR AND ITS PACS FOR A CASH OFFER PRICE OF RM1.92 PER OFFER SHARE

1. INTRODUCTION

1.1 SPA between the Offeror and SOHL

On 2 February 2016, the Board announced that it had on 1 February 2016 received a press notice from RHB Investment Bank notifying the Company that the Offeror had entered into the SPA with SOHL, to acquire 153,000,000 SRC Shares, representing 51.0% of the issued and paid-up share capital of SRC, for a total cash consideration of USD66,300,000 (equivalent to RM274,979,250 or RM1.80 per SRC Share, based on Bank Negara Malaysia's middle exchange rate of USD1.00:RM4.1475 as at 29 January 2016, being the last full trading day prior to the signing of the SPA).

1.2 Press Releases by SOHL in relation to its sale of SRC Shares

On 2 February 2016 and 17 February 2016, SOHL issued press releases providing certain information relating to its sale of the SRC Shares which included, amongst others, the following points:-

(i) that the sale is consistent with its downstream strategy to concentrate its footprint on a smaller number of assets where it can be most competitive. As a result of this strategy, Shell has also been reducing its refinery footprint and recent examples include the sale of refineries in Norway, the Czech Republic, the United Kingdom, France and Germany.

A refinery plant of SRC's scale is no longer a strategic fit for Shell's portfolio and would find it difficult to compete for new capital investments within the Shell portfolio.

(ii) SRC had been making losses for the FYE 31 December 2011 to 2014. Furthermore, in SOHL's view, SRC requires significant investment to meet Euro 4M and Euro 5 fuel specifications and it has significant existing debt of RM1.2 billion maturing in the near future.

Therefore, two options were explored, namely (a) a terminal conversion led by SRC and (b) a sale by SOHL to a buyer that is willing to invest in Euro 4M and Euro 5 and that can procure new long term financing to SRC.

(iii) SOHL has undertaken a comprehensive and robust sale process subjecting bidders to a number of requirements including technical and operating capability, financial capacity for both funding of the acquisition as well as refinancing SRC's existing debt, and future investments required to meet Euro 4M and Euro 5 fuels specifications.

(iv) The disposal price of SRC Shares by SOHL to the Offeror of USD0.43 per SRC Share is the outcome of the above competitive process. In line with SOHL's downstream strategy whereby a refinery plant of SRC's scale is no longer a strategic fit for Shell's portfolio, the disposal price is acceptable to the Board of Directors of SOHL, taking into account SRC's current assets, SRC's debt and new financing arranged by MHIL, SOHL's views on future refining margins, and future investments required to meet Euro 4M and Euro 5 fuel specifications. The offer price by MHIL to SOHL is in line with the book (equity) value per share of RM1.93 in the publicly available financial statements as at 30 September 2015.

1.3 Service of Notice of the Offer

On 17 November 2016, the conditions precedent to the SPA had been fulfilled. Pursuant to an amendment agreement to the SPA between the Offeror and SOHL on the even date, the SPA will become unconditional on the latest of:-

(i) the 6th business day following 17 November 2016; or

(ii) the date which is 3 business days prior to the date on which the relevant refinancing credit facilities are to be utilised by SRC under the refinancing credit agreements.

On 19 December 2016, the Acquisition became unconditional. Following the Acquisition, the Offeror's shareholding in SRC increased from nil to 51.0%. On even date, RHB Investment Bank, on behalf of the Offeror, served the Notice on the Board informing the Company of the Offeror's obligation to extend an unconditional take-over offer to acquire all the remaining 147,000,000 SRC Shares, representing 49.0% of the issued and paid-up share capital of SRC not already held by the Offeror and its PACs for a cash consideration of RM1.92 per Offer Share (based on the bank's over-the-counter rate of USD1.00:RM4.4310 as at 19 December 2016, being the date the direct business transaction was effected) pursuant to Section 218(2) of the CMSA and Paragraph 4.01, Part B of the Rules.

1.4 Appointment of Independent Adviser

Pursuant to Paragraph 3.06 of the Rules, on 24 November 2016, the Board appointed AmInvestment Bank as the Independent Adviser to advise the non-interested Directors and Holders in respect of the Offer.

1.5 Offer Document and IAC

A copy of the Offer Document, which sets out the details, terms and conditions of the Offer as well as the procedures for acceptance of the Offer, was posted to the Holders on 9 January 2016.

You are advised to read this IAC together with the Offer Document and carefully consider the recommendations contained herein before taking any action.

2. SALIENT TERMS AND CONDITIONS OF THE OFFER

The salient terms and conditions of the Offer are as set out in Section 2 of Part B of this IAC. Please refer to Section 2 and Appendix I of the Offer Document for the full terms and conditions of the Offer and Appendix II of the Offer Document for the procedures for acceptance and method of settlement of the Offer.

3. RATIONALE FOR THE OFFER

The Board has taken note of the rationale of the Offer as set out in Section 3 of the Offer Document together with the Independent Adviser's evaluation and recommendation as contained in Part B of this IAC. In this respect, the Board has taken cognisance of the following:-

(i) MHIL recognises SRC's business as complementary to SHPCL's existing business portfolio given SHPCL develops, produces, processes and markets petroleum-related products in the People's Republic of China, while SRC's operations involve refining and manufacturing of petroleum products;

(ii) SHPCL intends to expand, reconstruct and upgrade the existing facilities of SRC to meet the Euro 4M* and Euro 5 fuel standards specification requirements;

(iii) SHPCL is already producing and selling Euro 4* and Euro 5 fuels in the People's Republic of China and is familiar with such production technologies and know-how; and

(iv) SHPCL intends to strengthen SRC's position as a leading regional refined products supplier.

Note:-

* *The fuel specifications for Euro 4 is denoted as Euro 4M in Malaysia. The principal specification for Euro 4M in Malaysia and Euro 4 in the People's Republic of China is similar.*

The Board has taken note that SHPCL's intention to, amongst others, upgrade the existing facilities of SRC to meet the Euro 4M and Euro 5 fuel standards specification requirements allows SRC's refinery business to remain viable and continue as a going concern.

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4. OFFEROR'S FUTURE PLANS FOR SRC AND ITS EMPLOYEES

The Board has taken note of the Offeror's intention with respect to the future plans for SRC and its employees after the Closing Date, as set out in Section 6 of the Offer Document:-

(i) the Offeror does not have any plan to liquidate SRC and intends to continue with SRC's existing businesses and operations;

(ii) the Offeror has no plans or intention to introduce or effect any major change in the business of SRC, or dispose or re-deploy the fixed assets of SRC, except where such change, disposal and/or redeployment is deemed necessary as part of the process to rationalise the business activities and/or directions of SRC or to improve utilisation of resources; and

(iii) the Offeror does not have any plan to dismiss or make redundant any employee of SRC as a direct consequence of the Offer. However, change with regard to staff employment and/or redeployment of staff may take place as a result of the Offeror's subsequent review of SRC's employment structure, rationalisation of the structure or business activities and/or strategic direction to improve efficiency of the operations and optimise the human resources of SRC. Any such action taken will be dealt with in accordance with the relevant legislation and the terms of employment of the affected employees.

The Board has taken note that as disclosed in the Offer Document, as at 3 January 2017, the Offeror has no knowledge of and has not entered into any negotiation or arrangement or understanding whatsoever with any third party with regard to any significant change in the businesses, assets and shareholding structure of SRC.

5. ACCEPTANCES

As disclosed in the Offer Document, as at 3 January 2017, the Offeror and its PACs have not received any irrevocable undertaking from any Holder to accept the Offer.

As at the LPD, there is no announcement made by RHB Investment Bank of any acceptance of the Offer.

6. LISTING STATUS OF SRC

The Board noted from Section 5.1 of the Offer Document that the Offeror intends to maintain the listing status of SRC on the Main Market of Bursa Securities.

In the event that the Offeror receives valid acceptances resulting in the Offeror and the persons acting in concert holding in aggregate 90% of the issued and paid-up share capital of SRC (excluding treasury shares), and SRC fails to comply with the public shareholding spread requirements under Paragraph 8.02(1) of the Listing Requirements, then upon expiry of 30 Market Days from the date of the immediate announcement by SRC, SRC Shares will be suspended from trading on Bursa Securities. The suspension will only be uplifted upon full compliance with the required public shareholding spread or as may be determined by Bursa Securities.

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As set out in Section 5.1 of the Offer Document, in the event that SRC fails to comply with the public shareholding spread requirements under Paragraph 8.02(1) of the Listing Requirements, the Offeror will explore various options or proposals within 3 months from the Closing Date or such extended timeframe as allowed by Bursa Securities to rectify the shortfall in the public shareholding spread of SRC. The actual course of action to be taken will depend on, amongst others, the circumstances as well the prevailing market conditions at the relevant time. There can be no assurance that SRC will be able to rectify the shortfall within the timeframe as allowed by Bursa Securities or that Bursa Securities will grant any further extension of time.

Please refer to Section 6.2.3 of Part B of this IAC for further details.

7. COMPULSORY ACQUISITION AND RIGHTS OF DISSENTING SHAREHOLDERS

The Board noted from Section 5.2 of the Offer Document that in the event the Offeror receives valid acceptances of nine-tenths (9/10) in the nominal value of the Offer Shares (excluding the SRC Shares already held by the Offeror and its persons acting in concert at the date of the Offer), the Offeror intends to invoke the provisions of Section 222(1) of the CMSA to compulsorily acquire any remaining Offer Share from the Dissenting Shareholders for which valid acceptances have not been received, following which necessary steps will also be taken to de-list SRC from the Official List of Bursa Securities.

Notwithstanding the above, if the Offeror receives valid acceptances resulting in the Offeror and its persons acting in concert holding not less than nine-tenths (9/10) in the nominal value of the existing issued and paid-up share capital of SRC (including SRC Shares already held by the Offeror and its persons acting in concert) on or before the Closing Date, a Dissenting Shareholder may exercise his/her rights under Section 223(1) of the CMSA by serving a notice on the Offeror to require the Offeror to acquire his/her Offer Shares on the same terms as set out in the Offer Document or such other terms as may be agreed by the Offeror and the Dissenting Shareholder, subject to Section 224 of the CMSA. In accordance with Section 224(3) of the CMSA, when a Dissenting Shareholder exercises his/her rights under Section 223(1) of the CMSA, the court may, on an application made by such Dissenting Shareholder or by the Offeror, order that the terms on which the Offeror shall acquire such Offer Shares shall be as the court thinks fit.

A notice to Dissenting Shareholders under Section 223(2) of the CMSA may specify the period for the exercise of the rights of Dissenting Shareholders and in any event, such period shall not be less than 3 months after the Closing Date.

Please refer to Section 7 of Part B of this IAC for further details.

8. DISCLOSURE OF INTERESTS

Disclosure of the interest of the Board in accordance with the disclosure requirements of the Rules is set out in Section 2.2 of Appendix II of this IAC.

9. INDEPENDENT ADVISER’S LETTER

Holders are advised to read and consider the views and recommendation of AmInvestment Bank, the independent adviser appointed to advise the non-interested Directors and the Holders in relation to the Offer. The letter from the Independent Adviser is included in Part B of this IAC.

10. DIRECTORS' INTENTION RELATING TO THE OFFER

As at the LPD, none of the Directors of SRC have any interest in SRC, whether direct or indirect.

11. DIRECTORS' RECOMMENDATION

The following Directors are deemed interested in the Offer and have abstained from deliberations and making any recommendation in relation to the Offer:-

(i) Mr. Wang, YouDe, by virtue of him being the Chairman, Non-Independent Non-Executive Director nominated by the Offeror;

(ii) Mr. Martinus Joseph Marinus Aloysius Stals, by virtue of him being the Managing Director and Executive Director nominated by the Offeror;

(iii) Mr. Wang, ZongQuan, by virtue of him being a Non-Independent Non-Executive Director nominated by the Offeror; and

(iv) Mr. Sun, JianYun, by virtue of him being a Non-Independent Non-Executive Director nominated by the Offeror.

After careful examination and consideration of the following:-

(i) terms and conditions of the Offer as contained in the Offer Document;

(ii) evaluation and recommendation by the Independent Adviser as contained in Part B of this IAC; and

(iii) management representation of the performance and prospects of SRC,

the Board (save for the Interested Directors) **CONCURS** with the recommendation of the Independent Adviser that the terms of the Offer are not fair and not reasonable and recommends that Holders of Offer Shares **REJECT** the Offer.

Holders are advised to consider carefully the information contained in the IAC together with the Offer Document before making a decision as to the course of action to be taken.

Please note that the Directors have not taken into consideration any specific individual investment objectives, financial situation and particular needs of any individual Holder or any specific group of Holders. Accordingly, the Board recommends that any individual Holder or any specific group of Holders who require advice in relation to the Offer in the context of their individual investment objectives, risk profiles, financial and tax situation or particular needs, should consult their respective stockbroker, bank manager, accountant, solicitor or other professional adviser.

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12. DIRECTORS' RESPONSIBILITY

This IAC has been seen and approved by the Board and they collectively and individually accept full responsibility for the accuracy and completeness of the information contained herein (save for the IAL prepared by AmInvestment Bank set out in Part B of this IAC) and confirm that after making enquiries as were reasonable in the circumstances and to the best of their knowledge, opinions expressed herein have been arrived at after due and careful consideration and there are no other facts the omission of which would make any information provided herein false or misleading.

The responsibility of the Board in respect of the IAL from AmInvestment Bank as set out in Part B of this IAC is limited to the accuracy and completeness of the information provided by the management of SRC and given to AmInvestment Bank for its evaluation in respect of SRC and that there is no material fact, the omission of which would make any information provided to AmInvestment Bank false or misleading.

The responsibility of the Board in respect of the information relating to the Offeror and the Offer extracted from the Offer Document is limited to ensuring that such information is accurately reproduced in this IAC.

Yours faithfully
For and on behalf of the Board of
SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD

Y.BHG. DATUK YVONNE CHIA
Independent Non-Executive Director

PART B

INDEPENDENT ADVICE LETTER FROM AMINVESTMENT BANK

AmInvestment Bank

Your Bank. Malaysia's Bank. AmInvestment Bank.

Registered office of AmInvestment Bank

22nd Floor
Bangunan AmBank Group
55, Jalan Raja Chulan
50200 Kuala Lumpur
Wilayah Persekutuan
Malaysia

19 January 2017

To: The Holders

Dear Sir / Madam,

UNCONDITIONAL TAKE-OVER OFFER BY THE OFFEROR THROUGH RHB INVESTMENT BANK TO ACQUIRE ALL THE REMAINING SRC SHARES NOT ALREADY OWNED BY THE OFFEROR AND ITS PACS FOR A CASH OFFER PRICE OF RM1.92 PER OFFER SHARE

1. INTRODUCTION

1.1 Background to the Offer

On 2 February 2016, the Board announced that it had on 1 February 2016 received a press notice from RHB Investment Bank notifying the Company that the Offeror had entered into the SPA with SOHL, to acquire 153,000,000 SRC Shares, representing 51.0% of the issued and paid-up share capital of SRC, for a total cash consideration of USD66,300,000 (equivalent to RM274,979,250 or RM1.80 per SRC Share, based on Bank Negara Malaysia's middle exchange rate of USD1.00:RM4.1475 as at 29 January 2016, being the last full trading day prior to the signing of the SPA).

On 19 December 2016, the Acquisition became unconditional. Following the Acquisition, the Offeror's shareholding in SRC increased from nil to 51.0%. On even date, RHB Investment Bank, on behalf of the Offeror, served the Notice on the Board informing the Company of the Offeror's obligation to extend an unconditional take-over offer to acquire all the remaining 147,000,000 SRC Shares, representing 49.0% of the issued and paid-up share capital of SRC not already held by the Offeror for a cash consideration of RM1.92 per Offer Share (based on the bank's over-the-counter rate of USD1.00:RM4.4310 as at 19 December 2016, being the date the direct business transaction was effected) pursuant to Section 218(2) of the CMSA and Paragraph of 4.01, Part B of the Rules.

1.2 Appointment of Independent Adviser

Pursuant to Paragraph 3.06 of the Rules, on 24 November 2016, the Board appointed AmInvestment Bank as the Independent Adviser to advise the non-interested Directors and the Holders in respect of the Offer.

AmInvestment Bank Berhad (23742-V)
A member of the AmBank Group
(A Participating Organisation of Bursa Malaysia Securities Berhad)
22nd Floor, Bangunan AmBank Group, 55, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia. P. O. Box 10233, 50708 Kuala Lumpur, Malaysia.
T: +603 2036 2633 **F:** +603 2070 8596, +603 2032 4960
W: ambankgroup.com, amesecurities.com.my

As set out in Section 1.2 of the letter from the Board as set out in Part A of this IAC, on 2 February 2016 and 17 February 2016, SOHL issued press releases providing certain information relating to its sale of the SRC Shares which included, amongst others, Shell's strategy of reducing its refinery footprint, its statement that a refinery plant of SRC's scale is no longer a strategic fit for Shell's portfolio and SOHL's view of future investments required to meet Euro 4M and Euro 5 fuel specifications.

Whilst SOHL's intention is to reduce its refinery footprint, the Offeror's stated intention in Section 3 of the Offer Document to, amongst others, upgrade the existing facilities of SRC to meet the Euro 4M and Euro 5 fuel standards specification requirements. Our valuation of the SRC Shares as further detailed in Section 6.1.1 below is premised on, amongst others, the continuation of SRC's refinery business on the basis that investments are made by SRC in time to meet the implementation timeline for the Euro 4M and Euro 5 fuel specifications stipulated by the Ministry of Natural Resources and Environment, Malaysia. Based on the DCF valuation, the equity value attributable to each SRC Share ranges from approximately **RM4.16 to RM4.75**.

1.3 Offer Document and IAC

A copy of the Offer Document, which sets out the details, terms and conditions of the Offer as well as the procedures for acceptance of the Offer, was posted to the Holders on 9 January 2017.

You are advised to read this IAC together with the Offer Document and carefully consider the recommendations contained herein before taking any action.

Pursuant to Paragraphs 11.03(2) and 11.04(2) of the Rules, the SC had on 18 January 2017, given its notification that it has no further comments to the contents of the IAC. However, such notification shall not be taken to suggest that the SC agrees with the recommendations of the Board and the Independent Adviser or assumes responsibility for the correctness of any statements made or opinions or reports expressed in the IAC.

The purpose of this IAC is to provide the Holders with information on the Offer, our independent evaluation of the terms and conditions of the Offer together with our recommendation thereon, subject to the scope of our role and evaluation specified herein. Holders should nonetheless rely on their own examination of the merits of the Offer before making a decision on the course of action to be taken in respect of the Offer.

This IAC is solely for the use of the Holders for the purpose of considering the Offer and should not be used or relied upon by any other party. We advise the Holders to read this IAC together with the Offer Document. If the Holders have any doubt as to the course of action the Holders should take in relation to the Offer, the Holders should consult their professional adviser(s) immediately.

2. SALIENT TERMS AND CONDITIONS OF THE OFFER

The salient terms and conditions of the Offer are as set out below.

2.1 Consideration for the Offer

The consideration for the Offer is RM1.92 per Offer Share and shall be satisfied in cash.

If SRC declares, makes and/or pays any Distribution to its shareholders whereby the entitlement date for such Distribution is on or after the date of the Notice but before the Closing Date, MHIL will reduce the consideration for each Offer Share by the amount equivalent to the net Distribution per SRC Share which such shareholder is entitled to retain. For avoidance of doubt, no adjustment shall be made to the Offer Price in the event that the entitlement date for any Distribution is after the Closing Date.

As at the LPD, SRC has not declared, made and/or paid any Distribution on or after the date of the Notice.

The Holders may accept the Offer in respect of all or any part of their Offer Shares. The Offeror will not pay fractions of a sen, if any, to the Accepting Holders and entitlements to the cash payment will be rounded down to the nearest whole sen.

2.2 Conditions of the Offer

The Offer is not conditional upon any minimum level of acceptances of the Offer Shares as the Offeror holds in aggregate more than 50.0% of the voting shares of SRC as at the Posting Date.

2.3 Duration of the Offer

The Offer shall remain open for acceptances until 5.00 p.m. on 31 January 2017, being the First Closing Date. However, the Offeror may extend or revise the date and time for acceptance of the Offer beyond the First Closing Date in accordance with the provisions of the Rules. Any such extension will be announced by RHB Investment Bank, on behalf of the Offeror, at least 2 days before the Closing Date and the Offer will remain open for acceptances for a period of at least 14 days from the date of posting of the written notification of the revision to the Holders. Notices of such extension will be posted to the Holders accordingly.

Please refer to Section 2 of Appendix I of the Offer Document for further details on the duration of the Offer.

2.4 Method of settlement

The settlement of the consideration for the Offer will be effected via remittance in the form of cheque(s), banker's draft(s) or cashier's order(s) which will be despatched by ordinary mail to the Accepting Holders (or their designated agents, as they may direct) at the Accepting Holders' registered Malaysian address last maintained with Bursa Depository in respect of valid acceptances, at their own risk within 10 days from the date of the valid acceptances.

Please refer to Section 2 and Appendix I of the Offer Document for the full terms and conditions of the Offer and Appendix II of the Offer Document for details on the procedures for acceptance and method of settlement of the Offer.

You do not need to take any action if you do not wish to accept the Offer.

3. ACCEPTANCES

As disclosed in the Offer Document, as at 3 January 2017, the Offeror and its PACs have not received any irrevocable undertaking from any Holder to accept the Offer.

As at the LPD, there is no announcement made by RHB Investment Bank of any acceptance of the Offer.

4. LIMITATIONS TO THE EVALUATION OF THE OFFER

AmInvestment Bank was not involved in deliberation or negotiation pertaining to the Offer. In performing our evaluation, we have relied on the following:-

(a) information contained in the Offer Document;

(b) annual reports of SRC for the past 5 years up to FYE 31 December 2015 and the unaudited results of SRC for the 9-month FPE 30 September 2016;

(c) discussion with and relevant information furnished to us by the Directors and management of SRC (both orally and in writing); and

(d) publicly available information as may be relevant to the evaluation of the Offer.

We have relied on SRC's Directors and its management to exercise due care to ensure that all information, documents and representations provided to us to facilitate our evaluation are accurate, valid and complete in all material respects. Financial projections and forward-looking statements are based on assumptions deemed reasonable by the Board to the best of its knowledge based on current conditions, and although believed to be reasonable, are subject to uncertainties which may cause the actual results to differ from the projected results. We view that the assumptions made by the Board in the financial projections and forward-looking statements stated herein are deemed reasonable.

The Directors of SRC have individually and collectively also accepted responsibility for the accuracy of the information provided herein by the management of SRC and confirmed that after making all reasonable enquiries and to the best of their knowledge and belief, there are no other material facts, the omission of which would make any information provided herein misleading. We have obtained confirmation from the Board that all material facts and information required for the purpose of our evaluation have been disclosed to us. After making all reasonable enquiries, we are satisfied that the information furnished to us is sufficient and we have no reason to believe that the information is unreliable, incomplete, misleading or inaccurate as at the LPD. For clarification, we have not conducted any audit on the information furnished to us.

Our appointment does not require us to consider the specific investment objectives, financial situation and particular needs of any individual Holders or any group of Holders. It is also not within our terms of reference to express any opinion on the commercial merits of the Offer and this remains the sole responsibility of the Board. In preparing this IAL, we have paid attention to those factors which we believe are of general importance for an assessment of the Offer and therefore of general concern to the general body of Holders, and our evaluation is rendered solely for the benefit of the Holders as a whole.

We recommend that any Holder or any group of Holders who may require advice in relation to the Offer in the context of their individual investment objectives, financial situation and particular needs should consult their stockbroker, bank manager, solicitor, accountant or other professional advisers.

Our evaluation and recommendation expressed herein are based on prevailing capital market, economic, regulatory, industry and other conditions as at the LPD. We will endeavour on best effort basis to immediately notify the Holders if, after despatching of this IAC and before the Offer closes or lapses, as guided by Paragraphs 11.07(1) and 11.07(2) of the Rules, we become aware that the information or document previously circulated or provided:-

(a) contains a material statement which is false or misleading;

(b) contains a statement from which there is a material omission; or

(c) does not contain a statement relating to a material development.

If circumstances require, we will endeavour on a best effort basis to send a supplementary IAC to the Holders or make it publicly available.

5. BUSINESS AND OPERATIONS OF SRC

<u>Products refined and manufactured</u>

SRC is principally engaged in refining and manufacturing of petroleum products. The Company's oil refinery plant at Port Dickson, Malaysia produces a range of petroleum products, including the following:-

(a) gasoil (various grades of diesel);

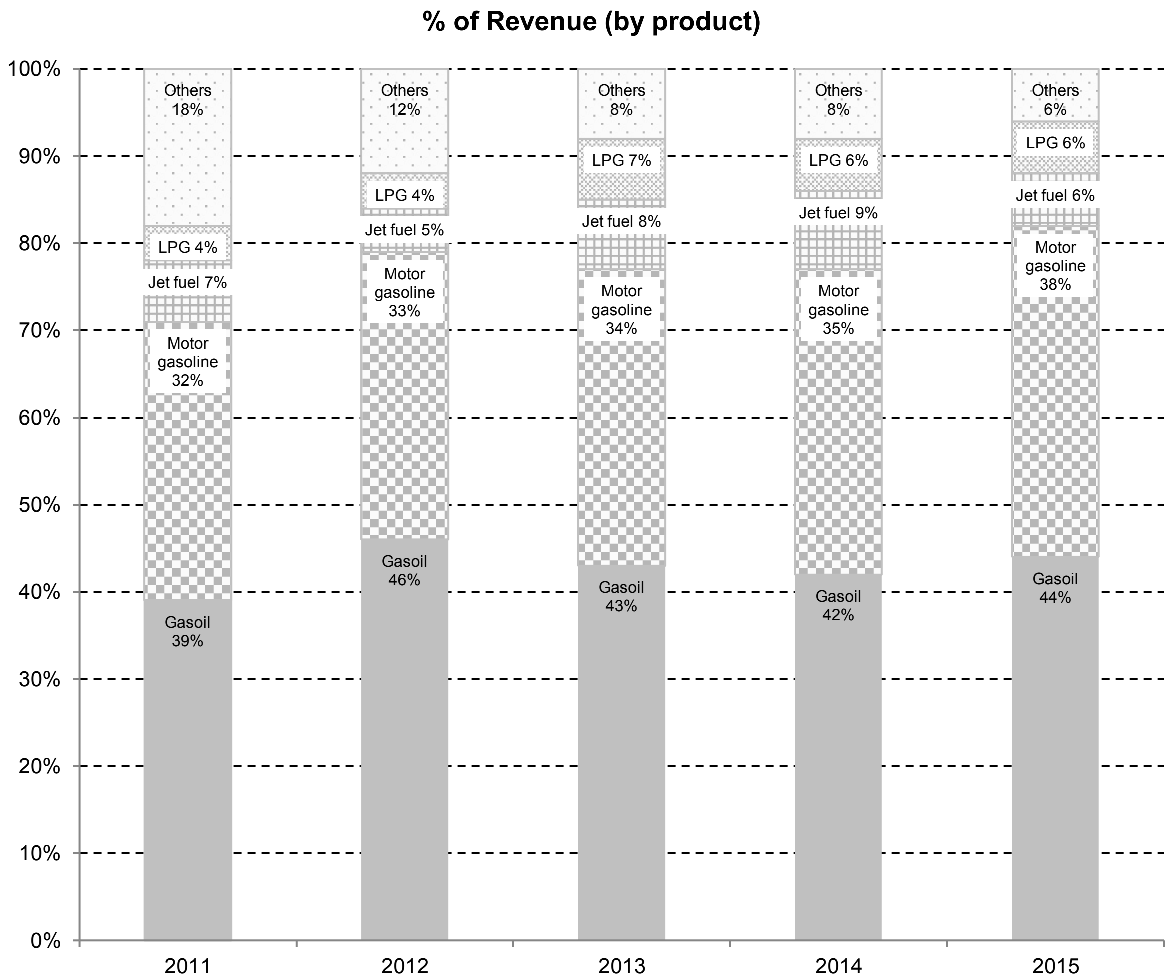
(b) motor gasoline (various grades of petrol for motor vehicles);

(c) jet fuel;

(d) liquefied petroleum gas ("**LPG**"); and

(e) others, mainly:-
(i) propylene;
(ii) fuel oil (light/heavy cycle oil); and
(iii) tops (light naphtha).

Gasoil and motor gasoline represents in aggregate the largest product group contributing 71%-82% to SRC's revenue in the past 5 financial years. The percentage contribution of the petroleum products to SRC's revenue in the past 5 financial years are detailed as follows:-



Further elaboration on the historical financial performance of SRC for the past 5 years is set out in Section 6, Appendix I of this IAC.

Refinery production

The refinery plant has a licensed production capacity of 156,000 barrels per day. The average production volume during the past 5 years ranged from 85,000 to 111,000 barrels per day. The petroleum products produced by the Company are mainly sold within Malaysia.

In 1999, SRC completed its RM1.4 billion investment in Malaysia's first Long Residue Catalytic Cracker which has increased the refinery plant's LPG and motor gasoline production. It has also enabled the refinery plant to manufacture propylene for the first time, which is a feedstock for the petrochemical industry. Subsequently, 2013 marked the completion of Project Hijau, the Company's diesel processing unit, which enabled the refinery plant to vary its feedstock options while increasing its diesel production and improving refining margins.

The Company's refinery plant in its current setup is not able to economically manufacture Euro 4M petrol and Euro 5 compliant fuels without substantial capital investments. SRC currently does not produce Euro 4M diesel. SRC however does currently produce limited amounts of Euro 4M RON97 petrol.

Euro 4M / Euro 5 fuel specifications

The Ministry of Natural Resources and Environment, Malaysia has stipulated an implementation timeline for the production of petrol and diesel against new fuel specifications, i.e., Euro 4M and Euro 5 specifications. The new specifications call for progressively cleaner fuels which will result in cleaner emissions when used in modern motor vehicles.

Petrol currently produced against Euro 2M specification, will move to Euro 4M specification in 2018. The petrol Euro 5 specification will be implemented starting 2025. The main change of this fuel specification comprises the sulphur specification, which will reduce from 500 parts per million ("**ppm**") (Euro 2M) to 50 ppm (Euro 4M) to eventually 10 ppm (Euro 5). Benzene content and volatility of the petrol will also be reduced. Sulphur and benzene are naturally-occurring components present in crude oil. They will need to be removed progressively through a number of refinery treating processes as the fuel specifications become more stringent as described above. This will require upgrades to the refinery plant and some capital investment.

For diesel, the current Euro 2M specification will directly move from Euro 2M to Euro 5 starting 2020. Like petrol, the main change comprises the sulphur specification, which will reduce from 500 ppm (Euro 2M) to 10 ppm (Euro 5). For diesel, limits to the amount of heavier components have also been set in the Euro 5 specification in order to reduce pollution. This is expressed by limitations in density, the distillation curve and the polycyclic aromatic hydrocarbons. Although the recently completed diesel processing unit of SRC (Project Hijau) in 2013 has the capability to produce against this new specification, some additional investment will be required.

SRC currently produces both petrol and diesel against the Euro 2M product specifications. The revised business model and strategy intended by the Offeror is crucial to enable the required investments described in the above paragraphs. These investments will ensure the sustainable and profitable operation of the refinery once the new regulatory product specifications become effective. Delivery of the investments for producing Euro 4M petrol by September 2018 is on a time critical path.

Crude Oil Supply Agreement and Product Offtake Agreement

As part of the Acquisition, SRC had on 19 December 2016 entered into the following agreements:-

(i) a 5-year crude oil supply agreement with SIETCO for the supply of crude oil to SRC for its refinery plant (COSA); and

(ii) a 10-year product offtake agreement with the POA Buyer to supply refined petroleum products to the POA Buyer (POA).

COSA

The COSA is intended to ensure continuity of supply of crude oil to SRC post-completion of the Acquisition. With effect from 22 December 2016, being the completion date of the SPA, the Company will procure crude oil mainly from SIETCO on the terms and conditions set out in the COSA for an initial period of 5 years, which may be extended for multiple periods of 3 years by mutual agreement of the parties in writing. The minimum amount which has to be purchased from SIETCO will reduce each year during the abovementioned 5 years.

Subject to the mode of delivery, the price for each supply of crude oil to SRC under the COSA shall be agreed by SRC and SIETCO based on, amongst others, the prevailing market crude oil price, freight costs and/or insurance.

POA

The POA stipulates that products produced by SRC would be primarily sold to the POA Buyer to support the POA Buyer's marketing activities in Malaysia based on the minimum and maximum contractual limits as set out in the POA. The POA Buyer has the first right of refusal to offtake all products produced above the minimum contractual limit by SRC, subject to the terms and conditions set out in the POA. The POA is for a period of 10 years, commencing from 22 December 2016, being the date of completion of the SPA.

The price of products to be supplied by SRC pursuant to the POA is generally determined based on, amongst others, the Mean of Platts Singapore (MOPS) quotation plus a premium as published in Platt's Asia Pacific/Arab Gulf Marketscan under the heading of "Singapore".

6. EVALUATION OF THE OFFER

In accordance with Paragraphs 1 to 6 of Schedule 2: Part III of the Rules, the Offer is analysed based on 2 distinct criteria of whether the Offer is fair and whether the Offer is reasonable, rather than as a composite term. The Offer will be considered "fair" if the Offer Price is equal to or higher than the market price and value of Offer Shares.

In considering whether the Offer is "reasonable", matters other than the valuation of Offer Shares should be considered. In accordance with Paragraph 4 of Schedule 2: Part III of the Rules, generally, an offer would be considered "reasonable" if it is "fair". In evaluating the reasonableness of the Offer, we have examined other relevant factors to which the Holders may give consideration prior to accepting or rejecting the Offer.

We have taken into consideration the following factors in our evaluation of the Offer:-

Section 6.1	**Assessment of fairness of the Offer**
Section 6.1.1	Valuation of SRC Shares
Section 6.1.2	Market price performance of SRC Shares

Section 6.2	Assessment of reasonableness of the Offer
Section 6.2.1	Rationale
Section 6.2.2	Offeror's intention with regards to the listing status of SRC

6.1 Assessment of the fairness of the Offer

To assess the fairness of the Offer, we have performed valuation of the SRC Shares and evaluated the market price performance of SRC Shares which are set out in this section.

6.1.1 Valuation of SRC Shares

For the purposes of estimating the equity value of SRC and to evaluate the fairness of the Offer, the DCF valuation method would be the most appropriate valuation methodology in view of the highly specialised nature of oil refining operations whereby different refineries have varying degrees of technological complexities. The DCF method is an investment appraisal technique which takes into consideration both the future economic benefits to be derived from the asset/business over a fixed period of time and the time value of money. Under this approach, the future net cash flows from the asset/business are discounted at an appropriate discount rate to arrive at the net present value. We have adopted the DCF methodology given that SRC had entered into the 5-year COSA which may be extended for multiple periods of 3 years by mutual agreement, and the 10-year POA, which form a reasonable basis to project a steady stream of cash flows.

We have also considered relative valuation methodology based on price-to-earnings multiple and enterprise value over earnings before interest, taxation, depreciation and amortisation (EV/EBITDA) multiple. However, we have not adopted the relative valuation methodology for the purposes of our evaluation on the fairness of the Offer in view that the relative valuation methodology merely benchmarks the implied multiples represented by the Offer Price against the relative valuation multiples of companies which are operating in a similar business as SRC. As such, the relative valuation methodology may not arrive at the intrinsic equity value of SRC Shares which takes into account, amongst others, the highly specialised nature of oil refining operations as elaborated above and the Offeror's future plans for SRC.

The valuation based on the DCF valuation method is derived from the present value of SRC's projected net cash flows from FYE 31 December 2017 to FYE 31 December 2036, which are computed based on the projected net revenue at an assumed refinery margin less operating expenditures, capital expenditure, debt servicing and repayment as well as taxation ("**Net Cash Flows**").

The Net Cash Flows were prepared by the management of the Company based on assumptions deemed reasonable and to the best of their knowledge based on current conditions, and although believed to be reasonable, are inherently subject to uncertainties. The Net Cash Flows have not been independently verified by any professional advisers. We are satisfied that the bases and assumptions adopted in arriving at the Net Cash Flows is reasonable. The Net Cash Flows are discounted at the discount rates stated in subsection (ii) below to derive the equity value of SRC Shares.

(i) Key bases and assumptions

The key bases and assumptions used in deriving the Net Cash Flows include, amongst others, the following:-

(a) actual realised refining margins and crude oil diversification and optimisation measures will not significantly differ from the projections adopted by the Company based on prevailing available information.

The refining margin is the difference in the value between the products manufactured by the Company and the value of the crude oil used to produce them. Factors affecting refining margins include, amongst others, global refining capacity, product demand, product yields derived from different grades of crude oil, prices of crude oil and products as well as transportation costs;

(b) there will be no significant or material variations to the terms and conditions of the COSA entered by SRC with SIETCO as well as the POA by SRC with the POA Buyer. There will also be no termination events leading to the termination of the aforementioned agreements and the agreements will continue to subsist until their expiry. It is also assumed that SRC and SIETCO will extend the 5-year COSA for multiple periods of 3 years on the same terms and conditions, and that SRC will be able to sell its products on similar terms as the 10-year POA after its expiry;

(c) the business of SRC is valued as a going concern;

(d) there will be no significant changes in the quantum of the expected operating expenditures and production volume;

(e) SRC will carry out the necessary upgrades to the refinery plant to enable the production of Euro 4M and Euro 5 fuel specifications. There will be no delays in the completion of the upgrades, in particular the Euro 4M upgrade which implementation is presently on a time critical path;

(f) there will be no significant changes to the projected capital expenditure for the period under review of approximately USD720 million, of which approximately USD144 million are estimated to be utilised for Euro 4M and Euro 5 upgrades;

(g) up to 16% of the projected capital expenditure is expected to be funded through additional borrowings;

(h) all debt financing will be available in accordance with the Net Cash Flows and all debt servicing and repayment shall be paid in accordance with the repayment profile provided, and there will be no major change in interest rates;

(i) terminal value of SRC was computed based on the average Net Cash Flows attributable to the last 5 years of the projections. No perpetuity growth rate of the Net Cash Flows is assumed in arriving at the terminal value of SRC as the growth in long-term demand for fossil fuels is uncertain;

(j) no gains or losses are assumed in respect of stockholding or foreign currency exchange. The Net Cash Flows are prepared in USD in view that the key drivers, namely refining margins, crude oil prices, benchmarking of product prices and borrowings, are denominated in USD;

(k) apart from the scheduled turnarounds and maintenance downtime, there will be no disruption to refinery production due to events which may include major equipment breakdown, major accidents, environmental/natural disasters or any abnormal circumstances which will materially and adversely affect the operations of the Company's refinery plant;

(l) corporate tax rate will remain at 24%;

(m) there will be no significant or material changes to the licenses, regulations and laws governing the operation of the Company;

(n) there will be no significant changes to accounting policies currently adopted by the Company which will have a material impact on the Net Cash Flows; and

(o) there will be no material changes to the political, social and economic conditions, monetary and fiscal policies, inflation and regulatory requirements governing the business of the Company.

(ii) Discount rates

For the purposes of the DCF valuation, we have applied the cost of equity (K_e) as the discount rate to arrive at the present value of the Net Cash Flows, which is derived using the following parameters as extracted from Bloomberg:-

Parameters	**Description**	
Risk free rate (R_f)	R_f is the expected rate of return of risk-free asset in Malaysia. We have adopted the yield of the Malaysian Government Securities with maturity date falling on 31 May 2035 as the proxy for the risk free rate.	4.746%
Beta of SRC Shares (β)	Beta of SRC Shares relates to the return sensitivity of SRC Shares to changes in the equity market return of Bursa Securities. We applied a 1-year adjusted beta of SRC Shares as the price movement in the past 1 year is more reflective of the recent perceived risk profile of SRC.	0.974
Expected market return (R_m)	The expected equity market return of Bursa Securities. Given the volatility of the stock market and market cycles, we view that a 10-year historical rate of return of the FBM100 Index as an appropriate estimate of the expected market return of Bursa Securities as it normalises the year-on-year fluctuations of the stock market and mitigates market bias.	11.090%
Equity market risk premium	The premium that investors demand for investing in an equity market portfolio relative to the risk-free rate, which is computed as $R_m – R_f$.	6.344%
Cost of equity (K_e)	SRC's cost of equity derived using the Capital Asset Pricing Model, which is computed as follows:- $K_e = R_f + \beta (R_m – R_f)$ $= 4.746\% + 0.974 \times (11.09\% - 4.746\%)$ $\approx 11.0\%$ As the value of securities is subject to uncertainty of the Net Cash Flows, we have expressed the value of SRC Shares in a range of values using discount rates of 10.5% and 11.5% which are derived based on the cost of equity computed above.	10.5% - 11.5%

(Source: Bloomberg)

(iii) DCF valuation of SRC Shares

The summary of the DCF valuation assuming the high and low discount rates of 11.5% (Low Case) and 10.5% (High Case) as described in subsection (ii) above, is as follows:-

	Low Case				**High Case**			
	USD		*** RM**		**USD**		*** RM**	
Discount rates	11.5%		11.5%		10.5%		10.5%	
Total present value of operating Net Cash Flows ('million)	233.8	(83%)	1,035.9	(83%)	258.3	(80%)	1,144.5	(80%)
Present value of terminal value of Net Cash Flows ('million)	48.1	(17%)	213.0	(17%)	63.1	(20%)	279.4	(20%)
Equity value of SRC ('million)	**281.8**		**1,248.9**		**321.3**		**1,423.9**	
Issued and paid-up SRC Shares ('million)	300.0		300.0		300.0		300.0	
Equity value per SRC Share	**0.94**		**4.16**		**1.07**		**4.75**	
Discount of Offer Price over the equity value per SRC Share:-								
- RM *			2.24				2.83	
- %			53.8%				59.6%	

Note:-

* *Based on the foreign exchange rate of USD1.00:RM4.4310 as at 19 December 2016.*

Based on the DCF valuation, the equity value of SRC ranges from RM1,248.9 million to RM1,423.9 million. Based on SRC's issued and paid-up share capital of 300 million SRC Shares, the equity value attributable to each SRC Share ranges from approximately **RM4.16 to RM4.75**.

The Offer Price of RM1.92 per Offer Share represents a discount of between RM2.24 and RM2.83 or approximately **53.8% and 59.6% discount** to the range of the equity value attributable to each SRC Share.

As set out in assumption (a) of Section 6.1.1 (i), factors affecting refining margins include, amongst others, global refining capacity, product demand, product yields derived from different grades of crude oil, prices of crude oil and products as well as transportation costs. Accordingly, actual realised margins may differ from the projections as refining margins are subject to significant market volatility driven by, amongst others, the aforementioned factors. Holders should also note that implementation of Euro 4M upgrade is presently on a time critical path. Any significant delay may materially affect the Net Cash Flows. We wish to highlight that the DCF valuation is subject to the assumptions made in Section 6.1.1 above and in particular, refining margins and timely implementation of the Euro 4M and Euro 5 upgrades.

For illustration purposes, as refining margins are volatile and changes to the projected refining margins will significantly impact the valuation, a sensitivity analysis of the equity value to changes in the projected refinery margins are set out below.

Equity value of SRC Shares	Percentage change in refining margins				
	-10%	-5%	0%	+5%	+10%
(USD)					
Low Case	0.54	0.74	0.94	1.10	1.27
High Case	0.62	0.85	1.07	1.25	1.43
(RM) *					
Low Case	2.38	3.30	4.16	4.89	5.62
High Case	2.76	3.78	4.75	5.54	6.32

Note:-

* *Based on the foreign exchange rate of USD1.00:RM4.4310 as at 19 December 2016.*

6.1.2 Market price performance of SRC Shares

In considering the Offer, Holders should take into consideration the movement of the market price of SRC Shares on Bursa Securities. The movement of the SRC's daily closing market price for the past 1 year up to the Acquisition Announcement's LFTD, and up to and including the LPD is shown in the chart below:-

(Source: Bloomberg)

The market price of SRC Shares experienced a significant decrease from RM6.03 on 12 January 2016 to RM2.72 on 15 February 2016, around the period of the announcement of the SPA on 2 February 2016 when the disposal price of SRC Shares by SOHL to the Offeror was announced at USD0.43 per share (equivalent to RM1.80 per SRC Share, based on the foreign currency exchange rate of USD1.00:RM4.1475 as at 29 January 2016, being the last full trading day prior to the date of the SPA). As at the Acquisition Announcement's LFTD, the closing market price of SRC Shares was RM4.94, which decreased to RM3.68 on the next market day, i.e., 3 February 2016.

The market price of SRC Shares declined further from a closing market price of RM3.04 on 24 November 2016 to a low of RM2.00 on 22 December 2016. The downward price performance of SRC Shares may be attributable to shareholders' trading activities after the conditions precedent to the SPA had been fulfilled on 17 November 2016. Additionally, SRC reported a lower profit after tax of RM127.5 million for the 9-month FPE 30 September 2016 as compared to RM255.3 million for the corresponding period in 2015.

The lowest market price of SRC Shares over the period under review was RM2.00 on 22 December 2016, which is still higher than the Offer Price.

A comparison of the Offer Price of RM1.92 per Offer Share against the closing market price and historical VWAP of SRC Shares up to the Acquisition Announcement's LFTD, the Notice's LTD and the LPD is as follows:-

	SRC Share Price	**Discount represented by the Offer Price**	
	(RM)	**(RM)**	**(%)**
Market prices of SRC Shares prior to the announcement of the Acquisition			
Closing market price on the Acquisition Announcement's LFTD	4.9400	3.0200	61.13
5-day VWAP up to the Acquisition Announcement's LFTD	4.9599	3.0399	61.29
1-month VWAP up to the Acquisition Announcement's LFTD	5.6082	3.6882	65.76
3-month VWAP up to the Acquisition Announcement's LFTD	5.5631	3.6431	65.49
6-month VWAP up to the Acquisition Announcement's LFTD	5.5298	3.6098	65.28
12-month VWAP up to the Acquisition Announcement's LFTD	5.3780	3.4580	64.30
Market prices of SRC Shares prior to the Notice			
Closing market price on the Notice's LTD	2.3500	0.4300	18.30
5-day VWAP up to the Notice's LTD	2.3334	0.4134	17.72
1-month VWAP up to the Notice's LTD	2.4907	0.5707	22.91
3-month VWAP up to the Notice's LTD	2.6574	0.7374	27.75
6-month VWAP up to the Notice's LTD	2.8161	0.8961	31.82
12-month VWAP up to the Notice's LTD	3.6735	1.7535	47.73
Market prices of SRC Shares up to the LPD			
Closing market price on the LPD	2.5100	0.5900	23.51
5-day VWAP up to the LPD	2.5074	0.5874	23.43

(Source: Bloomberg)

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Our commentary:-

The Offer Price of RM1.92 per Offer Share is the RM equivalent of the Purchase Consideration based on the bank's over-the-counter rate of USD1.00:RM4.4310 as at 19 December 2016, being the date the direct business transaction was effected, as set out in the Offer Document.

In evaluating the Offer Price of RM1.92 per Offer Share, we have also compared the SRC Shares' historical daily closing market price against the Offer Price of RM1.92 per Offer Share for the past 1 year up to the Acquisition Announcement's LFTD, and up to and including the LPD. Over the entire period under review, the SRC Shares have **traded above the Offer Price** of RM1.92 per Offer Share, with historical daily closing market price ranging from RM2.00 (22 December 2016) to RM6.03 (12 January 2016).

The Offer Price of RM1.92 per Offer Share:-

(i) represents a discount from 61.13% to 65.76% over the closing market price as well as historical 5-day, 1-month, 3-month, 6-month and 12-month VWAP of SRC Shares up to the Acquisition Announcement's LFTD ranging from RM4.94 to RM5.6082;

(ii) represents a discount from 17.72% and 47.73% over the closing market price as well as historical 5-day, 1-month, 3-month, 6-month and 12-month VWAP of SRC Shares up to the Notice's LTD ranging from RM2.3334 to RM3.6735; and

(iii) represents a discount of 23.51% and 23.43% over the closing market price of RM2.51 as well as historical 5-day VWAP of SRC Shares up to the LPD of RM2.5074 respectively.

6.1.3 Our views on the fairness of the Offer

Based on our analysis as set out in Sections 6.1.1 and 6.1.2 above, we are of the opinion that the Offer Price of RM1.92 per Offer Share is **NOT FAIR** in view:-

(i) it is **lower than** and represents a discount from 53.8% to 59.6% over the range of fair value per SRC Share based on DCF valuation of between RM4.16 and RM4.75 per SRC Share; and

(ii)
a. it is **lower than** and represents a discount from 61.13% to 65.76% over the closing market price as well as historical VWAPs of SRC Shares up to the Acquisition Announcement's LFTD ranging from RM4.94 to RM5.6082;

b. it is **lower than** and represents a discount from 17.72% to 47.73% over the closing market price as well as historical VWAPs of SRC Shares up to the Notice's LTD ranging from RM2.3334 to RM3.6735; and

c. it is **lower than** and represents a discount of 23.51% and 23.43% over the closing market price of RM2.51 as well as historical 5-day VWAP of SRC Shares up to the LPD of RM2.5074 respectively.

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6.2 Reasonableness of the Offer

6.2.1 Rationale for the Offer

We have taken into consideration the rationale for the Offer as set out in Section 3 of the Offer Document which is reproduced below for ease of reference.

"MHIL recognises SRC's business as complementary to SHPCL's existing business portfolio given SHPCL develops, produces, processes and markets diesel oil, liquid gas, propylene, propane, polypropylene, tert-butyl alcohol, oil slurry, asphalt, tert-pentene, ethybenzene, and other petroleum related products in the People's Republic of China, while SRC's operations involve refining and manufacturing of petroleum products, manufacturing lubricating oils and filling of liquefied petroleum gas into cylinders. SHPCL and SRC may realise synergy from collaboration in the future.

The Acquisition would enable SHPCL to further expand in the petrochemical supply chain, to increase its assets scale, to penetrate into the Malaysian market, and to establish a strategic presence in Southeast Asia. Upon completion of the Acquisition, SHPCL intends to expand, reconstruct and upgrade the existing facilities of SRC to meet the Euro 4 and Euro 5 fuel standards specification requirements. SHPCL is already producing and selling Euro 4 and Euro 5 fuel in the People's Republic of China and is familiar with such production technologies and know-how. In addition, SHPCL intends to implement different product mix based on market conditions and market prices of different products to enhance SRC's profitability and to strengthen SRC's position as a leading regional refinery products supplier. SRC will continue to be committed to the long-term and stable supply of refined products to Malaysia.

Following the completion of the Acquisition, MHIL's interest in SRC had increased from nil to 51.00%. As such, MHIL is obliged to undertake the Offer pursuant to Section 218(2) of the CMSA and Paragraph 4.01, Part B of the Rules."

Our commentary:-

In providing our views on the rationale of the Offer, we took into context SOHL's rationale for the disposal of SRC Shares as summarised in Section 1.2 of the letter from the Board as set out in Part A of this IAC, in particular Shell's downstream strategy to concentrate its footprint on a smaller number of assets where it can be most competitive, SRC would find it difficult to compete for new capital investments within the Shell portfolio, and SRC requires significant investment to meet Euro 4M and Euro 5 fuel specifications.

In 2014, the Board had conducted a structured review in the best interest of the Company to explore the long-term options available for SRC in light of challenging refining margins and the confirmation of Euro 4M and Euro 5 implementation timelines. The Board concluded that these options include, but are not limited to, the *potential sale of the assets*, or *conversion of operations to an import and storage terminal* and/or other viable options. As such, we understand that SRC in 2014 did not find it viable to carry out the upgrades required for Euro 4M and Euro 5 fuel specifications resulting in an impairment to the Company's assets of RM460.9 million in the audited financial statements for the FYE 31 December 2014. The impairment was due to the lower estimated future cash flows as SRC's products had to be exported to countries with lower fuel standards thereby incurring higher transportation costs, coupled with a finite lifespan of the refinery plant production without capital investment for Euro 4M and Euro 5 fuels. Discussion on a potential reversal of the impairment loss is set out further below.

We therefore find that SOHL's decision to dispose its SRC Shares to MHIL allows SRC's refining business to remain viable and continue as a going concern, as MHIL has indicated its intention of carrying out refining activities and to upgrade the refinery plant to meet regulatory requirements and is complementary to SHPCL's existing business portfolio. Such decision by MHIL to upgrade the refinery plant is beneficial to the shareholders of SRC as their investments in SRC will remain in an ongoing and viable business.

Further, MHIL intends to enhance SRC's existing refinery plant and strengthen SRC's position as a regional refined product supplier, and as such would be positive for the growth and long term prospects of SRC and is in the best interest of the shareholders of SRC.

We understand that SHPCL has the experience and track record in operating refinery plant as part of its larger petrochemical operations. We further understand that SHPCL is already producing and selling Euro 4 and Euro 5 fuels in the People's Republic of China and is familiar with such production technologies and know-how, which in turn can be transferred to SRC.

Further to the above, we understand that SRC is now undertaking the refinery plant upgrades for Euro 4M petrol and is executing studies in order to implement the required refinery plant upgrades for Euro 5 petrol and diesel. Upgrades required to produce Euro 4M (petrol) and Euro 5 (diesel) are expected to take place in stages between 2017 and 2020, while for Euro 5 (petrol) in stages between 2022 and 2027. **This may potentially result in a reversal of the impairment loss made in FYE 31 December 2014 as mentioned above. Nevertheless, the amount and timing of such reversal of impairment loss (if any) would depend on the assessments to be made in consultation with SRC's external auditors at an appropriate point in time.** If the reversal of the impairment loss takes effect, SRC and its shareholders may benefit from the strengthening of SRC's capital base and the higher NA per SRC Share.

6.2.2 Offeror's intention with regards to the listing status of SRC

As set out in Section 5.1 of the Offer Document, **it is the intention of the Offeror to maintain the listing status of SRC on the Main Market of Bursa Securities.** In the event that the Offeror receives valid acceptances resulting in the Offeror and the persons acting in concert holding in aggregate 90% of the issued and paid-up share capital of SRC, and SRC fails to comply with the public shareholding spread requirement under subparagraph 8.02(1) of the Listing Requirements, then upon expiry of 30 Market Days from the immediate announcement by SRC, SRC Shares will be suspended from trading on Bursa Securities. The suspension will only be uplifted upon full compliance with the required public shareholding spread or as may be determined by Bursa Securities.

In the event that SRC fails to comply with the public shareholding spread requirement under subparagraph 8.02(1) of the Listing Requirements, the Offeror will explore various options or proposals within the 3 months from the Closing Date or such extended timeframe as allowed by Bursa Securities to rectify the shortfall in the public shareholding spread requirement of SRC. However, in the event that SRC still fails to comply with the public shareholding spread requirement of at least 25% after exhausting all possible options or proposals to rectify the shortfall in the public shareholding spread, SRC may consider applying to Bursa Securities for a lower percentage than 25% pursuant to subparagraph 8.02(1) of the Listing Requirements.

Notwithstanding that, the actual course of action to be taken will depend on, amongst others, the circumstances as well as the prevailing market conditions at the relevant time. However, this shall be subject to market vagaries and relevant approval from regulatory authorities, where applicable. Therefore, there can be no assurance that SRC will be able to rectify the shortfall within the timeframe as allowed by Bursa Securities or that Bursa Securities will grant any further extension of time.

Our commentary:-

We note that it is the intention of the Offeror is to maintain the listing status of SRC on the Main Market of Bursa Securities. Therefore, SRC Shares will remain traded on Bursa Securities.

In the event SRC fails to comply with the public shareholding spread requirements under subparagraph 8.02(1) of the Listing Requirements pursuant to the Offer, the Offeror will explore various options or proposals within 3 months from the Closing Date or such extended timeframe as allowed by Bursa Securities to rectify the shortfall in the public shareholding spread of SRC.

Holders should note that the ability of the Offeror to address the shortfall in the public shareholding spread of SRC shall be subject to, amongst others, the prevailing market conditions and approval from the relevant authorities and/or the approval of the shareholders of SRC, if required. There is no assurance that SRC will be able to address the shortfall within the stipulated timeframe.

Holders should note that in the event SRC is unable to meet the public shareholding spread requirements, after exhausting all possible options or proposal to rectify the shortfall within 3 months from the Closing Date or such extended timeframe as allowed by Bursa Securities, and is consequently removed from the Official List of Bursa Securities, SRC Shares may become illiquid securities as they will no longer be listed and traded on Bursa Securities. There is no active or ready market for the unlisted shares.

6.2.3 Our views on the Reasonableness of the Offer

Based on our evaluation above, we view that the Offer is **NOT REASONABLE** for the following reasons:-

(a) Rationale for the Offer

(i) the Offeror intends to carry out the required upgrades to the refinery plant to meet the Euro 4M and Euro 5 fuel standards specification requirements which would allow SRC's refinery plant to remain viable and continue as a going concern; and

(ii) the Offeror intends to strengthen SRC's position as a regional refined product supplier which would be in the best interest of the shareholders of SRC. SHPCL has the experience in operating a refinery plant as part of their larger petrochemical operations and is familiar with production technologies as well as know-how of producing and selling Euro 4 and Euro 5 fuels, which in turn can be transferred to SRC.

(b) Listing Status

(i) the Offeror intends to maintain the listing status of SRC on the Main Market of Bursa Securities, therefore SRC Shares will remain traded on Bursa Securities; and the Offeror will explore various options or proposals to rectify the shortfall in the public shareholding spread of SRC if SRC fails to comply with the public shareholding spread requirements under subparagraph 8.02(1) of the Listing Requirements pursuant to the Offer.

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7. OTHER CONSIDERATIONS

7.1 Future plans for the Company and its employees

The Offeror's plans for SRC as set out in Section 6 of the Offer Document is reproduced below.

"The intention of the Offeror, as at 3 January 2017, with respect to the businesses and employees of SRC after the Closing Date are set out below:-

(i) the Offeror does not have any plan to liquidate SRC and intends to continue with SRC's existing businesses and operations;

(ii) the Offeror has no plans or intention to introduce or effect any major change in the business of SRC, or dispose or re-deploy the fixed assets of SRC, except where such change, disposal and/or redeployment is deemed necessary as part of the process to rationalise the business activities and/or directions of SRC or to improve utilisation of resources; and

(iii) the Offeror does not have any plan to dismiss or make redundant any employee of SRC as a direct consequence of the Offer. However, change with regard to staff employment and/or redeployment of staff may take place as a result of the Offeror's subsequent review of SRC's employment structure, rationalisation of the structure or business activities and/or strategic direction to improve efficiency of the operations and optimise the human resources of SRC. Any such action taken will be dealt with in accordance with the relevant legislation and the terms of employment of the affected employees."

Our commentary:-

We note that the Offeror intends to continue with the existing core business and operations of the SRC.

We further note that the Offeror has no immediate plan to sell the assets or redeploy the fixed assets of the SRC or introduce major changes to the SRC other than such change as deemed necessary to rationalise the business activities and/or directions of SRC.

It should be noted that whilst the Offeror has no plans to dismiss or make redundant any of the employees of the Company, changes in employees' employment and redeployment of employees may take place as a result of the Offeror's subsequent review to further improve efficiency of the operations and optimise the human resources of SRC.

Premised on the above, the business and operation of SRC shall remain intact and continue as a going concern.

7.2 Offeror's Intention with Regards to Compulsory Acquisition and Rights of Dissenting Shareholders

Compulsory acquisition

As set out in Section 5.2 of the Offer Document, in the event the Offeror receives valid acceptances of not less than nine-tenths (9/10) in the nominal value of the Offer Shares (excluding the SRC Shares that are already held by the Offeror and person acting in concert with the Offeror) on or before the Closing Date, **the Offeror intends to invoke the provisions of Section 222(1) of the CMSA to compulsorily acquire any remaining Offer Shares** from the Dissenting Holders for which valid acceptances have not been received, following which necessary steps will also be taken to de-list SRC from the Official List of Bursa Securities.

Rights of Dissenting Shareholders

Notwithstanding the above, in the event the Offeror receives valid acceptances from the Holders resulting in the Offeror holding not less than nine-tenths (9/10) in the nominal value of the existing issued and paid-up share capital of SRC (including the SRC Shares that are already held by the Offeror and person acting in concert with the Offeror) on or before the Closing Date, a Dissenting Holder may exercise his/ her rights in accordance with Section 223(1) of the CMSA by serving a notice on the Offeror to require the Offeror to acquire his/ her Offer Shares on the same terms as set out in the Offer Document or such other terms as may be agreed by the Offeror and the Dissenting Holder, subject to Section 224 of the CMSA.

In accordance with Section 224(3) of the CMSA, when a Dissenting Holder exercises his/ her rights under Section 223(1) of the CMSA, the court may, on an application made by such Dissenting Holder or by the Offeror, order that the terms on which the Offeror shall acquire such Offer Shares shall be as the court thinks fit.

Section 223(2) of the CMSA requires the Offeror to give the Dissenting Holders a notice in the manner prescribed under the Rules of the rights exercisable by the Dissenting Holders under Section 223(1) of the CMSA ("**Notice to Dissenting Holders**"), within 1 month of the time the Offeror has acquired not less than nine-tenths (9/10) in the nominal value of the existing issued and paid-up share capital of SRC (including SRC Shares already held by the Offeror).

A Notice to Dissenting Holders under Section 223(2) of the CMSA may specify the period for the exercise of the rights of Dissenting Holders and in any event, such period shall not be less than 3 months after the Closing Date.

Our commentary:-

Holders should note that the Offeror owns 51.0% of the issued and paid-up share capital of SRC as at the Posting Date. In the event that the Offeror receives valid acceptances of not less than nine-tenths (9/10) in nominal value of the Offer Shares (excluding the SRC Shares already held by the Offeror and the persons acting in concert as at the date of the Offer) i.e. resulting in its shareholdings not less than 95.1% (computed based on 51.0% + [90% x 49.0%]), the Offeror intends to invoke Section 222 of the CMSA to compulsorily acquire any of the outstanding Offer Shares. In such instance, as set out in Section 5.2 of the Offer Document, all the Offer Shares that are compulsorily acquired will, subject to Section 224(1) of the CMSA, be acquired on the same terms as set out in the Offer Document and in accordance with Section 222(1) of the CMSA.

We wish to advise that if Holders have become entitled to exercise their rights under Section 223 of the CMSA (Rights of Dissenting Shareholders), Holders should consult their legal adviser immediately upon receipt of the Notice to Dissenting Holders.

8. FURTHER INFORMATION

Holders are advised to refer to the Appendices to this IAC for further information on SRC and other relevant information.

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9. CONCLUSION AND RECOMMENDATION

You should consider carefully the Offer based on all relevant and pertinent factors and other considerations as set out in this IAL and the Offer Document.

Based on our analysis as set out in Section 6.1 above, we are of the opinion that the Offer Price of RM1.92 per Offer Share is **NOT FAIR** as:-

(i) it is **lower than** and represents a discount from 53.8% to 59.6% over the range of fair value per SRC Share based on DCF valuation of between RM4.16 and RM4.75 per SRC Share; and

(ii) a. it is **lower than** and represents a discount from 61.13% to 65.76% over the closing market price as well as historical VWAPs of SRC Shares up to the Acquisition Announcement's LFTD ranging from RM4.94 to RM5.6082;

b. it is **lower than** and represents a discount from 17.72% to 47.73% over the closing market price as well as historical VWAPs of SRC Shares up to the Notice's LTD ranging from RM2.3334 to RM3.6735; and

c. it is **lower than** and represents a discount of 23.51% and 23.43% over the closing market price of RM2.51 as well as historical 5-day VWAP of SRC Shares up to the LPD of RM2.5074 respectively.

Based on our evaluation on the reasonableness of the Offer as set out in Section 6.2 above, we are of the view that the Offer is **NOT REASONABLE** premised on the following:-

(i) Rationale for the Offer

a. the Offeror intends to carry out the required upgrades to the refinery plant to meet the Euro 4M and Euro 5 fuel standards specification requirements and which would allow SRC's refinery plant to remain viable and continue as a going concern; and

b. the Offeror intends to strengthen SRC's position as a regional refined product supplier which would be in the best interest of the shareholders of SRC. SHPCL has the experience in operating a refinery plant as part of their larger petrochemical operations and is familiar with production technologies as well as know-how of producing and selling Euro 4 and Euro 5 fuels, which in turn can be transferred to SRC.

(ii) Listing Status

a. the Offeror intends to maintain the listing status of SRC on the Main Market of Bursa Securities, therefore SRC Shares will remain traded on Bursa Securities; and the Offeror will explore various options or proposals to rectify the shortfall in the public shareholding spread of SRC if SRC fails to comply with the public shareholding spread requirements under subparagraph 8.02(1) of the Listing Requirements pursuant to the Offer.

Premised on the above, we are of the opinion that the terms of the Offer are **NOT FAIR** and **NOT REASONABLE.** Accordingly, AmInvestment Bank recommends that the Holders **REJECT** the Offer.

Holders are reminded that the market prices of SRC Shares shown represent the historical trading prices of SRC Shares and are affected to a varying extent by changes in, among others, company-specific factors such as the performance and prospects of SRC as well as prevailing market, economic, industry, monetary and other general macroeconomic conditions. Accordingly, the historical market prices of SRC Shares may not be a reliable indicator of the future trading performance of SRC Shares, and should not in any way be relied upon as an indication of the future trading pattern and performance of SRC Shares.

You are advised to closely monitor the market prices and trading volume of the SRC Shares and evaluate the Offer Price before deciding whether to accept or reject the Offer prior to the Closing Date. If you so wish, you may also consider disposing of your SRC Shares in the open market to realise your investment in the SRC Shares at a price higher than the Offer Price.

The advice of AmInvestment Bank as contained in this IAL is addressed to the Holders at large and not to any particular Holder. Accordingly, in providing this advice, we have not taken into consideration any specific investment objectives of any individual Holder or any specific group of Holders. We recommend that any individual Holder or any specific group of Holders who may require advice in the context of their objectives, financial situation and particular needs should consult their respective professional advisers immediately.

Yours faithfully,
For and on behalf of
AmInvestment Bank Berhad

FOONG YEIN FUN
Senior Vice President
Corporate Finance

ANTHONY KOH
Senior Vice President
Corporate Finance

1. HISTORY AND PRINCIPAL ACTIVITY

SRC was incorporated on 19 September 1960 and was listed on the Main Board of Kuala Lumpur Stock Exchange (presently known as the Main Market of Bursa Securities) on 29 October 1962.

The principal activities of SRC consist of refining and manufacturing of petroleum products. The Company's oil refinery plant at Port Dickson, Malaysia produces a range of petroleum products, most of which are consumed within Malaysia. SRC produces the following petroleum products:-

(a) gasoil (various grades of diesel);

(b) motor gasoline (various grades of petrol for motor vehicles);

(c) jet fuel;

(d) liquefied petroleum gas; and

(e) others, mainly:-
   (i) propylene;
   (ii) fuel oil (light/heavy cycle oil); and
   (iii) tops (light naphtha).

SRC also produces a number of petroleum components which can either be sold or processed in the refinery plant.

2. SHARE CAPITAL

2.1 Authorised, issued and paid-up share capital

As at the LPD, the authorised and issued and paid-up share capital of SRC is set out below:-

	No. of Shares	Par value	Total
		RM	RM
Authorised share capital	300,000,000	1.00	300,000,000
Issued and paid-up share capital	300,000,000	1.00	300,000,000

As at the LPD, there is only 1 class of shares in SRC, namely the ordinary shares of RM1.00 each in SRC. All the SRC Shares rank *pari passu* in terms of voting rights and entitlements to any dividends, rights, allotments and/or distributions (including but not limited to capital distributions) which may be declared, made or paid to shareholders.

2.2 Changes in the issued and paid-up share capital

As at the LPD, there are no changes in SRC's issued and paid-up share capital since the end of the FYE 31 December 2015.

2.3 Convertible securities

As at the LPD, SRC does not have any convertible securities which are convertible into ordinary shares of SRC.

3. SUBSTANTIAL SHAREHOLDERS

As at the LPD, the substantial shareholders of SRC and their respective shareholdings are set out below:-

Substantial shareholders	<-----------Direct----------> No. of Shares	%	<----------Indirect---------> No. of Shares	%
MHIL	153,000,000	51.00	-	-
Amanah Saham Bumiputera	19,856,600	6.62	-	-
Heng Yuan Holdings Limited	-	-	(1) 153,000,000	51.00
SHPCL	-	-	(1) 153,000,000	51.00
Linyi County Linhai Petrochemical Company Limited	-	-	(1) 153,000,000	51.00
Shandong Linyi County Linoleum	-	-	(1) 153,000,000	51.00
Shandong Linyi County Petrochemical Factory	-	-	(1) 153,000,000	51.00
Shandong Hengyuan Petrochemical Group Company Limited	-	-	(1) 153,000,000	51.00

Note:-

(1) Deemed interested by virtue of its direct/indirect interest in MHIL.

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4. DIRECTORS AND THEIR SHAREHOLDINGS

As at the LPD, the particulars of the Directors of SRC and their respective shareholdings are set out below:-

				<-----------Direct---------->		<----------Indirect--------->	
Director	Nationality	Designation	Address	No. of Shares	%	No. of Shares	%
Wang, YouDe	Chinese	Chairman, Non-Independent and Non-Executive Director	Room 502, Unit 2, Building 3, No. 62, Ruiyuan Road, Linyi County, Shandong Province, China, 251500	-	-	-	-
Martinus Joseph Marinus Aloysius Stals	Dutch	Managing Director and Executive Director	67 Jalan Serene Kiara 6 Villa Serene Kiara Desa Sri Hartamas 50480 Kuala Lumpur	-	-	-	-
Wang, ZongQuan	Chinese	Non-Independent Non-Executive Director	Room 101, Unit 3, Building 2, Ruiyuan No. 5 District, Linyi County, Shandong Province, China, 251500	-	-	-	-
Sun, JianYun	Chinese	Non-Independent Non-Executive Director	Apt 413, Block 3, 28 Qingnian Road, Chaoyang District, Beijing, China, 100022	-	-	-	-
Dato' Seri Talaat bin Haji Husain	Malaysian	Senior Independent Non-Executive Director	No. 1, Jalan Kelab Golf 13/10D, Section 13 40100 Shah Alam Selangor Darul Ehsan	-	-	-	-
Datuk Zainun Aishah binti Ahmad	Malaysian	Independent Non-Executive Director	No. 4 Jalan 11/3 40000 Shah Alam Selangor Darul Ehsan	-	-	-	-
David Lau Nai Pek	Malaysian	Independent Non-Executive Director	B-3-4 Sri Kenny Condo No. 28 Jalan Tun Ismail 50480 Kuala Lumpur	-	-	-	-

				<-----------Direct---------->		<----------Indirect--------->	
Director	**Nationality**	**Designation**	**Address**	**No. of Shares**	**%**	**No. of Shares**	**%**
Datuk Yvonne Chia	Malaysian	Independent Non-Executive Director	3 Jalan Chempenai Off Lorong Bruas Damansara Heights 50490 Kuala Lumpur	-	-	-	-
Heng Hock Cheng	Malaysian	Independent Non-Executive Director	C-4-5 Sri Kenny 28 Jalan Tun Ismail 50480 Kuala Lumpur	-	-	-	-

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, SRC does not have any subsidiaries and associated companies.

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6. HISTORICAL FINANCIAL PERFORMANCE ANALYSIS

A summary of the historical financial performance of SRC based on its audited financial statements for the past 5 years from FYE 31 December 2011 to FYE 31 December 2015 together with its unaudited financial statements for 9 months up to FPE 30 September 2015 and FPE 30 September 2016 are as follows:-

	←---Audited---> FYE 31 December					Unaudited 9-month FPE	Unaudited 9-month FPE
	[1] (Restated) 2011	[1] (Restated) 2012	[1] (Restated) 2013	2014	2015	30 September 2015	30 September 2016
	(RM'million)	(RM'million)	(RM'million)	(RM'million)	(RM'million)	(RM'million)	(RM'million)
Comprehensive income							
Revenue	11,212.7	15,086.4	14,696.1	14,262.8	9,079.6	6,722.1	5,833.5
Purchase	(11,074.0)	(14,901.0)	(14,519.0)	(14,571.0)	(8,265.0)	(6,135.2)	(5,355.1)
Gross Profit	138.7	185.4	177.1	(308.2)	814.6	586.9	478.4
PBT/(LBT)	(163.8)	(121.6)	(223.3)	(1,223.5)	352.6	255.6	128.2
Taxation	38.1	26.9	67.3	34.7	(0.8)	(0.3)	(0.7)
PAT/(LAT)	(125.7)	(94.7)	(156.0)	(1,188.8)	351.8	255.3	127.5
Financial position							
Total assets	4,204.1	4,170.2	4,479.2	2,811.1	2,950.2	2,886.2	2,887.8
Total liabilities	2,350.4	2,465.5	2,977.3	2,486.4	2,273.1	2,306.2	2,082.2
Total borrowings	831.2	1,184.9	1,739.6	1,758.3	1,481.1	1,510.1	1,270.3
Equity attributable to owners of the Company	1,853.7	1,704.7	1,513.4	324.7	677.1	580.0	805.6
Financial ratios							
Basic EPS (sen)	(42)	(32)	(52)	(396)	117	85	43
Net dividends per share (sen)	30	15	-	-	-	-	-
NA per share (RM)	6.18	5.68	5.04	1.08	2.26	1.93	2.69
Gearing (times) [2]	0.45	0.70	1.15	5.42	2.19	2.60	1.58
Number of ordinary shares ('million)	300.0	300.0	300.0	300.0	300.0	300.0	300.0

Notes:-

1. *Certain comparatives for the FYE 31 December 2011 to 2013 were reclassified to better reflect the underlying nature and classification of these transactions. Foreign exchange differences relating to trading activities, arising from the purchase of raw materials such as crude or products, are reclassified as part of purchases. The PAT/(LAT) are not affected by these reclassifications.*
2. *Gearing is computed based on total borrowings divided by equity attributable to owners of the Company.*

The commentaries on the financial performance of SRC for the period under review are set out below:-

a) Unaudited 9-month FPE 30 September 2016

For the 9-month FPE 30 September 2016, the Company recorded revenue of RM5,833.5 million representing a 13.2% decrease from the 9-month FPE 30 September 2015 of RM6,722.1 million. The lower recorded revenue was mainly due to lower traded product prices despite the sales volume was 11.0% higher for the FPE 30 September 2016 of 29.2 million barrels as compared to 26.3 million barrels recorded in the corresponding financial period in 2015. The higher production was attributed to the major statutory turnaround involving the shutdown of the entire refinery plant processing units in August 2015 of 44 days.

The Company reported a PAT of RM127.5 million for FPE 30 September 2016 compared to RM255.3 million for the corresponding period in 2015 due to lower refining margins and higher operating expenses.

Gearing ratio decreased from 2.60 times to 1.58 times due to increased NA and reduction in total borrowings of RM239.8 million.

b) FYE 31 December 2015

For the FYE 31 December 2015, the Company recorded revenue of RM9,079.6 million representing a 36.3% decrease from the previous financial year. The lower recorded revenue was mainly due to lower average traded product prices. Refinery availability had fallen from 94.8% to 86.1% due to the major statutory turnaround involving the shutdown of the entire refinery plant processing units in August 2015 of 44 days.

The Company reported a PAT of RM351.8 million compared to an LAT of RM1,188.8 million in 2014, a reverse from the loss position. The improved results were mainly due to higher refining margins of USD7.00 per barrel on current cost of supply basis and a lower stockholding loss of USD0.93 per barrel compared to a refining margin of USD2.65 per barrel and a stockholding loss of USD4.99 in 2014 as well as cost optimisation.

The improved refining margins were largely due to petroleum product prices falling by a smaller magnitude compared to the decrease in crude oil prices for the first 8 months of 2015. However, towards the last 2 quarters in 2015 global refining margins started to shrink again.

Finance and catalyst cost were lower by RM11.4 million and RM15.7 million respectively compared to the previous financial year.

Gearing ratio decreased from 5.42 times in 2014 to 2.19 times in 2015 due to the increased NA resulting from the PAT of RM351.8 million and reduction in total borrowings of RM277.2 million in 2015.

c) FYE 31 December 2014

For the FYE 31 December 2014, the Company recorded revenue of RM14,262.8 million representing a 2.9% decrease from the previous financial year mainly due to lower average petroleum product prices. Refinery availability had fallen from 97.7% to 94.8% due to multiple reliability issues in the Long Residue Catalytic Cracker Unit and Crude Distiller Unit.

The Company reported an LAT of RM1,188.8 million in 2014 compared to an LAT of RM156.0 million in 2013, representing a 6.6 times increase in LAT. The increase in LAT was due to an impairment loss of RM460.9 million on the refinery plant, stockholding losses of RM625.1 million and operational losses of RM102.6 million.

The impairment loss was a result of a reassessment of the recoverable amount of the refinery plant based on a revised estimation of the future cash flows, which resulted in the reduction of estimated recoverable amount from RM1,515.1 million to RM1,054.2 million. The change in estimation of future cash flows was primarily due to the confirmation by the Ministry of Natural Resources and Environment, Malaysia of the implementation timeline of Euro 4M and Euro 5 diesel compliant fuel specifications by 2018 and 2020, which the refinery plant is unable to economically produce without having to carry out substantial capital investments. The estimation of the future cash flows assumed, amongst others, that the Company's products may only be exported to countries with lower fuel standards, which resulted in the cash flows estimates being negatively impacted by increased transportation costs and a finite lifespan of the refinery plant production without capital investment for Euro 4M and Euro 5 fuels.

Stockholding losses were attributable mainly to the fall in crude oil prices from an average of USD108 per barrel in early 2014 to USD55 per barrel in December 2014.

Further, the Company incurred operating losses of RM102.6 million due to overcapacities, geopolitical issues, unfavourable exchange rates and global economic slowdown that weakened the refining margins of the Company.

Refining margins on a current cost of supply basis and stockholding losses were USD2.65 per barrel and USD4.99 per barrel respectively in 2014, compared to a refining margin of USD1.10 and a stockholding gain of USD0.80 per barrel in 2013.

Gearing ratio increased from 1.15 times in 2013 to 5.42 times in 2014 mainly due to the significant LAT which reduced NA as described above.

d) FYE 31 December 2013

For the FYE 31 December 2013, the Company recorded revenue of RM14,696.1 million representing a 2.6% decrease from the previous financial year. The lower recorded revenue was mainly due to lower average petroleum product prices and decline in total volume sold by 0.2 million barrels.

The Company reported an LAT of RM156.0 million in 2013 compared to an LAT of RM94.7 million in 2012 representing a 64.7% increase in LAT. The increase in LAT was mainly due to higher maintenance and operational costs, higher depreciation upon completion of Project Hijau, the Company's diesel processing unit and realised foreign exchange losses due to weakening of RM in 2013.

In 2013, refining margins on a current cost of supply basis were USD1.10 per barrel and stockholding gains were USD0.80 per barrel, compared to refining margins on a current cost of supply basis of USD1.98 per barrel and stockholding losses of USD0.73 per barrel in 2012.

The challenging refining margins were attributed to continued weakness in the global economy, especially as the European region was still suffering from Euro zone crisis and US economy was weak with recovery starting at the end of 2013. In addition, more new and complex refineries started production in Asia, further depressing refining margins in the region.

Refinery availability had fallen from 98.8% to 97.7% due to several unplanned downtimes in the second half of the year and a loss of primary containment incident towards the end of December 2013.

Gearing ratio increased from 0.70 times in 2012 to 1.15 times in 2013 due to losses that reduced NA and increase in total borrowings of RM554.7 million.

e) FYE 31 December 2012

For the FYE 31 December 2012, the Company recorded revenue of approximately RM15,086.4 million, representing a 34.5% increase from the previous financial year. The Company recorded an increase in sales volume during the year as the Company increased production volume from the third quarter onwards to take advantage of reduced supply availability as a result of shutdowns of certain refineries in the region.

The Company reported a lower LAT of RM94.7 million in 2012 compared to RM125.7 million LAT in 2011 representing a 24.7% reduction in LAT, which was mainly due to higher trade and non-trade related income attributed to higher sales volume and the strengthening of RM in 2012. Other factors include the procurement of lighter crude which had a better yield, and steady level of costs. Despite higher revenue, the Company remained in a loss position as Japan's energy crisis and Middle East geopolitical tensions pushed crude oil prices higher, which were not in tandem with the increase in petroleum product prices. In addition, the Company needed to process low sulphur crude oil, which is a more expensive variant of crude oil, to deliver refined petroleum products that meet the regulatory requirements of Euro 2M during the construction phase of Project Hijau, the Company's diesel processing unit. In 2012, refining margins on a current cost of supply basis and stockholding losses were USD1.98 per barrel and USD0.73 per barrel respectively, compared to a negative refining margin of USD0.74 per barrel and a stockholding gain of USD2.64 per barrel in 2011.

The Company had only one operational incident in 2012 and refinery availability increased from 83.7% in 2011 to 98.8% in 2012.

Gearing ratio increased from 0.45 times in 2011 to 0.70 times in 2012 due to losses that reduced NA and increase in total borrowings by RM353.7 million in 2012.

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7. STATEMENT OF ASSETS AND LIABILITIES

The statement of assets and liabilities of SRC based on its audited financial statements as at 31 December 2014 and 31 December 2015, and the latest unaudited financial statements of SRC for 9-month FPE 30 September 2016 is set out below:-

	<------------- Audited	----------->	Unaudited 9-month FPE 30 September
FYE 31 December	**2014**	**2015**	**2016**
	(RM'000)	(RM'000)	(RM'000)
ASSETS			
Non-current assets			
Property, plant and equipment	1,104,821	1,029,335	904,095
Prepaid lease payments	1,864	1,843	1,829
Derivative financial assets	118,565	-	-
	1,225,250	1,031,178	905,924
Current assets			
Inventories	801,183	695,704	832,640
Trade receivables	26,971	24,513	25,394
Other receivables and prepayments	1,404	30,264	2,823
Tax recoverable	4,376	3,803	-
Amounts receivable from related companies	743,169	684,043	987,981
Derivative financial assets	-	305,188	4,770
Deposit with licensed banks	-	171,820	-
Bank balances	8,737	3,703	128,255
	1,585,840	1,919,038	1,981,863
TOTAL ASSETS	2,811,090	2,950,216	2,887,787
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	300,000	300,000	300,000
Performance share plan from Royal Dutch Shell Plc	1,306	1,924	2,983
Retained earnings	23,378	375,166	502,629
TOTAL EQUITY	324,684	677,090	805,612
Current liabilities			
Trade and other payables	75,558	87,027	68,671
Amounts payable to related companies	652,573	705,045	743,204
Borrowings	919,115	1,031,054	1,270,300
	1,647,246	1,823,126	2,082,175
NET CURRENT (LIABILITIES)/ASSETS	(61,406)	95,912	(100,312)
Non-current liabilities			
Borrowings	839,160	450,000	-
	839,160	450,000	-
TOTAL EQUITY AND LIABILITIES	2,811,090	2,950,216	2,887,787

As at the LPD, save for the refinancing of SRC's entire short-term borrowings of USD180.0 million[1] and RM450.0 million into long-term borrowings of USD320.1 million[2] in the 4th quarter of FYE 31 December 2016, which is due progressively by FYE 31 December 2021, there is no material change in the financial position of SRC subsequent to its latest audited financial statements for the FYE 31 December 2015 which have not been previously disclosed in the Company's quarterly results announced to Bursa Securities.

8. ACCOUNTING POLICIES

Based on the audited financial statements of SRC for the FYE 31 December 2011 to 2015, the financial accounts have been prepared based on approved Malaysian accounting standards and there was no audit qualification for SRC's financial statements for the respective years under review.

There is no change in the aforementioned adopted accounting standards, the change thereof which would result in a material variation to the comparable figures for the audited financial statements of SRC for FYE 31 December 2013, 31 December 2014 and 31 December 2015.

9. BORROWINGS

As at the LPD, SRC has total outstanding borrowings of approximately RM1.4 billion, as follows:-

	Amount
	(RM'000)
Short term borrowings	-
Long-term borrowings	
- Foreign currency loan(1)	1,428,531
Total borrowings	1,428,531

Note:-

(1) The foreign currency exchange rate of USD1.00:RM4.4625 as at the LPD was used to determine the RM amount of the foreign currency loan.

10. MATERIAL COMMITMENTS

Saved as disclosed below, as at the LPD, the Board is not aware of any material commitments incurred or known to be incurred by SRC, which upon becoming enforceable, may have a material impact on the profits or net asset value of SRC:-

	Amount
	(RM'000)
Approved but not contracted for	50,881
Approved and contracted for	275
	51,156

1 equivalent to approximately RM803.2 million based on the foreign currency exchange rate of USD1.00:RM4.4625 as at the LPD

2 equivalent to approximately RM1,428.5 million based on the foreign currency exchange rate of USD1.00:RM4.4625 as at the LPD

11. MATERIAL CONTINGENT LIABILITIES

As at the LPD, the Board is not aware of any material contingent liabilities incurred or known to be incurred by SRC, which upon becoming enforceable, may have a material impact on the profits or net asset value of SRC.

12. MATERIAL LITIGATION

As at the LPD, SRC is not engaged in any litigation, claim and/or arbitration either as plaintiff or defendant, which has a material effect on the financial position of SRC and the Board is not aware of any proceeding, pending or threatened, against SRC or of any fact likely to give rise to any proceeding which might materially and adversely affect the position or business of SRC.

13. MATERIAL CONTRACTS

As at the LPD, SRC has not entered into any material contract (not being contracts entered into in the ordinary course of business) during the past 2 years immediately preceding 1 February 2016, being the commencement date of the Offer Period.

14. SERVICE CONTRACTS

As at the LPD, there are no service contracts entered into by SRC with any Directors, which have been entered into or amended within 6 months before 1 February 2016, being the commencement date of the Offer Period, or which are fixed term contracts with more than 12 months to run.

For the purpose of this section, the term "service contracts" excludes those expiring or determinable by the employing company without payment of compensation within 12 months from the date of this IAC.

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1. DIRECTORS' RESPONSIBILITY STATEMENT

This IAC has been seen and approved by the Directors of SRC and they collectively and individually accept full responsibility for the accuracy and completeness of the information contained herein (save for the IAL prepared by AmInvestment Bank set out in Part B of this IAC) and confirm that after making enquiries as were reasonable in the circumstances and to the best of their knowledge and belief, there are no other facts the omission of which would make any information provided herein false or misleading.

The responsibility of the Directors of SRC in respect of the IAL from AmInvestment Bank as set out in Part B of this IAC is wholly limited to the accuracy and completeness of the information provided by SRC and given to AmInvestment Bank for its evaluation in respect of the Offer.

The responsibility of the Directors of SRC in respect of the information relating to the Offeror and the Offer extracted from the Offer Document is wholly limited to ensuring that such information is accurately reproduced in this IAC.

2. DISCLOSURE OF INTERESTS AND DEALINGS

2.1 By SRC

(i) Disclosure of interest in MHIL

As at the LPD, SRC does not have any interest, whether direct or indirect, in any voting shares and convertible securities of MHIL.

(ii) Disclosure of dealings in the securities of SRC

SRC has not dealt, directly or indirectly in SRC Shares during the period commencing 6 months before 1 February 2016, being the commencement date of the Offer Period and ending on the LPD.

2.2 By the Directors of SRC

(i) Disclosure of interest in MHIL

As at the LPD, the Directors of SRC do not have any interest, whether direct or indirect, in any voting shares and convertible securities of MHIL.

(ii) Disclosure of interest in SRC Shares

As at the LPD, the Directors of SRC do not have any interest, whether direct or indirect, in SRC Shares.

2.3 By AmInvestment Bank and funds whose investments are managed by AmInvestment Bank on a discretionary basis

As at the LPD, AmInvestment Bank and funds whose investments are managed by AMMB Holdings Berhad, being the holding company of AmInvestment Bank, and its subsidiaries and associated companies, on a discretionary basis, do not have any interest, direct or indirect, in any voting shares of SRC.

2.4 By the persons with whom SRC or any persons acting in concert has any arrangement

As at the LPD, there is no person with whom SRC or any person acting in concert with it has entered into an arrangement, including any arrangement involving rights over shares, any indemnity arrangement and any agreement or understanding, formal or informal, of whatever nature, relating to SRC Shares that may be an inducement to deal or to refrain from dealing pursuant to the Offer.

2.5 By the Offeree or any persons acting in concert in respect of their borrowing or lending of SRC Shares

As at the LPD, SRC or any of its persons acting in concert have not borrowed or lent any SRC Shares from/to another person.

3. ARRANGEMENT AFFECTING DIRECTORS

As at the LPD, there has not been any of the following arrangements affecting the Directors of SRC:-

(a) payment or other benefit which will be made or given to any Director of SRC as compensation for loss of office or otherwise in connection with the Offer;

(b) agreement or arrangement between any Director of SRC and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the outcome of the Offer; or

(c) material contract entered into by the Offeror in which any Director of SRC has a material personal interest.

4. CONSENT

The written consent of AmInvestment Bank and RHB Investment Bank for the inclusion of their names in the form and context in which they appear in this IAC have been given and have not been subsequently withdrawn before the despatch of this IAC.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the Registered Office of SRC at Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan during normal business hours from Mondays to Fridays (excluding public holidays), from the date of this IAC up to and including the Closing Date:-

(a) Memorandum and Articles of Association of SRC;

(b) Press Notices dated 1 February 2016, 30 September 2016, 31 October 2016 and 17 November 2016;

(c) Notice dated 19 December 2016;

(d) Audited financial statements of SRC for the past 3 FYE 31 December 2013 to 2015 and the unaudited financial statements of SRC for the 9-month FPE 30 September 2016; and

(e) Letters of consent referred to in Section 4 above.