



PERDANA MERCHANT
BANKERS BERHAD

Registered Office:

11th Floor , Wisma Genting
Jalan Sultan Ismail
Kuala Lumpur 50250

29 February 2000

To: **The Minority Shareholders of MBM Resources Berhad**

Dear Sir/Madam,

MBM RESOURCES BERHAD

Proposed acquisition of 20% equity interest in Perusahaan Otomobil Kedua Sdn Bhd from Med-Bumikar-Mara Sdn Bhd for a purchase consideration of RM160,000,000, to be wholly satisfied by an issue of 64,000,000 new ordinary shares of RM1.00 each in MBM Resources Berhad at an issue price of RM2.50 per new ordinary share

1. **INTRODUCTION**

On 9 July 1999, RHB Sakura, on behalf of MBMR, announced that the Company had, on even date, entered into the SPA with MBM for the acquisition of 28,000,000 ordinary shares representing a 20% equity interest in Perodua for a purchase consideration of RM160,000,000 to be wholly-satisfied by the issue of 69,565,000 new ordinary shares in MBMR at an issue price of RM2.30 per new ordinary share.

As at 17 January 2000, MBM owns 51.4% equity interest in MBMR. Certain directors of MBMR also hold directorships in MBM as set out under Section 6 of this IAL. Consequently, the guidelines under paragraph 20.05(2)(b) of Chapter 20 of the *SC's Policies and Guidelines on Issue/Offer of Securities* and Part 4 of Section 118 of the *KLSE's Main Board Listing Requirements* require the appointment of an independent adviser to advise the minority shareholders of MBMR on the fairness and reasonableness of the Proposed Acquisition. Accordingly, Perdana Bankers has been appointed by the independent directors of MBMR to act in that capacity. Perdana Bankers' appointment as Independent Adviser has been approved by the FIC on 4 February 2000

The purpose of this Independent Advice Letter is to provide the minority shareholders of MBMR with an independent evaluation of the Proposed Acquisition and Perdana Bankers' recommendation in relation to the ordinary resolution to be tabled at the forthcoming EGM.

MINORITY SHAREHOLDERS OF MBMR ARE ADVISED TO READ BOTH THIS INDEPENDENT ADVICE LETTER AND THE EGM CIRCULAR AND TO CONSIDER CAREFULLY THE RECOMMENDATIONS CONTAINED THEREIN BEFORE VOTING ON THE ORDINARY RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION AT THE FORTHCOMING EGM.

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

2.0 **DETAILS OF THE PROPOSED ACQUISITION**

2.1 **Principal Terms of the Proposed Acquisition**

On 9 July 1999, MBMR entered into the SPA with MBM for the acquisition of 28,000,000 ordinary shares of RM1.00 each representing 20% equity interest in Perodua for a purchase consideration of RM160,000,000 to be wholly-satisfied by the issue of 69,565,000 new ordinary shares in MBMR at an issue price of RM2.30 per new ordinary share.

MBMR shall acquire the ordinary shares in Perodua from MBM free from all charges, liens and other encumbrances and with all rights now or hereinafter attached thereto, including but without limitation, all bonuses, rights, dividends and distributions declared, made or paid in respect thereof as from the date of the SPA.

The new MBMR shares issued as consideration for the Proposed Acquisition shall, upon allotment and issue, rank pari-passu in all respects with the existing MBMR shares but shall not be entitled to any dividends, rights issue or other distribution which may be declared or paid prior to allotment.

There are no assumption of liabilities by MBMR in relation to the Proposed Acquisition.

Subsequently on 17 December 1999, the Securities Commission granted their approval for the Proposed Acquisition with the condition that the purchase consideration of RM160,000,000 be wholly-satisfied by the issue of 64,000,000 new ordinary shares in MBMR at an issue price of RM2.50 instead of the proposed issue of 69,565,000 new ordinary shares in MBMR at an issue price of RM2.30.

2.2 **Basis of Purchase Consideration**

The purchase consideration was arrived at through negotiation on a willing buyer-willing seller basis, taking into account the consolidated NTA of Perodua as at 31 December 1998 of approximately RM580 million. The purchase consideration of RM160 million represents a premium of approximately 38% on the NTA of Perodua.

The issue price of the new MBMR shares of RM2.50, as approved by the SC, represents a premium of 9.65% over the 3-month weighted average market price of MBMR shares up to 8 July 1999 (the market day preceding the date of the announcement to the KLSE on the Proposed Acquisition) of RM2.28. However, the closing price of MBMR on 8 July 1999 was RM2.87, and on this basis, the issue price will be at a discount of 14.8%.

2.3 **Adjustment to Purchase Consideration**

Under the terms of the SPA, MBM has warranted to MBMR that the consolidated NTA of Perodua as at 31 December 1999 (calculated in accordance with the principles adopted by Perodua in the preparation of Perodua's profit and loss accounts and balance sheet for the financial year ended 31 December 1998) will be RM740.0 million ("Warranted NTA Value"). In the event the consolidated NTA value of Perodua as at 31 December 1999 is less than the Warranted NTA Value, MBM shall pay to MBMR a sum representing 20% of the difference between the Warranted NTA Value and the actual NTA value.

Assuming a forecast NTA of RM740 million, the purchase consideration of RM160 million represents a premium of approximately 8% over the forecast NTA of Perodua.

No amount is payable by MBMR to MBM should the NTA value of Perodua as at 31 December 1999 be higher than the Warranted NTA Value.

In the event:-

- a) the NTA value of Perodua as at 31 December 1999 is not available, by 30 September 2000; or
- b) the NTA value of Perodua for the financial year ending 31 December 1999 as determined by Perodua's auditors is calculated using principles different from those adopted by Perodua in the preparation of its audited profit and loss accounts and balance sheet for the financial year ended 31 December 1998

MBMR shall be entitled (but not obliged) to appoint, at its own cost and expense, its own auditors to determine the NTA value at the said date.

In such event, the following shall apply:-

- i) The auditors appointed by MBMR shall, as soon as practicable but not later than sixty (60) days from the date of appointment, deliver a copy of its report in relation to the NTA value of Perodua as at 31 December 1999 to both MBM and MBMR;
- ii) Subject to Item (iii) below, the decision of MBMR's auditors in relation to the NTA value of Perodua as at 31 December 1999 shall be binding on both MBM and MBMR; and
- iii) In the event that MBMR appoints auditors under the circumstances as set out under (a) above and has not made any claim in relation to the difference between the audited consolidated NTA value of Perodua and the Warranted NTA Value but, in the interim, Perodua's auditors and MBMR's auditors have both determined the audited consolidated NTA value of Perodua as at 31 December 1999, MBM and MBMR shall be bound by the audited consolidated NTA value of Perodua as determined by Perodua's auditors.

3.0 INFORMATION ON PERODUA

Perodua was incorporated in Malaysia on 5 February 1980 under the Companies Act, 1965, as UMW (Sabah) Sdn Bhd and assumed its present name on 12 November 1993. Its authorised share capital is RM500,000,000 comprising 500,000,000 ordinary shares of RM1.00 each of which 140,000,000 ordinary shares of RM1.00 each have been issued and paid-up.

Perodua's principal activity is investment holding, while its subsidiaries are involved in the manufacture, assembly and distribution of motor vehicles. The Perodua Group currently manufactures and distributes the Perodua Kancil, Perodua Rusa and Perodua Kembara.

Further information on Perodua is set out in Appendix II of this Circular.

4.0 CONDITIONS FOR THE PROPOSED ACQUISITION

The Proposed Acquisition is subject to the following approvals:-

- (a) the SC, from whom approval was received vide its letter dated 17 December 1999;
- (b) the FIC, from whom approval was received vide its letter dated 9 November 1999;
- (c) the MITI; from whom approval was received vide its letter dated 8 February 2000;
- (d) the shareholders of MBMR at an EGM to be convened;

- (e) the KLSE for the listing of and quotation for the new MBMR Shares to be issued pursuant to the Proposed Acquisition on the Main Board of the KLSE;
- (f) the other shareholders of Perodua and the waiver of any pre-emption or other rights which the other shareholders may have relating to the 20% equity interest in Perodua to be acquired by MBMR; and
- (g) any other relevant authorities.

5.0 EVALUATION OF THE PROPOSED ACQUISITION

Perdana Bankers was not in any way involved in the negotiations on the terms and conditions of the Proposed Acquisition. Perdana Bankers does not own any MBMR shares nor manage any investment funds of MBMR on a discretionary basis. Our evaluation is based on information contained in the EGM Circular, discussions with the officers of MBMR, other relevant information furnished to us by MBMR and their advisers, RHB Sakura, and other publicly available information which we have not independently verified. We have obtained confirmation from the Directors of MBMR that all material facts and information have been disclosed to us and there are no other facts the omission of which would make any information supplied to us misleading.

Perdana Bankers, in evaluating the Proposed Acquisition and in rendering our advice, have taken cognisance of pertinent issues which we believe are important to the assessment of the implications of the Proposed Acquisition which would be of significant relevance and general concern to the minority shareholders of MBMR.

We have not given consideration to specific investment objectives, financial situations and particular needs of any individual shareholder nor any specific group of shareholders of MBMR. Perdana Bankers do not express any opinion on the commercial merits of the Proposed Acquisition which are the sole responsibility of the Board of Directors of MBMR. We recommend that any individual shareholder or any specific group of shareholders of MBMR who may require advice within the context for their individual objectives, financial situation and particular needs should consult their stockbroker, bank manager, solicitor, accountant and/or other professional adviser without delay.

As the Independent Adviser to the minority shareholders of MBMR, Perdana Bankers has taken discernment of those issues which we consider are of relevance to the minority shareholders of MBMR in relation to the Proposed Acquisition.

Accordingly, the scope of our evaluation encompasses the following:-

- Rationale for the Proposed Acquisition;
- Valuation of the purchase consideration of the Proposed Acquisition;
- Financial effects of the Proposed Acquisition;
- Overview of the Malaysian Automotive Industry; and
- Future prospects of MBMR Group after the Proposed Acquisition.

We set out the details of our evaluation of the Proposed Acquisition in the following sections.

5.1 **Rationale for the Proposed Acquisition**

As stated in Section 4 of the EGM Circular, the rationale of the Proposed Acquisition are as follows:-

“MBMR, through its subsidiary Daihatsu, presently owns a 5% equity interest in Perodua. The Proposed Acquisition will accord MBMR the opportunity to increase its direct and indirect shareholding in Perodua to 25.0% in aggregate (effective interest being 23.58%), thus making Perodua an associated company of MBMR upon completion. This will allow MBMR to equity account the results of Perodua in its own accounts. Your Directors view this strategic investment as a means to further enhance the market position of MBMR in the motor vehicle sector and an opportunity to increase its participation in the equity of a reputable national car manufacturer.

According to the Malaysian Motor Traders Association (“MMTA”), the country’s motor vehicle market recorded sales of 288,547 units in 1999 up an impressive 76.1% from last year. In terms of ranking, Perodua ranks only second to the Proton make. Based on the recovery of demand for motor vehicles in Malaysia, the MMTA expects sales in 2000 to touch 350,000 units (*Source : Malaysian Motor Traders Association*). The upsurge in sales is not confined to Malaysia alone. According to a survey conducted in South East Asia, the region managed to register a growth of over 34% in sales for the first seven months of 1999, with Malaysia and Indonesia recording the strongest results. For the top four markets in South East Asia, Proton remains as the top selling vehicle with a 25% market share while Perodua comes third after Proton and Toyota with a 13% market share. (*Source:Business Times 13 September 1999*). Barring unforeseen circumstances, with strong signs that the regional economies coming out of recession, the prospects for growth in demand for motor vehicles is expected to continue for the near future.

Premised on the above, Perdana Bankers is of the view that the rationale for the Proposed Acquisition is for the long term benefits to MBMR and its shareholders in terms of market dominance and profitability.

5.2 **Valuation of the purchase consideration of the Proposed Acquisition**

The purchase consideration was arrived at through negotiation on a willing buyer-willing seller basis, taking into account the earnings potential and the audited consolidated NTA of Perodua as at 31 December 1998 of approximately RM580 million. The purchase consideration of RM160 million represents a premium of approximately 8% on the Warranted NTA Value of Perodua of RM740 million as at 31 December 1999. Based on the audited consolidated NTA of Perodua as at 31 December 1998 of approximately RM580 million, the Proposed Acquisition will be priced at a premium of approximately 38%.

The issue price of the new MBMR shares of RM2.50, as approved by the SC, represents a premium of 9.65% over the 3-month weighted average market price of MBMR shares up to 8 July 1999 (the market day preceding the date of the announcement to the KLSE on the Proposed Acquisition) of RM2.28. This represents a premium of 9.65% over the 3-month weighted average market price. This is in accordance with the guidelines issued by the Securities Commission in that shares issued for a related-party transaction should be issued at a premium from the prevailing market price.

5.3 Financial Effects of the Proposed Acquisitions

5.3.1 Share capital

The effect of the Proposed Acquisition on the issued and paid-up share capital of MBMR is set out below:-

	No of shares
Existing	75,000,000
to be issued pursuant to the Proposed Acquisition	64,000,000
	139,000,000

5.3.2 Substantial Shareholding

The effects of the Proposed Acquisition on the substantial shareholders of MBMR is set out below:-

Shareholders	As at	%	After	%
	17 Jan 2000		Proposed	
	'000		'000	
MBM	38,560	51.41	102,560	73.78
Employees Provident Fund Board	4,052	5.40	4,052	2.92
AM Nominees (Tempatan) Sdn Bhd *	2,826	3.77	2,826	2.03

* Employees Provident Fund Board is the beneficiary of 1,941,000 MBMR Shares

5.3.3 Earnings

Barring unforeseen circumstances, and assuming that the Proposed Acquisition is completed on 31 March 2000, your Directors forecast that the consolidated profit after taxation for the two financial years ending 31 December 2000 of the MBMR Group would be as follows:-

	<----- Financial year ending 31 December ----->			
	Before Proposed Acquisition		After Proposed Acquisition	
	1999	2000	1999	2000
Consolidated profit after taxation (RM'000)	25,671	17,236	25,671	32,488
No of MBMR shares in issue ('000)	75,000	75,000	75,000	123,087 ¹
EPS (sen)	34.23	22.98	34.23	26.39

(1) Based on the weighted average number of MBMR Shares after the Proposed Acquisition

The consolidated profit estimate and forecast of MBMR for the two financial years ended/ending 31 December 1999 and 2000 together with the principal bases and assumptions and the auditors' letter thereon are set out in Appendix V of this Circular.

5.3.4 NTA

For illustrative purposes only, based on the audited consolidated balance sheet of MBMR as at 31 December 1998, the effect of the Proposed Acquisition on the NTA per share of MBMR (assuming the Proposed Acquisition was completed on 31 December 1998) is as follows:-

	As at 31 Dec 1998 RM'000	After Proposed Acquisition RM'000
Share capital	75,000	139,000
Share Premium	12,720	108,120
Retained Earnings	38,641	38,641
Foreign Exchange Reserve	(42)	(42)
Net Reserve Arising on Consolidation	10,812	10,812
Shareholders' funds	137,131	296,531
Less: Expenditure Carried Forward	(12)	(12)
NTA	137,119	296,519
NTA per share	RM1.83	RM2.13

Details of the proforma consolidated balance sheets of MBMR as at 31 December 1998 together with the Reporting Accountants' Letter thereon are set out in Appendix IV of this Circular.

5.4 **Overview of the Malaysian automotive industry**

In spite of the contraction in growth for the period of 1997-1998 as a result of the financial crisis which beset the South East-Asian region, the Malaysian economy is expected to stage a recovery in 1999 with real Gross Domestic Product (“GDP”) expected to record a positive growth of 1.6%. Export growth has shown a recovery since October 1998 and going into the first quarter of 1999. However, given that its prospects remain uncertain, the main source of growth for the Malaysian economy will emanate mainly from domestic demand, supported by the fiscal stimulus. (Source: *White Paper: Status of the Economy by the National Economic Action Council (“NEAC”)*)

According to the Monthly Manufacturing Survey conducted by the Department of Statistics, the manufacturing sector posted a robust performance for the month of July 1999 with sales value rising 18.9% in the same month last year-the strongest year-on-year improvement in 17 months (Source : *Business Times 10 September 1999*). Low interest rates, selective capital controls and fiscal stimulus package are some of the main factors identified by respondents to a survey conducted by NEAC as reasons for the sustained economic recovery (Source : *Star, 14 September 1999*). In the same survey, respondents expect growth to range between 2-3% for 1999. The impact of this recovery is highlighted by the improved results of Edaran Otomobil Nasional Bhd (“EON”), the distributors of Proton cars, which raked in a six (6) fold improvement in pre-tax profit for the half-year ended 30 June 1999. The dramatic performance is attributed to the strong rebound in the economy, increase in consumer confidence and favourable business conditions via lower interest rate for hire-purchase and longer repayment periods.

5.5 **Prospects of MBMR Group after the Proposed Acquisitions**

The Proposed Acquisition will result in the MBMR Group owning a direct and indirect stake of 25% in Perodua, which will enhance the MBMR Group’s profile as a distributor and manufacturer of cars in the domestic motor industry. The result of the Proposed Acquisition is expected to result in synergies in operations for its existing business of distributing Daihatsu and Perodua vehicles, which will enable a more efficient distribution of Perodua vehicles from the point of assembly to the point of distribution and delivery to customers. This will smoothen the assembly-delivery chain and improve order lag-time experienced by potential purchasers of Perodua vehicles. Further, the Proposed Acquisition in Perodua will enable the MBMR Group access to explore the vehicle manufacturing technology which is not available widely in Malaysia and this will undoubtedly extend the potential of MBMR Group to diversify upstream from the role as a distributor to a manufacturer.

6.0 **DIRECTORS’ AND SUBSTANTIAL SHAREHOLDERS’ INTERESTS**

Save as disclosed below, none of the other directors or substantial shareholders of MBMR nor persons connected to them have any interest, direct or indirect, in the Proposed Acquisition.

Tan Sri Dato’ Haji Ahmad Azizuddin bin Haji Zainal Abidin, Dato’ Abdul Rahim bin Abdul Halim, Dato’ Yap Lim Sen and Wong Leong Thean are deemed interested in the Proposed Acquisition by virtue of their directorships in both MBMR and MBM. As such, they have abstained and will be abstaining from participating and voting in all board deliberations pertaining to the Proposed Acquisition.

Shamsir bin Ghazali is also deemed interested in the Proposed Acquisition by virtue of his directorship in MBMR and his designation as General Manager of MBM. As such, he has abstained and will be abstaining from participating and voting in all board deliberations pertaining to the Proposed Acquisition.

MBM is interested in the Proposed Acquisition by virtue of its 51.4% equity interest in MBMR. As such, it will abstain from voting in respect of its direct and indirect interest in any general meeting on the resolution to approve the Proposed Acquisition.

Tan Sri Dato' Haji Ahmad Azizuddin bin Haji Zainal Abidin who is a director and substantial shareholder of MBM is deemed to be a substantial shareholder of MBMR via MBM's 51.4% equity interest in MBMR. As such, he is deemed to be interested in the Proposed Acquisition and therefore, he has abstained and will be abstaining from participating in all board deliberations pertaining to the Proposed Acquisition and will abstain from voting in respect of his direct and indirect interest in any general meeting on the resolution to consider and approve the Proposed Acquisition.

7.0 CONCLUSION AND RECOMMENDATION

The main issue to be considered by the minority shareholders of MBMR is whether they should vote for the Proposed Acquisition. We have in the foregoing sections, set out our evaluation of the Proposed Acquisition. A summary of our evaluation of the Proposed Acquisition is set out below:-

Proposed Acquisition

Rationale	The Proposed Acquisition will accord MBMR the opportunity to increase its direct and indirect shareholdings in Perodua to 25.0% in aggregate, thus making Perodua an associated company of MBMR upon completion. This will allow MBMR to equity account the results of Perodua in its own accounts.
Purchase Consideration	The issue price of the new MBMR shares of RM2.50 represents a premium of 9.65% over the 3-month weighted average market price as at 8 July 1999 (the market day preceding the date of the announcement to the KLSE). This is in accordance with the guidelines issued by the Securities Commission in that shares issued for a related-party transaction should be issued at a premium from the prevailing market prices.
Financial Effects	<p>MBMR Group expects to achieve an incremental annual earnings after amortisation of goodwill, interest and taxation of not less than RM20.5 million for the financial year ending 31 December 2000.</p> <p>The Proposed Acquisition is expected to increase the proforma consolidated NTA per share by approximately 16% to RM2.13.</p>
Malaysian Automotive Industry	The Malaysian automotive industry is set to experience greater competition with the advent of AFTA to be implemented in 2003, which will see direct competition with foreign manufacturers of motor vehicles. The Proposed Acquisition will help consolidate the motor vehicle industry to face up to this competition and through the synergies from these mergers and acquisitions in the motor vehicle industry, consumers will stand to gain from lower prices as a result of greater efficiencies generated.
Future Prospects	MBMR Group will benefit from the availability to tap into the vehicle manufacturing and assembly technology, which will give room for the Group to diversify upstream. Further, with the existing stable business as a distributor of vehicles, the Proposed Acquisition will create better synergies and enhance the image of the MBMR Group as a wholesale manufacturer and distributor of vehicles.

On the basis of the foregoing and our evaluation of the Proposed Acquisition, we are of the opinion that the terms are fair and reasonable and in the long term interests of MBMR and its shareholders and are not detrimental to the minority shareholders of MBMR. Accordingly, we recommend that you vote in favour of the ordinary resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

We wish to highlight that Perdana Bankers does not express any opinion on the commercial merits of the Proposed Acquisition, which remain the sole responsibility of the Board of Directors of MBMR. Furthermore, we also wish to emphasise that the advice of Perdana Bankers as contained in this Independent Advice Letter is addressed to the minority shareholders of MBMR.

Yours faithfully
For and on behalf of
PERDANA MERCHANT BANKERS BERHAD

Yap Fat
Acting Chief Executive Officer

Lim Chung Yin
Vice President
Corporate Finance