

12. INDEPENDENT MARKET RESEARCH REPORT

(Prepared for inclusion in the Prospectus)



VITAL FACTOR CONSULTING
Creating Winning Business Solutions

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27 June 2005

The Board of Directors
Eonmetall Corporation Berhad
(formerly known as Eoncap Corporation Berhad)
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

Dear Sirs/Madam

Assessment of the Secondary Flat Steel Products Industry

The following is a summary of the Assessment of the Secondary Flat Steel Products Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of Eonmetall Corporation Berhad in relation to its proposed listing on the Second Board of the Bursa Malaysia Securities Berhad.

1. Background

- The principal business activities of Eonmetall Group are in the manufacturing of Machinery and Equipment, and Secondary Flat Steel Products including steel racking systems, expanded metal, steel roofing sheets and slotted angles.

2. Structure of the Iron And Steel Industry

- The basic structure of the Iron and Steel industry is as follows:

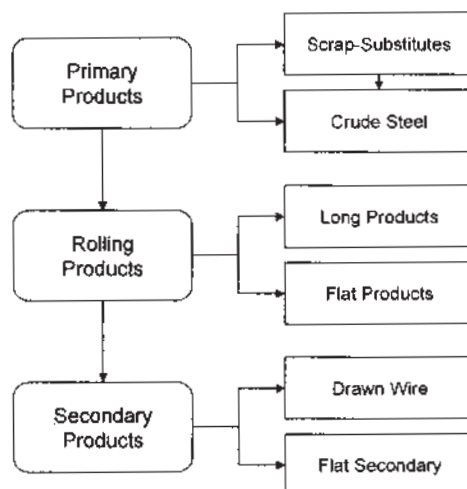


Figure 1 Structure of the Iron and Steel industry in Malaysia

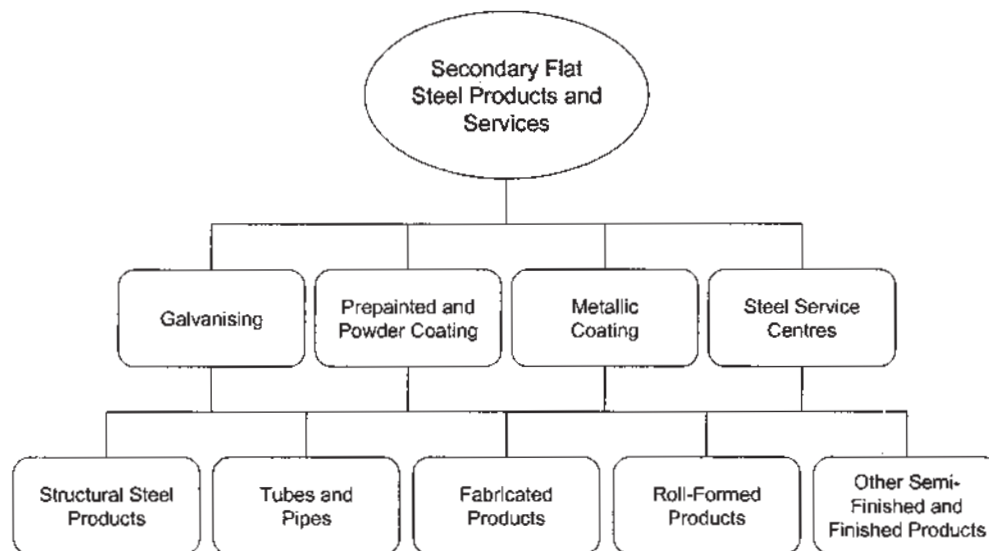

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- The Malaysian Iron and Steel Industry relies on scrap-substitutes in the form of Hot-Briquetted Iron and Direct Reduced Iron as feedstock to produce Crude Steel in the form of billets, blooms and slabs for use in all downstream steel products.
- Rolling products are categorised as either Long or Flat products. Long products are long steel items where they have solid cross-sections in the shape of circles, segments of circles, ovals, rectangles, triangles, or other convex polygons. Examples of long products are bars, wire-rods and sections. Flat products are steel sheets, coils or plates. They include Hot-Rolled and Cold-Rolled Coils, Sheets and Plates.
- Rolling products serve as the feedstock for Secondary Steel products, which are either Long or Flat products of finished or semi-finished goods.
- In 2002, the apparent consumption of the Malaysian Steel Industry amounted to 7.0 million tonnes where Longs represented 51% and Flats represented the remaining 49%. (Source: Malaysian Iron and Steel Industry Federation)

3. Structure of the Secondary Flat Steel Products Industry

- The structure of the Secondary Flat Steel Products Industry is as depicted in the figure below:


Figure 2 Structure of the Secondary Flat Steel Products Industry

- The Apparent Steel Consumption of the Secondary Flat Steel Products sector was approximately 3.4 million tonnes in 2002 (Source: Malaysian Iron and Steel Industry Federation).


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4. Vertical Structure of the Secondary Flat Steel Products Industry

- The vertical structure of the Secondary Flat Steel Products Industry is as follows:

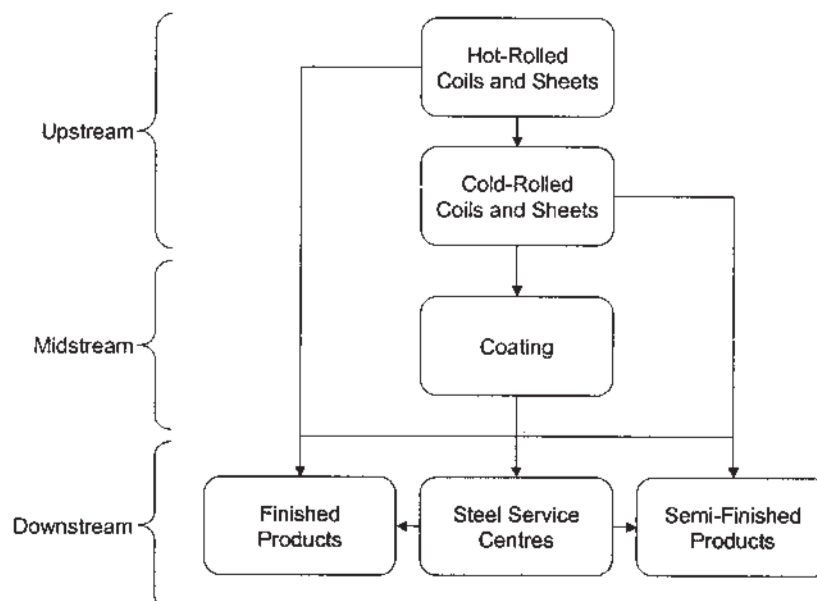


Figure 3 Vertical Structure of the Secondary Flat Steel Products Industry

- The Secondary Flat Steel Products Industry can be segmented into Upstream, Midstream and Downstream.

Upstream

- The upstream activities are primarily focused on producing Cold-Rolled Coils and Sheets from Hot-Rolled Coils and Sheets.
- Both Hot-Rolled and Cold-Rolled Coils and Sheets serve as the feedstock for all downstream manufacturing of Secondary Flat Steel Products.
- In 2002, production of Hot-Rolled Coils and Sheets amounted to 1.4 million tonnes representing a growth of 64.7% while production of Cold-Rolled Coils and Sheets amounted to 551,000 tonnes representing a growth of 25.2%.
- In 2002, imports of Hot-Rolled Coils and Sheets amounted to 549,000 tonnes representing a decline of 25.7% while imports of Cold-Rolled Coils and Sheets amounted to 709,000 tonnes representing a decline of 16.5%.

(Source: Malaysian Iron and Steel Industry Federation)

- The decline in imports and the increase in local production points to the increasing capabilities of Malaysian Steel manufacturers to meet local demand and replace imports.



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Midstream

- The mid-stream activities are focused on coating the Cold-Rolled Coils and Sheets through galvanising, prepainting, powder coating and metallic coating. Metallic coating includes tin plating, silicon electric steel, high-speed steel and stainless steel.
- Coating is required primarily to prevent corrosion, enhancing the properties of the steel, and for aesthetic reasons.

Downstream

- Downstream activities are focused on the manufacturing of finished or semi-finished products from Hot-Rolled and Cold-Rolled Coils and Sheets, and other supporting services.
- There are a wide variety of flat products manufactured including, among others, the following:
 - Building, construction and infrastructure;
 - Consumer electronics and appliances;
 - Fabricated metal products;
 - Processed equipment;
 - Automotive.
- In 2004, there were approximately 130 establishments involved in the downstream activities of Secondary Flat Steel Products (Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd).

5. Industry Linkages

- The Secondary Flat Steel Products Industry has extensive industrial linkages to its upstream, midstream and downstream activities. Some of these linkages are depicted in the figure below:

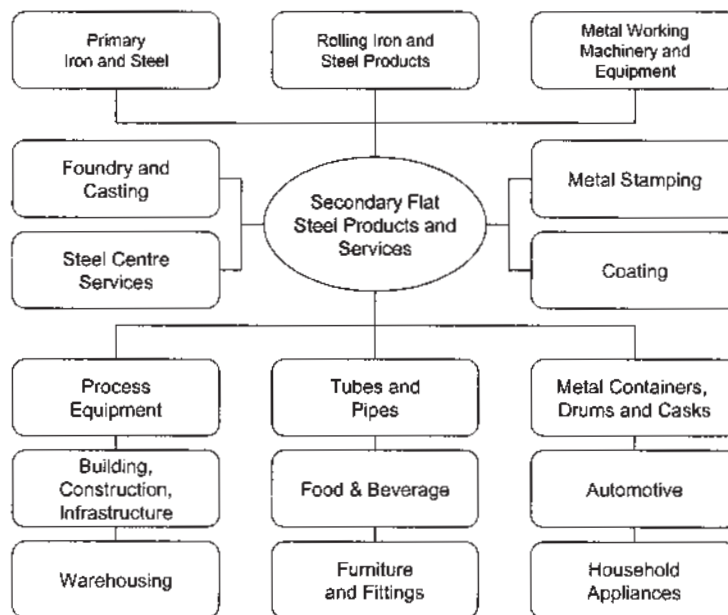


Figure 4 Industrial linkages of the Secondary Flat Steel Products Industry

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- The extensive industrial linkages of the Secondary Flat Steel Products Industry illustrate its critical role in supporting the success of many other dependent industries.
- The Secondary Flat Steel Products Industry plays a significant role as a catalyst for other economic activities, employment and wealth creation.

6. Government Regulation, Policies and Incentives

Government Regulations

- Apart from the normal manufacturing licence, there are no material government laws, regulations and policies that may directly impede the performance and growth of Secondary Steel Producers within a free enterprise environment.

Price controls

- Certain steel products, for example Billets and Steel bars of various diameters, are price controlled items. On the 14 April 2004 the Ministry of Domestic Trade and Consumer Affairs announced that the ceiling price of Billets and Steel bars was raised between 27% and 48% due to an increase in the world price of steel scrap, a key steel processing input (*Source: Ministry of Domestic Trade and Consumer Affairs*).
- Billets are Primary Steel products whose price ultimately influences the price of Steel products.

Import Licences

- In order to afford temporary protection to local manufacturers, the import of certain Steel products are prohibited except under an import license (*Source: Royal Customs and Excise Department of Malaysia*).
- The Ministry of International Trade and Industry is the ministry responsible for issuing import licenses for iron and steel products.
- The Iron and Steel products that are included in the Order include:
 - billets of iron or steel;
 - bars and rods (including wire rods);
 - coated and uncoated hot-rolled flat products of iron and non-alloy steel;
 - coated and uncoated cold-rolled flat products of iron and non-alloy steel;
 - tubes, pipes and hollow profiles, of cast iron or steel;
 - other tubes and pipes (for example, welded, riveted or similarly closed) of iron or steel;*(Source: Royal Customs and Excise Department of Malaysia)*


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Import Duties

- In March 2002, import duties were imposed on certain iron and steel products while selected categories were raised to 50% to protect domestic iron and steel producers from potentially unfair competition from foreign producers particularly from anti-dumping perspective. These duties were imposed in response to safeguard measures imposed by the United States, the European Union and other countries (*Source: Royal Customs and Excise Department of Malaysia*).
- Some of the selected iron and steel products that were raised to 50% included:
 - coated and uncoated hot-rolled flat products of iron and non-alloy steel;
 - coated and uncoated cold-rolled flat products of iron and non-alloy steel;
 - tubes, pipes and hollow profiles, seamless, of iron (other than cast iron) or steel for use in applications other than as high pressure hydro-electric conduits.
 (*Source: Royal Customs and Excise Department of Malaysia*)
- Full import duty exemption on iron and steel is considered for the following seven selected categories of manufacturing activities:
 - automotive and components;
 - electrical and electronics;
 - shipping;
 - petroleum and gas;
 - steel furniture;
 - LMW/FZ companies;
 - exporters.
 (*Source: Malaysian Industrial Development Authority*)

Re-Investment Allowance

- All manufacturing companies that have been in operation for at least 12 months and incur qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related products, and automate its production facilities can obtain a Reinvestment Allowance.
- Eligible manufacturers for Reinvestment Allowance are entitled to the following:
 - The Reinvestment Allowance is 60% of qualifying capital expenditure incurred by the company, and can be offset against 70% of its statutory income for the year of assessment. Any unutilised allowances can be carried forward to subsequent years until fully utilised.
 - The Reinvestment Allowance will be given for a period of 15 consecutive years beginning from the year the first reinvestment is made. Companies can only claim upon completion of the qualifying project, for example after the building is completed or when the plant/machinery is put to operational use. Assets acquired for the reinvestment cannot be disposed during two years from the time of reinvestment.
 (*Source: Malaysian Industrial Development Authority*)

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Environmental Regulations

- The primary form of waste material generated by Secondary Flat Steel Products manufacturers is scrap metal. This waste product can be recycled, and may be sold as scrap metal to dealers. As such, there are no significant environmental issues in relation to the Secondary Flat Steel Products Industry.

7. Supply Dependencies

- The main raw materials used in the manufacture of downstream Steel Products are Flat Rolling Products primarily in the form of Hot-Rolled and Cold-Rolled Steel Sheets, Coils and Plates.
- Production of Flat Rolling Products increased at an average annual rate of 22.8% from 1998 to 2002 to reach 3.5 million tonnes in 2002 (*Source: Malaysian Iron and Steel Industry Federation*)
- Steel is produced in over 80 countries in almost all continents. The diversity of sources available from overseas is unlikely to render any significant or prolonged interruptions of supply.
- The table below illustrates the proportion of locally produced, and imported Flat Rolling Products in 2002:

Product	Production ('000 tonnes)	Imported ('000 tonnes)	Domestic proportion
Hot-rolled sheets & strips	1,400	549	72%
Plates	109	145	43%
Cold-rolled sheets & coils	554	709	44%
Total	2,060	1,403	59%

*(Source: Malaysian Iron and Steel Industry Federation)***Figure 5 Proportion of Local Production to Imports of Flat Rolling products in 2002****8. Demand Dependencies**

- The usage and applications of Secondary Flat Steel Products are extensive and diverse. Some of the user industries include:
 - **Building, construction and infrastructure** such as piping, steel structures, roofing and wall-cladding materials, sections, beams, angles, shapes and others;
 - **Consumer electronics and appliances** such as refrigerators, ovens, washing machines, air-conditioning, computer casing and others;
 - **Fabricated metal products** such as metal furniture, boxes, cast drums, portable gas containers and others;
 - **Processed Equipment** such as heat exchangers, pressure vessels, storage tanks, separators, mounted bullets, boilers and others;

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- **Automotive** including passenger and commercial vehicles.
- As Eonmetall Group is primarily focused on Secondary Flat Steel Products for construction, industrial roofing and walling, and metal furniture including steel racks, the performance of these user industries will have an impact on the demand for Secondary Flat Steel Products Industry in general and for Eonmetall Group's products specifically.

9. Competitive Nature and Intensity

- Operators in the Secondary Flat Steel Products industry face **normal** competitive conditions.
- As with most free enterprise environments, competition is based on a number of factors, including:
 - Quality of products and services;
 - Cost competitiveness;
 - Prompt delivery schedules;
 - Manufacturing capabilities and capacities;
 - Customer convenience.
- Generally, competition among operators in the Secondary Flat Steel Products industry in Malaysia is **moderate**. This is based on the following observations:
 - In 2004, there were approximately 130 operators manufacturing Secondary Flat Steel Products in Malaysia (*Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*). These operators manufacture a proliferation of Secondary Flat Steel Products for a diverse range of industries and applications. Therefore the competitive intensity is somewhat moderated by the diversity.
 - Although there were approximately 130 manufacturers of Secondary Flat Steel Products, each of these would produce or specialise in a different range of products. From that perspective, the number of operators within each product category is a smaller sub-set of the total number of manufacturers of Secondary Flat Steel Products Industry.

10. Key Players in The Industry

- In 2004, there were approximately 130 establishments involved in the manufacture of Secondary Flat Products in Malaysia. (*Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd*).
- Some of the manufacturers of steel racking systems are:
 - Eonmetall Corporation Berhad
 - Dexion South Asia Sdn Bhd
 - Prestar Storage System Sdn Bhd
 - SKB Storage Industries Sdn Bhd
 - Schaefer Systems International Sdn Bhd.

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- Some of the manufacturers of expanded metal are:
 - Eonmetall Corporation Berhad
 - Syarikat Guan Seng Kilang Paku Sdn Bhd
 - UH Industries Sdn Bhd
 - Taihen Metal Industries Sdn Bhd
 - Tashin Steel Sdn Bhd
- Some of the manufacturers of roofing sheets are:
 - Eonmetall Corporation Berhad
 - Asia Roofing Industries Sdn. Bhd (Ajiya Berhad)
 - Associated Steel Industries Sdn Bhd
 - KHP Roofing Sdn Bhd
 - Ascon Metal Industries Sdn Bhd
 - Yung Kong Galvanising Industries Bhd
 - Malaysia Galvanised Iron Works Sdn Bhd
 - Astino (Malaysia) Colour Steel Sheet Sdn Bhd
 - Multi Resources Holdings Bhd
 - Federal Iron Works Sdn Bhd
 - Ooi Joo Kee & Bros Sdn Bhd
 - Pan Asia Steel Sdn Bhd
 - SJ Classic Industries Sdn Bhd
 - Steelgang Industries Sdn Bhd
 - United Seasons Sdn Bhd
 - Valiant Industries Sdn Bhd
 - Bluescope Lysaght Sdn Bhd
- Some of the manufacturers of slotted angle bars are:
 - Eonmetall Corporation Sdn. Bhd.
 - Tuck Hwa
 - Antara Steel Mills Sdn Bhd
 - Leader Steel Sdn Bhd
 - U H Industries Sdn Bhd

*(Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd)***11. Barriers to Entry****Government Policies**

- Apart from the normal manufacturing licence for qualifying companies, there are no other Government regulations prohibiting the entry of operators into the Secondary Steel Products industry.

Capital and Set-up Costs

- The barriers to entry based on capital requirements excluding land and building are **low to moderate**.
- The capital cost of establishing a small-sized plant to manufacture roll-forming products would be approximately RM2 million (excluding land and building). This would incorporate the following:
 - Slitting machine
 - Roll forming machine
 - Expanded metal machine
 - Levelling/Flattening machines

(Source: Eonmetall Group)

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At this level of entry, production would only be semi-automated and therefore highly dependent on labour for manual processing. Production capacity of this size of manufacturing plant would also be limited.

- Capital costs will start to escalate for larger operations.
- Smaller manufacturers will find it difficult to compete with larger manufacturers that have the advantage of economies of scale. In addition, larger manufacturers are also in a stronger position to meet the export market requirements for a higher volume of production.

12. Barriers to Exit

- Barriers to exit for the Secondary Flat Steel Products manufacturers are **low**.
- Machinery used in manufacturing Secondary Flat Steel Products may be sold to other operators within the Secondary Steel Product industry.

13. Life-Cycle, Outlook and Growth Forecast

- The life-cycle of the Secondary Flat Steel Products Industry in Malaysia is in the **growth** phase and is expected to experience continued growth in line with Malaysia's growth in the manufacturing, and building and construction sectors.
- The outlook for the Secondary Flat Steel Products Industry is **favourable**.
- The Secondary Flat Steel Products Industry is expected to grow by approximately **8%** per annum for the next five years.
- The following factors and observations in local production, exports and consumption provide support for the above prognosis.

Local Production of Primary Iron and Steel

- Sales value of Primary Iron and Steel Industries grew at an average annual rate of 21.0% from 2000 to 2004. In 2004, sales value increased by 61.1% to reach approximately RM9.4 billion (*Source: Department of Statistics, Malaysia*);
- Production of Secondary Flat Steel Products in tonnage terms grew at an average annual rate of 6.4% from 1998 to 2002. In 2002, production of Secondary Flat Steel Products grew by 2.4% to reach 1.4 million tonnes (*Source: Malaysian Iron & Steel Industry Federation*).

Production of Selected Downstream Products

- The sales value of the Manufacture of Other Fabricated Metal Products, not elsewhere classified increased at an average annual rate of 8.7% from 2000 to 2004.
- In 2004, sales value of Other Fabricated Metal Products, not elsewhere classified grew by 17.7% to reach approximately RM4.2 billion.

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- Production of Galvanised/Coloured Steel Roofing Sheets as a sub-sector (Galvanised/coloured) of Other Fabricated Metal Products, increased at an average annual rate of 7.2% from 2000 to 2004.
- In 2004, production quantity of Steel Roofing Sheets increased by 9.3% to reach approximately 51,548 tonnes.
- The sales value (ex-factory) production of Racks, Primary of Metal grew at an average annual rate of 27.3% between 2000 and 2002. In 2002, the production of Racks, Primary of Metal amounted to RM31.2 million.
- The sales value of the manufacture of Structural Metal Products grew at an average annual rate of 0.2% from 2000 to 2004. In 2004, the sales value of the manufacture of Structural Metal Products amounted to RM1.2 billion.
- Between 1997 and 2001, the ex-factory sales value of the Manufacture of Machinery for Metallurgy (*formerly categorised as Metalworking Machinery*) grew at an average annual rate of 5.0% per annum. In 2001, the ex-factory sales value of the Manufacture of Machinery for Metallurgy was RM24.6 million.

*(Source: Department of Statistics)***Export Performance**

- In 1998, export volume of Secondary Flat Steel Products amounted to 418,000 tonnes, whilst exports amounted to 814,000 tonnes in 2002. Between 1998 and 2002, export volume of Secondary Flat Steel products increased at an average annual rate of 18.1% *(Source: Malaysian Iron and Steel Industry Federation)*;
- Between 2000 and 2004, the export of Iron and Steel Bars, Angles, Shapes and Sections (including Sheet Piling) grew at an average annual rate of 30.1%. Exports of Iron and Steel Bars, Angles, Shapes and Sections (including Sheet Piling) grew by 40.1% to reach RM772.3 million in 2004.
- Between 2000 and 2004, exports of Flat-Rolled Products, of Iron or Non-alloy Steel, Clad, Plated or Coated grew at an average annual growth rate of 7.6%. Exports of Flat-Rolled Products, of Iron or Non-alloy Steel, Clad, Plated or Coated grew by 27.2% to reach RM751.2 million in 2004.
- The export value of Metal Working Machinery expanded at an average annual rate of 14.7% from 2000 to 2004. In 2004, export value of Metal Working Machinery increased by 11.1% to reach RM798.1 million.

(Source: Department of Statistics, Malaysia)

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Steel Consumption

- Steel consumption is expected to grow by 10% per annum between 2005 and 2007. Steel consumption is expected to reach 9.8 million tonnes in 2005 and 12.9 million tonnes in 2007 (*Source: Malaysian Iron and Steel Industry Federation*).

14. **Drivers of Growth**

- Some of the drivers of growth for the Secondary Flat Steel Products Industry are as follows:
 - **Socio-economic growth** such as Gross Domestic Product growth and population growth will increase demand for industrial, commercial and consumer products requiring Secondary Flat Steel Products. This is because of the diverse applications of Secondary Flat Steel Products, particularly in the construction and infrastructure development sector, and in producing a wide range of consumer products.
 - **Growth in the Building and Construction Industry** which constitutes a major user of Secondary Flat Steel Products, will ultimately have a positive impact on the demand for certain types of Secondary Flat Steel Products.
 - **Increasing affluence of consumers** as reflected in the increase in per capita Gross Domestic Product and disposable income, will increase affordability for consumer goods to further stimulate demand for Secondary Flat Steel Products.
 - **Growth in export market demand** will also continue to generate demand for Secondary Flat Steel Products.
 - **Economic growth and social developments of developing and underdeveloped countries** will provide the next impetus of growth as these countries increase their consumption of products requiring Secondary Flat Steel Products as materials for construction and infrastructure development.

15. **Threats and Risks Analysis**

Use of Alternative Materials

- Secondary Flat Steel Products can be substituted with products manufactured from other materials, for example other metals, plastics, reinforced fibreglass, or composite materials.
- Products manufactured from plastics, in particular plastic injection moulded products, may be engineered and produced at low per-unit cost if mass-produced.


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Mitigating Factors

- While mass-produced plastic injected moulded products have replaced steel as the raw material in the manufacture of certain goods (e.g. automotive bumper bars, casings for many consumer electrical and electronic appliances), there are certain applications which plastics are not suitable. For example, plastics cannot match the cost, heat resistance and tensile strength of drawn steel wire. As such, steel cannot be entirely replaced by other substitute materials.
- Other substitute materials are currently either too expensive or cannot be easily mass produced, for example reinforced fibreglass.

Fluctuations in Prices of Raw Materials

- The steel industry is vulnerable to changes in the international price of scrap steel. The price of scrap steel has increased by 50% from US\$200 per tonne in early 2003 to an average of US\$300 per tonne in 2004 (*Source: Ministry of International Trade and Industry*).
- The recent price increase is widely attributed to the strong demand for steel in China. China is the largest consumer of finished steel products, recording an apparent consumption of 232.4 million tonnes in 2003. Apparent consumption of finished steel is estimated at 263 million tonnes in 2004 (a 13.2% increase). Apparent consumption of finished steel is projected to reach between 280 million tonnes to 290 million tonnes in 2005 (an increase between 6.5% to 10.3%) (*Source: International Iron and Steel Institute*).
- Furthermore, as flat rolling products are commodities, the prices of these commodities are subjected to fluctuations in world prices. In some situations, increases in the price of raw materials are not easily passed onto end-users. This could impact on margins or alternatively, if the increase in cost is passed onto users, the manufacturer may not be price competitive.

Mitigating Factors

- The Government is willing to take steps to address the Iron and Steel industry's concerns over raw material prices. The Ministry of International Trade and Industry has been instructed to:
 - Lift import license requirements on billets and steel bars;
 - Grant import duty exemption;
 - Exercise export control on billets and steel bars.
- The implementation period for these measures is six months effective from 25 February 2004 (*Source: Ministry of International Trade and Industry*).
- Manufacturers with strong financial strength are able to hold stocks of these raw materials to cushion against fluctuations in prices.
- As these raw materials are commodities and therefore subjected to world prices, all manufacturers who use these materials are equally affected.

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Import Regulations

Manufacturers of Secondary Flat Steel Products is affected by import regulations to the extent that the import regulations artificially increase the price of the semi-finished feedstock that the company utilises above what it would cost if these import regulations were not in place. These include:

- An import license issued by the Ministry of International Trade and Industry is necessary to import billets, selected long products and selected flat products;
- Import duties were raised to up to 50% on a range of flat products including tubes.

(Source: Royal Customs and Excise Department of Malaysia)

Mitigating Factors

- All manufacturers that are dependent on steel products as a source of raw materials are equally affected.
- However full import duty exemption are considered for the following seven selected categories of manufacturing activities:
 - automotive and components;
 - electrical and electronics;
 - shipping;
 - petroleum and gas;
 - steel furniture;
 - LMW/FTZ companies;
 - exporters.

(Source: Malaysian Industrial Development Authority)

16. Areas of Growth and Opportunities**Export Opportunities**

- Opportunities exist for Malaysian manufacturers to service overseas based customers. This will open up a significantly larger market and reduce the dependencies on companies who are based in Malaysia.
- With the implementation of AFTA and WTO, competition has become global. As such, manufacturers that are able to address export markets are in a significantly better position to sustain business growth and success.

Opportunities in Downstream Consumer Applications

- Flat Steel is a versatile material that can be used in many downstream applications particularly in consumer-based products. Some of these products include electrical and electronic products, building applications such as roofing, walling, fencing and water storage tanks, automotive and others.
- As such, operators that are already in the manufacture of downstream Secondary Flat Steel Products would find opportunities for diversification and expansion into other consumer-based products.

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17. **Market Size**

- In 2004, the market size of **Secondary Flat Steel Products** was estimated at **4.9 million tonnes** based on consumption in Malaysia.
- In 2004, the market size of **Steel Roofing Sheets** (Galvanised/Coloured) was approximately **RM235 million** based on production in Malaysia.
- In 2004, the market size of **Steel Roofing Sheets** (Galvanised/Coloured) was approximately **51,500 tonnes** based on production quantity in Malaysia.
- In 2004, the market size of **Metal Working Machinery** was estimated at **RM2.6 billion** based on consumption in Malaysia.

(Source: Department of Statistics and Vital Factor Consulting Sdn Bhd)

18. **Market Share**

- In 2004, Eonmetall Group's market share of **Secondary Flat Steel Products** was estimated at **0.3%** based on consumption in tonnage.
- In 2004, Eonmetall Group's market share of **Steel Roofing Sheets** (Galvanised/Coloured) was estimated at **2%** based on production.
- In 2004, Eonmetall Group's market share of **Steel Roofing Sheets** (Galvanised/Coloured) was estimated at **3%** based on production quantity.
- In 2004, Eonmetall Group's market share of **Metal Working Machinery** was estimated at **1%** based on consumption.

(Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd)

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of the readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any companies.

Yours sincerely

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

13. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



EONMETALL GROUP BERHAD

Formerly known as EONCAP CORPORATION BERHAD

(Company No. 631617-D)

27 June 2005

The Shareholders of
Eonmetall Group Berhad
(formerly known as Eoncap Corporation Berhad)
Suite 2-1, 2nd Floor
Menara Penang Garden
42A, Jalan Sultan Ahmad Shah
10050 Penang

Dear Sir/ Madam,

On behalf of the Board of Directors of Eonmetall Group Berhad *(formerly known as Eoncap Corporation Berhad)*, I wish to report after due enquiry that between the period from 31 December 2004 (being the date to which the last audited financial statements of the Company and its subsidiaries ("Group") has been made up) to 27 June 2005 (being a date not earlier than 14 days before the issuance of this Prospectus), that:-

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries;
- (e) in the opinion of the Directors, since the last audited financial statements of the Group, they are not aware of any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (f) save as disclosed in the "Proforma Consolidated Balance Sheets" and the "Accountants' Report" of this Prospectus, there have been no material change in the published reserves or any unusual factors affecting the profits of the Group since the last audited financial statements of the Group.

Yours faithfully,

For and on behalf of the Board of Directors

Eonmetall Group Berhad

(formerly known as Eoncap Corporation Berhad)

A handwritten signature in black ink, appearing to read 'Goh Cheng Huat', is written over a circular stamp.

GOH CHENG HUAT
Managing Director

14. BY-LAWS OF THE ESOS

1. NAME OF SCHEME

This Scheme shall be called the "Eonmetall Group Berhad Employee Share Option Scheme".

2. OBJECTIVES OF SCHEME

The objectives of the Scheme are:-

- (i) to motivate Directors and employees towards better performance through greater productivity and loyalty;
- (ii) to stimulate a greater sense of belonging and dedication since Directors and employees are given the opportunity to participate directly in the equity of the Company;
- (iii) to encourage Directors and employees to remain with the Group thus ensuring that the loss of key personnel is kept to a minimum level;
- (iv) to reward Directors and employees by allowing them to participate in the Company's profitability and eventually realise capital gains arising from any appreciation in the value of the Company's Shares;
- (v) to recognise the contribution of Directors and employees whose services are valued and considered vital to the operations and continued growth of the Group; and
- (vi) in respect of Non-Executive Directors, to attract and retain capable individuals whose contributions are significant to the Group in light of the responsibilities and liabilities inherent in their appointment, albeit in Non-Executive capacities.

3. DEFINITIONS AND INTERPRETATION

3.1 In these By-Laws, the following terms and expressions shall have the following meanings:-

- "Act" - The Companies Act, 1965 or any statutory modification, amendment or re-enactment thereof for the time being in force
- "Board" - The Board of Directors of the Company
- "Bursa Depository" or "Depository" - Bursa Malaysia Depository Sdn Bhd (165570-W)
- "Bursa Securities" - Bursa Malaysia Securities Berhad (635998-W)
- "By-Laws" - The rules, regulations, terms and conditions of the ESOS
- "CDS" - Central Depository System
- "Company" or "Eonmetall" - Eonmetall Group Berhad (*formerly known as Eoncap Corporation Berhad*) (631617-D)
- "Date of Acceptance" - The date whereupon the ESOS Committee shall receive the written notice from the Eligible Person accepting the Offer in accordance with By-Law 8.1

14. BY-LAWS OF THE ESOS (Cont'd)

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|-------------------------------|--|
| "Date of Offer" | - The date on which an Offer is made by the ESOS Committee to an Eligible Person in the manner provided in By-Law 7 |
| "Director(s)" | - A natural person who holds a directorship in the Eonmetall Group (including Non-Executive Directors and Independent Directors) |
| "Effective Date" | - The date on which the Scheme comes into force as provided in By-Law 19.1 |
| "Eligible Person(s)" | - An Employee or Director who fulfils the condition of eligibility as stipulated in By-Law 5 |
| "Employee(s)" | - A natural person who is employed by and on the payroll of any company in the Group |
| "ESOS" | - Employee share option scheme of up to fifteen percent (15%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme |
| "ESOS Committee" | - A committee comprising of Director(s) and/or senior management personnel appointed by the Board to administer the Scheme |
| "Grantee(s)" | - An Eligible Person who has accepted an Offer in the manner provided in By-Law 8 |
| "Group" or "Eonmetall Group" | - The Company and its subsidiaries as defined in Section 5 of the Act which are not dormant. Subsidiaries include subsidiaries which are existing as at the Effective Date and subsidiaries which are incorporated or acquired at any time during the duration of the Scheme but exclude subsidiaries which have been divested in the manner provided in By-Law 17.2 |
| "Listing Requirements" | - Listing Requirements of Bursa Securities including any amendments thereto that may be made from time to time |
| "Market Day" | - Any day between Monday and Friday (both days inclusive) which is not a public holiday and on which the Bursa Securities is open for the trading of securities |
| "Maximum Allowable Allotment" | - The maximum number of Options that can be offered to an Eligible Person under the Scheme in the manner provided in By-Law 6 |
| "Non-Executive Directors" | - A Director(s) who is not on the payroll and who is not involved in the day-to-day management of the Group |
| "Offer" | - An offer made in writing by the ESOS Committee to any Eligible Person in the manner provided in By-Law 7 |
| "Offer Period" | - The period stipulated in By-Law 7.3 |

14. BY-LAWS OF THE ESOS (Cont'd)

- “Option(s)” - The contract constituted by an acceptance by an Eligible Person in the manner provided in By-Law 8 of an Offer made to such Eligible Person by the ESOS Committee pursuant to By-Law 7. Each Option shall entitle an Eligible Person to subscribe for one (1) Share upon its exercise
- “Option Period” - The period commencing from the Date of Offer and expiring five (5) years therefrom or upon the date of expiry of the Scheme as provided in By-Law 19.1, whichever is the earlier. In the event that the duration of the Scheme shall be extended or the Scheme shall be renewed, the date of expiry of the Scheme shall be the date of expiry as so extended or renewed
- “Record Date” - In relation to any of the transactions (including but not limited to any consolidation, subdivision, conversion or issue of Shares and capital distribution to shareholders) described in By-Law 15 shall mean the date as at the close of business on which persons must be registered as shareholders in order to participate in such transactions
- “Scheme” - The scheme for the grant of Options to Employees to subscribe for new Shares upon the terms set out herein known as the “Eonmetall Group Berhad Employee Share Option Scheme”
- “Share(s)” - Ordinary shares of RM0.50 each
- “Share Buyback” - The purchase by the Company of its own Shares pursuant to Section 67A of the Act
- “Subscription Price” - The price at which a Grantee shall be entitled to subscribe for each new Share as calculated in accordance with the provisions of By-Law 11
- 3.2 For the purposes of these By-Laws, all references made to “Bursa Securities” and “Listing Requirements” shall where the context so permits and requires, include or refer to such other relevant authority(ies) and such acts, enactments, rules, regulations and guidelines currently or from time to time hereafter in force affecting the valid implementation and continuation of the Scheme in accordance with the provisions of the By-Laws.
- 3.3 Headings are for ease of reference only and do not affect the meaning of a By-Law.
- 3.4 References to the provisions of statutes or Listing Requirements include such provisions as amended or re-enacted from time to time and references to statutes or Listing Requirements include any consolidation, replacement or revision of the same.
- 3.5 Words importing the masculine gender shall include the feminine and neuter genders and vice versa.
- 3.6 Words importing the singular number shall include the plural number and vice versa.
- 3.7 If an event is to occur on a stipulated day, which is not a Market Day, then the stipulated day will be taken to be the first Market Day after that day.

14. BY-LAWS OF THE ESOS (Cont'd)

- 3.8 Any liberty or power which may be exercised or any determination which may be made hereunder by the ESOS Committee shall be exercised in the ESOS Committee's absolute and unfettered discretion and the ESOS Committee shall not be under any obligation to give any reason therefore except as may be required by the relevant authorities.

4. TOTAL NUMBER OF OPTIONS AVAILABLE UNDER SCHEME

- 4.1 The total number of Options offered under the Scheme shall not exceed fifteen percent (15%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme as provided in By-Law 19.1 unless the issued and paid-up share capital of the Company is diminished as a result of a Share Buyback or an undertaking of any other corporate proposal ("**Other Corporate Proposals**"), in which event, the Options granted prior to the diminution of the issued and paid-up share capital shall remain valid and exercisable in accordance with the terms and conditions of the Scheme.
- 4.2 In the event of a Share Buyback or Other Corporate Proposals, the following provisions shall apply:-
- (i) If the number of Options granted by the Company as at the date of cancellation of Shares so purchased is greater than fifteen percent (15%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme, after such cancellation, the ESOS Committee shall not make any further Offers; and
 - (ii) If the number of Options granted by the Company as at the date of cancellation of Shares so purchased is less than fifteen percent (15%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme, after such cancellation, the ESOS Committee may make further Offers only until the total number of Options granted by the Company is equivalent to fifteen percent (15%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme, after such cancellation.
- 4.3 The Company will keep available sufficient unissued Shares in its authorised share capital to satisfy all outstanding Options throughout the duration of the Scheme.

5. ELIGIBILITY

- 5.1 A natural person who is eligible to participate in the Scheme ("**Eligible Person**") is as follows:-
- (i) An Employee must be a Malaysian Citizen of at least eighteen (18) years of age on the Date of Offer;
 - (ii) A Director must be at least eighteen (18) years of age on the Date of Offer and need not be a Malaysian;
 - (iii) An Employee must have been confirmed on the Date of Offer and falls within any other criteria that the ESOS Committee may from time to time determine at its discretion;

14. BY-LAWS OF THE ESOS (Cont'd)

- (iv) If an Employee is employed by a company acquired by the Group during the duration of the Scheme and becomes a subsidiary of the Company upon such acquisition, the Eligible Person in the said company shall be taken into account stipulated in the paragraph (iii) above; and
 - (v) If an Employee is serving under an employment contract, the contract should be for a duration of at least two (2) years, provided always that if such an Employee has previously been employed permanently for a continuous period of at least two (2) years, then there shall be no minimum contractual duration imposed.
- 5.2 Directors who represent the Government or Government institution/ agencies and Government employees who are serving in the public service scheme as defined under Article 132 of the Federal Constitution are not eligible to participate in the Scheme.
- 5.3 No Employee or Director shall participate at any time in more than one (1) employee share option scheme by any company within the Group.
- 5.4 Eligibility under the Scheme does not confer a Director or an Employee a claim or right to participate in or any right whatsoever under the Scheme and a Director or an Employee does not acquire or have any right over or in connection with the Options or Shares unless an Offer has been made by the ESOS Committee to the Director or Employee and such Director or Employee has accepted the Offer in accordance with the terms of the Offer and the Scheme.
- 5.5 Transfer of an Eligible Person within the Group shall be dealt with in the following manner:-
- (i) An Eligible Person who is eligible to participate in any of the other scheme and is subsequently transferred to Eonmetall or any company within the Eonmetall Group which does not have its own employee share option scheme, may be eligible to participate in the Scheme, provided that he duly fulfils the criteria set out in By-Law 5.1 and provided further that he shall have exercised all Options granted to him under any of the other scheme or he shall have elected in writing to forego participation in any of the other scheme and surrendered all unexercised Options under any of the other scheme within the time frame stipulated by his employer and thereafter all the unexercised Options surrendered by him under any of the other scheme shall become null and void.
 - (ii) An Eligible Person who is subsequently transferred to any company within the Eonmetall Group which has its own employee share options scheme is subject to the following:-
 - (a) If the said Eligible Person has already exercised all of the Options granted to him under the Scheme, he may be eligible to participate in any of the other scheme subject to the By-Laws of the other scheme;
 - (b) If the said Eligible Person has exercised part of or has not exercised any Option granted to him under the Scheme, he shall be entitled to either:-
 - (aa) Elect in writing to continue to participate in the Scheme, in which event he shall not be eligible to participate in any of the other scheme until he shall have exercised all Options granted to him under the Scheme; or

14. BY-LAWS OF THE ESOS (Cont'd)

- (bb) Elect in writing to participate in the other schemes if he is eligible for the same, in which event he shall cease to be eligible to participate in the Scheme and shall surrender all unexercised Options under the Scheme and notwithstanding anything to the contrary herein contained, all the unexercised Options granted to him under the Scheme shall become null and void.

If no election is made by the said Eligible Person in writing, within the timeframe stipulated by such employer of the said Eligible Person, then he shall be deemed to have elected to continue to participate in the Scheme and to forego participation in the other schemes until he shall have exercised all Options granted to him under the Scheme.

- 5.6 Employees of dormant companies within the Group are not eligible to participate in the Scheme.
- 5.7 An employee who during the duration of the Scheme becomes an Eligible Person may be eligible to a grant of an Option under the Scheme if decided by the ESOS Committee.
- 5.8 The grant of Options under By-Law 5.7 shall be from the balance of the Options available under the Scheme subject to the provisions of By-Laws 4.1, 4.2 and 6.1. The ESOS Committee has the discretion not to make additional grant in the event the balance of the Options is inadequate to make a meaningful additional allotment.

6. MAXIMUM ENTITLEMENT AND BASIS OF ALLOTMENT

- 6.1 Subject to By-Law 4.1, the basis of allocation of the number of Shares which may be comprised in an Option and the Maximum Allowable Allotment shall be entirely at the discretion of the ESOS Committee. However, the ESOS Committee will ensure that there should be equitable allocation to the various grades of Eligible Persons, such that:-
- (i) not more than fifty percent (50%) (or such percentage as allowable by the relevant authorities) of the new Shares available under the Scheme should be allocated, in aggregate, to Directors and senior management; and
 - (ii) not more than ten percent (10%) (or such percentage as allowable by the relevant authorities) of the new Shares available under the Scheme shall be allocated to any individual Eligible Person who, either singly or collectively through persons connected with the Eligible Person, holds twenty percent (20%) or more in the issued and paid-up share capital of the Company.

For the purposes of these By-Laws, unless the context otherwise requires, "persons connected with an Eligible Person" shall have the meaning given in relation to persons connected with a Director or major shareholder as defined in paragraph 1.01 of the Listing Requirements.

- 6.2 Notwithstanding By-Law 6.1, the number of Options to be offered to each Eligible Person shall, subject to each Employee's Maximum Allowable Allotment, be at the discretion of the ESOS Committee. In exercising its discretion, the ESOS Committee shall take into consideration the seniority, performance and length of service of each Eligible Person and any other consideration deemed fit by the ESOS Committee. The decision of the ESOS Committee shall be final and binding.

14. BY-LAWS OF THE ESOS (Cont'd)

- 6.3 Notwithstanding anything to the contrary herein contained, the ESOS Committee shall not in any way be obliged to allocate or to grant an Option to any Eligible Person.
- 6.4 (i) In the event that an Eligible Person is redesignated or promoted to a higher category, the Maximum Allowable Allotment applicable to such Eligible Person shall, upon such redesignation or promotion, be the Maximum Allowable Allotment for the category corresponding to his new grade.
- (ii) In the event that an Eligible Person is redesignated or demoted to a lower category, his Maximum Allowable Allotment shall, upon such redesignation or demotion, be reduced accordingly to that of the category corresponding to his new grade, provided always that:-
- (a) his Maximum Allowable Allotment shall be reduced in accordance with the category corresponding to his new grade;
- (b) in the event that the total number of Options which has been accepted by him up to the date he is redesignated or demoted to a lower category is greater than his Maximum Allowable Allotment under such lower category, he shall be entitled to continue to hold and to exercise all unexercised Options held by him on such date but he shall not be entitled to accept any outstanding Offers or to be offered any further Option unless and until he is subsequently moved to a higher category so that his Maximum Allowable Allotment is increased to an amount greater than the total number of Options which has been accepted by him; and
- (c) in the event that the total number of Options which has been accepted by him up to the date he is redesignated or demoted to the lower category is less than his Maximum Allowable Allotment under such lower category, he shall be entitled to continue to hold and to exercise all unexercised Options held by him on such date and subject to By-Law 6.1, to be offered or granted further Options up to his Maximum Allowable Allotment under such lower category.
- 6.5 The ESOS Committee may make more than one (1) Offer to an Eligible Person provided that the aggregate number of Options offered to an Eligible Person throughout the entire duration of the Scheme does not exceed his Maximum Allowable Allotment.
- 6.6 The ESOS Committee may make an offer to a Director in respect of his holdings as a Director in only one (1) company within the Group, notwithstanding that he is a Director of more than one (1) company within the Group.
- 6.7 Wherein required by the Listing Requirements, the ESOS Committee shall ensure that the allocation of Options shall be verified by the audit committee of the Company, as being in compliance with the criteria as set out in By-Laws 6.1 and 6.2, at the end of each financial year of the Company. In this respect, the ESOS Committee shall ensure that a statement is made by the audit committee, verifying such allocation, is included in the Company's annual report.

14. BY-LAWS OF THE ESOS (Cont'd)

7. OFFER

- 7.1 During the duration of the Scheme, the ESOS Committee may at its discretion at any time and from time to time make an Offer in writing to an Eligible Person, subject to the Employee's Maximum Allowable Allotment. Each Offer shall be in a multiple of one hundred (100) new Shares or such other units of Shares constituting one (1) board lot as may be determined by the ESOS Committee, the minimum being one hundred (100) new Shares or such other units of Shares constituting one board lot as may be determined by the ESOS Committee. The Options shall only be accepted in multiples of one hundred (100) new Shares or such other units of Shares constituting one board lot as may be determined by the ESOS Committee.
- 7.2 The ESOS Committee shall state the following particulars in the letter of Offer:-
- (i) the number of Options that are being offered to the Eligible Person;
 - (ii) the number of new Shares which the Eligible Person shall be entitled to subscribe for upon the exercise of the Options being offered;
 - (iii) the Option Period;
 - (iv) the Subscription Price in accordance with By-Law 11; and
 - (v) the closing date for acceptance of the Offer.
- 7.3 An Offer shall be valid for acceptance for a period of thirty (30) days from the Date of Offer or such longer period as may be determined by the ESOS Committee on a case-by-case basis at its discretion ("**Offer Period**").
- 7.4 Notwithstanding anything contained in these By-Laws, no Offer shall be made to any Director of the Company unless such Offer and the related allotment of new Shares have previously been approved by the shareholders of the Company in general meeting.
- 7.5 No Offer shall be made to any Director and/or major shareholder of the Company or persons connected with any Director and/or major shareholder who are Eligible Persons unless such Offer and the related allotment of new Shares have previously been approved by the shareholders of the Company in a general meeting. For the purpose of this By-Law, "persons connected with a Director and/or major shareholder" shall have the meaning given in relation to persons connected with a Director or major shareholder as defined in paragraph 1.01 of Listing Requirements.
- 7.6 For the avoidance of doubt, there shall be no legal, equitable or other obligation whatsoever on the part of the ESOS Committee to consider making, or to make, any Offer to any or all of the Eligible Persons.

8. ACCEPTANCE

- 8.1 An Offer shall be accepted by an Eligible Person within the Offer Period by written notice to the ESOS Committee accompanied by a payment to the Company of a nominal non-refundable consideration of Ringgit Malaysia One (RM1.00) only for the acceptance of the Options.
- 8.2 The Company shall within thirty (30) days of the Date of Acceptance issue to the Eligible Person an Option certificate stating, inter alia, the number of Option granted, the Subscription Price and the Option Period.
- 8.3 If an Offer is not accepted in the aforesaid manner, the Offer shall automatically lapse upon the expiry of the Offer Period and be null and void and be of no further force and effect.

14. BY-LAWS OF THE ESOS (Cont'd)

9. NON-TRANSFERABILITY

- 9.1 An Option is personal to the Grantee and subject to the provisions of By-Laws 14.2 to 14.6, is exercisable only by the Grantee personally during his lifetime whilst he is in the employment of any company in the Group.
- 9.2 An Option shall not be transferred, assigned or otherwise disposed of by the Grantee save and except in the event of the death of the Grantee as provided under By-Law 14.6.

10. EXERCISE OF OPTIONS

- 10.1 An Option granted to a Grantee under the Scheme is, subject to the provisions of By-Laws 10.10, 14.1, 16 and 17, exercisable only by that Grantee during his lifetime and whilst he is in the employment of the Group and within the Option Period.
- 10.2 The ESOS Committee may impose conditions in relation to the annual percentage of Options exercisable from the Date of Acceptance.
- 10.3 A Grantee shall exercise the Options granted to him in multiples of and not less than one hundred (100) new Shares or such other units of Shares constituting one (1) board lot as may be determined by the ESOS Committee save and except where a Grantee's balance of Options exercisable in accordance with these By-Laws shall be less than one hundred (100) new Shares or such other units of Shares constituting one (1) board lot as may be determined by the ESOS Committee, in which case the said balance shall, if exercised, be exercised in a single tranche. Such partial exercise of an Option shall not preclude the Grantee from exercising the Option as to the balance of any new Option, if any, which he is entitled to subscribe under the Scheme.
- 10.4 An Eligible Person serving under an employment contract may exercise any remaining Options exercisable in the year (the particular year of which his contract is expiring) within sixty (60) days before the expiry of the employment contract if the remaining duration of the employment contract from the date on which the Options are granted is less than the Option Period.
- 10.5 Options which are exercisable in a particular year but are not exercised may be carried forward to subsequent years subject to the Option Period. All unexercised Options shall be exercisable in the last year of the Option Period or in the period allowed or approved by ESOS Committee as described in By-Law 14. Any Option which remain unexercised at the expiry of the Option Period shall be automatically terminated.
- 10.6 A Grantee shall exercise his Option by notice in writing to the Company stating the number of Option exercised. The procedure for the exercise of Options to be complied with by a Grantee shall be determined by the ESOS Committee from time to time.
- 10.7 Every notice of exercise shall state the number of new Shares an Eligible Person intends to subscribe and be accompanied with the remittance for the full amount of the subscription monies payable in respect thereof PROVIDED THAT the number of new Shares stated therein shall not exceed the amount exercisable by such Eligible Person.

14. BY-LAWS OF THE ESOS (Cont'd)

- 10.8 Within ten (10) Market Days of receipt of such notice and payment, or such other period as may be prescribed by the Bursa Securities and subject to the Articles of Association of the Company, the Company shall allot and/or issue the relevant number of new Shares, despatch a notice of allotment to the Grantee and then make an application for the quotation of the said new Shares, upon and subject to the provisions of the Listing Requirements and Articles of Association of the Company. The said new Shares will be credited directly into the CDS account of the Grantee or his financier, as the case may be. No physical certificates will be issued. For Grantees who do not have CDS account, such Grantees are required to open a CDS account at their own expense before they can exercise their Options.
- 10.9 Any failure to comply with the foregoing provisions and/or to state the CDS account number in the notice of exercise or inaccuracy in the CDS account number shall result in the notice of exercise being rejected at the discretion of the ESOS Committee. In the case of rejection of the notice of exercise for any reason whatsoever, the Grantee shall be informed of such rejection. The ESOS Committee shall inform the Grantee of the rejection of the notice of exercise within ten (10) Market Days from the date of receipt thereof and the Grantee shall then be deemed not to have exercised his Option.
- 10.10 Notwithstanding anything to the contrary herein contained in these By-Laws, the ESOS Committee shall have the right at its discretion by notice in writing to that effect, to suspend the right of any Grantee who is being subjected to disciplinary proceedings (whether or not such disciplinary proceedings may give rise to a dismissal or termination of service of such Grantee) to exercise his Option pending the outcome of such disciplinary proceedings. In addition to this right of suspension, the ESOS Committee may impose such terms and conditions as the ESOS Committee shall deem appropriate in its discretion, on the right to exercise his Option having regard to the nature of the charges made or brought against such Grantee, PROVIDED ALWAYS that:-
- (i) in the event such Grantee is found not guilty of the charges which gave rise to such disciplinary proceedings, the ESOS Committee shall reinstate the right of such Grantee to exercise his Option;
 - (ii) in the event such Grantee is found guilty resulting in the dismissal or termination of service of such Grantee, the Option shall immediately cease without notice, upon pronouncement of the dismissal or termination of service of such Grantee; and
 - (iii) in the event such Grantee is found guilty but not dismissed or termination of service is recommended, the ESOS Committee shall have the right to determine at its absolute discretion whether or not the Grantee may continue to exercise his Option or any part thereof and if so, to impose such terms and conditions as it deems appropriate, on such exercise.
- 10.11 The Company, the Board (including Directors that has resigned but were on the Board during the Option Period) and the ESOS Committee shall not under any circumstances be held liable to any person for any costs, losses, expenses, damages or liabilities howsoever arising in the event of any delay on the part of the Company in procuring the Bursa Securities to list the new Shares subscribed for by a Grantee or for any delay in crediting the said new Shares into the Grantee's CDS account or any other matter or dealing which is outside the control of the Company.

14. BY-LAWS OF THE ESOS (Cont'd)

11. SUBSCRIPTION PRICE

The Subscription Price shall be calculated in the following manner:-

- (i) Where the Option is granted before the Company is listed on the Bursa Securities then the price at which the Grantee is entitled to subscribe for the Shares shall not be less than the price of the Shares set for the offer for sale and/or public issue of the Shares for the purpose of listing of the Company on the Bursa Securities ("**Offer Price**"); or
- (ii) Where the Option is granted after the Company is listed on the Bursa Securities, the price at which the Grantee is entitled to subscribe for the Shares shall be a price to be determined by the Board upon the recommendation of the ESOS Committee which is at a discount of not more than ten percent (10%) from the weighted average market price of the Shares as shown in the daily official list issued by the Bursa Securities for the five (5) Market Days immediately preceding the Date of Offer, if deemed appropriate, or such lower or higher limit as approved by the relevant authorities.

subject to such adjustments as stipulated under By-Law 15 herein or as may be amended by the relevant authorities from time to time.

12. RIGHTS ATTACHING TO SHARES

The new Shares to be allotted upon any exercise of the Option will upon allotment and issue rank pari passu in all respect with the existing issued Shares of the Company except that the new Shares so issued shall **NOT** be entitled for any dividend, rights, allotment and/or other distribution declared, made or paid to shareholders unless the new Shares so allotted have been credited into the relevant securities accounts of the shareholders maintained by the Bursa Depository before the entitlement date and will be subject to all provisions of the Articles of Association of the Company relating to the transfer, transmission and otherwise.

13. HOLDING OF SHARES

The new Shares to be issued and allotted to a Grantee pursuant to the exercise of an Option under the Scheme will not be subject to any retention period or restriction on transfer. However, the Company encourages Grantees to hold the said new Shares subscribed for by them for as long as possible although a Grantee or his financier, as the case may be, may sell the Shares subscribed for by the Grantee at any time after such new Shares have been credited to the Grantee's or his financier's CDS account.

A Grantee who is a Non-Executive Director must not sell, transfer or assign any new Shares obtained through the exercise of Options offered to him pursuant to this ESOS within one (1) year from the Date of Offer.

14. TERMINATION OF EMPLOYMENT

14.1 Subject to By-Laws 14.2 to 14.5, an Option which has not been exercised by the Grantee shall be automatically terminated in the following circumstances:-

- (i) termination of employment of the Grantee with the Group for any reason whatsoever, in which event the Option shall be automatically terminated on the day the Grantee notifies his employer of his resignation or on the Grantee's last day of employment, whichever is the earlier;

14. BY-LAWS OF THE ESOS (Cont'd)

- (ii) bankruptcy of the Grantee, in which event the Option shall be automatically terminated on the date a receiving order is made against the Grantee by a court of competent jurisdiction; and
- (iii) winding up or liquidation of the Company, in which event the Options shall be automatically terminated on the following date:-
 - (a) in the case of a voluntary winding up:-
 - (aa) the date on which a provisional liquidator is appointed by the Company; or
 - (bb) the date on which the shareholders of the Company passed a resolution to voluntarily wind-up the Company; or
 - (b) in the case of an involuntary winding up, the date on which an order for winding up is made against the Company;

whichever shall be applicable.

14.2 A Grantee may apply in writing to the ESOS Committee to be allowed to continue to hold and to exercise any Option held by him upon termination of employment with the Group, in the following circumstances:-

- (i) retirement upon or after attaining the age in accordance with the Company's retirement policy; or
- (ii) retirement before the age specified under the above said retirement policy, with the consent of his employer; or
- (iii) ill health, injury or disability; or
- (iv) redundancy, retrenchment or voluntary separation scheme; or
- (v) transfer to any company outside the Group at the direction of the Company; or
- (vi) any other circumstances as may be determined by the ESOS Committee from time to time.

14.3 Applications under By-Law 14.2 shall be made:-

- (i) in a case where By Law 14.2(i), (ii) or (vi) is applicable, before the Grantee's last day of employment. The Grantee may exercise Options at any time before his last day of employment subject to the provisions of By-Law 10. In the event that no application is received by the ESOS Committee before the Grantee's last day of employment, any unexercised Option held by the Grantee on his last day of employment shall be automatically terminated;
- (ii) in a case where By-Law 14.2(iii) is applicable, within one (1) month after the Grantee notifies his employer of his resignation due to ill health, injury or disability. The Grantee may exercise Options within the said period of one (1) month subject to the provisions of By-Law 10. In the event that no application is received by the ESOS Committee within the said period of one (1) month, any unexercised Option held by the Grantee at the expiry of the said period shall be automatically terminated;

14. BY-LAWS OF THE ESOS (Cont'd)

- (iii) in a case where By-Law 14.2(iv) is applicable, within one (1) month after the Grantee is notified that he will be retrenched or, where he is given an offer by his employer as to whether he wishes to accept retrenchment upon certain terms, within one (1) month after he accepts such offer. The Grantee may exercise Options within the said period of one (1) month subject to the provisions of By-Law 10. In the event that no application is received by the ESOS Committee within the said period of one (1) month, any exercised Option held by the Grantee at the expiry of the said period shall be automatically terminated; and
 - (iv) in a case where By-Law 14.2(v) is applicable, within one (1) month after the Grantee is notified that he will be transferred to a company outside the Group. The Grantee may exercise Options within the said period of one (1) month subject to the provisions of By-Law 10. In the event that no application is received by the ESOS Committee within the said period of one (1) month, any unexercised Option held by the Grantee at the expiry of the said period shall be automatically terminated.
- 14.4 The ESOS Committee shall consider applications under By-Law 14.2 on a case to case basis and may in its discretion approve or reject any application in whole or in part without giving any reason therefor and may impose any term and condition in granting an approval. The decision of the ESOS Committee shall be final and binding. In the event that the ESOS Committee approves an application in whole or in part, the Grantee may exercise the Options, which are the subject of the approval within the relevant Option Period and subject to the provisions of By-Law 10. Any unexercised Option in respect of which an application is rejected shall be automatically forfeited by the Company and terminated on the date of termination stipulated in the relevant paragraph of By-Law 14.3 or on the date of the ESOS Committee's decision, whichever is the later.
- 14.5 In the event that the ESOS Committee receives an application under By-Law 14.2 after the expiry of the relevant period under By-Law 14.3, the ESOS Committee shall take into account the reasons given by the Grantee for the delay in making the application, in exercising the ESOS Committee's discretion and powers under By-Law 14.4. In the event that the ESOS Committee approves the application in whole or in part, the Company shall make an Offer in respect of the unexercised Options which are the subject of the approval to the Grantee and such Options offered, if accepted by the Grantee shall be exercisable:-
- (i) only within the Option Period of those Option which were terminated due to the Grantee's delay in making the application;
 - (ii) in accordance with the provisions of By-Law 10 as applicable in respect of such terminated Option; and
 - (iii) at the original Subscription Price applicable in respect of such terminated Option.
- 14.6 In the event that a Grantee dies before the expiration of the Option Period and at the date of his death held any Option, the following provisions shall apply:-
- (i) such Options may be exercised by the legal or personal representative of the Grantee ("**Representative**"):-
 - (a) within twelve (12) months after the Grantee's death ("**Permitted Period**"); or
 - (b) within the Option Period;

14. BY-LAWS OF THE ESOS (Cont'd)

whichever expires first. For the avoidance of doubt, it is hereby stated that By-Law 10 shall be applicable in this event;

- (ii) In the event that the Option Period expires before the Permitted Period, any Option which have not been exercised by the Representative at the expiry of the Option Period shall be automatically terminated and the Representative shall not be entitled to apply for any extension of time for exercising such unexercised Options;
- (iii) In the event that the Permitted Period expires before the Option Period, the following provisions shall apply:-
 - (a) the Representative may, at any time before the expiry of the Permitted Period, apply in writing to the ESOS Committee for an extension of the Permitted Period, stating the reasons as to why the extension is required. In the event that no application is received by the ESOS Committee before the expiry of the Permitted Period, any Option which has not been exercised by the Representative at the expiry of the Permitted Period shall be automatically terminated;
 - (b) the ESOS Committee shall consider such applications on a case to case basis and may in its discretion approve or reject an application in whole or in part without giving any reason therefor and may impose any term and condition in granting an approval. The decision of the ESOS Committee shall be final and binding. In the event that the ESOS Committee approves an application in whole or in part, the Representative may exercise the Options, which are the subject of the approval within such extension of the Permitted Period as is approved (which shall not exceed the Option Period) and in accordance with the provisions of By-Law 10. Any unexercised Option in respect of which an application is rejected shall be automatically terminated at the expiry of the Permitted Period or on the date of the ESOS Committee's decision, whichever is the later;
 - (c) in the event that the ESOS Committee receives an application after the expiry of the Permitted Period, the ESOS Committee shall take into account the reasons given by the Representative for the delay in making the application, in exercising the ESOS Committee's discretion and powers under sub-paragraph (b) above. In the event that the ESOS Committee approves an application in whole or in part, the Company shall make an Offer in respect of the Options which are the subject of the approval to the Representative and such Options shall be exercisable:-
 - (aa) within such period as may be stipulated in the Offer which shall not exceed the Option Period of those Options which were terminated pursuant to sub-paragraph (a) above;
 - (bb) in accordance with the provisions of By-Law 10; and
 - (cc) at the Subscription Price applicable in respect of the Options which were terminated pursuant to sub-paragraph (a) above.

14. BY-LAWS OF THE ESOS (Cont'd)**15. ALTERATION OF CAPITAL**

15.1 In the event of any alteration in the capital structure of the Company during the Option Period, whether by way of a capitalisation issue, rights issue, bonus issue, consolidation or subdivision of Shares or capital reduction or any other variance of capital, the Company shall cause such adjustment to be made to:-

- (i) the number of new Shares which a Grantee shall be entitled to subscribe for upon the exercise of each Option (excluding the Options already exercised); and/or
- (ii) the Subscription Price;

as shall be necessary to ensure that any adjustment made must be compliance with the provisions for adjustment as provided in the By-Laws of the Scheme. .

15.2 The following provisions shall apply in relation to an adjustment which is made pursuant to By-Law 15.1:-

- (i) any adjustment to the Subscription Price shall be rounded up to the nearest one (1) sen and in no event shall the Subscription Price be reduced to an amount which is below the par value of the Shares; and
- (ii) in determining a Grantee's entitlement to subscribe for new Shares, any fractional entitlement will be disregarded.

15.3 In addition to By-Law 15.1 and not in derogation thereof, the Subscription Price and the number of new Shares relating to the Option so far unexercised shall from time to time be adjusted in accordance with the following relevant provisions in consultation with the company auditor:-

- (a) If and whenever a Share by reason of any consolidation or subdivision or conversion shall have a different par value, the Subscription Price shall be adjusted by multiplying it by the revised par value and dividing the result by the former par value and the additional number of new Shares relating to the Option to be issued shall be calculated in accordance with the following formula:-

$$\text{Number of additional Shares} = T \times \left[\frac{\text{Former Par Value}}{\text{Revised Par Value}} \right] - T$$

where T = existing number of Shares relating to the Option.

Such adjustment will be effective from the close of business on the Market Day immediately following the date on which the consolidation or subdivision or conversion becomes effective (being the date when the Shares are traded on the Bursa Securities at the new par value), or such period as may be prescribed by the Bursa Securities.

14. BY-LAWS OF THE ESOS (Cont'd)

- (b) If and whenever the Company shall make any issue of Shares to shareholders credited as fully paid, by way of bonus issue or capitalisation issue of profits or reserves of the Company (whether of a capital or income nature and including any share premium account and capital redemption reserve fund), the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{A}{A + B}$$

and the additional number of new Shares relating to the Option to be issued shall be calculated as follows:-

$$\text{Number of additional Shares} = \left\{ T \times \left[\frac{A + B}{A} \right] \right\} - T$$

where:-

- A = the aggregate number of issued and fully paid-up Shares immediately before such bonus issue or capitalisation issue;
- B = the aggregate number of Shares to be issued pursuant to any allotment to shareholders credited as fully paid by way of bonus issue or capitalisation issue of profits or reserves of the Company (whether of a capital or income nature and including any share premium account and capital redemption reserve fund); and
- T = existing number of Shares relating to the Option

Such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day immediately following the Record Date for such issue.

- (c) If and whenever the Company shall make:-
- (i) A Capital Distribution (as defined below) to shareholders whether on a reduction of capital or otherwise (but excluding any cancellation of capital which is lost or unrepresented by available assets); or
 - (ii) Any offer or invitation to its shareholders whereunder they may acquire or subscribed for Shares by way of rights; or
 - (iii) Any offer or invitation to shareholders by way of rights whereunder they may acquire or subscribe for securities convertible into Shares or securities with rights to acquire or subscribe for Shares,

then and in respect of each such case, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{C - D}{C}$$

14. BY-LAWS OF THE ESOS (Cont'd)

and in respect of the case referred to in By-Law 15.3(c)(ii) hereof, the number of additional new Shares comprised in the Option to be issued shall be calculated as follows:-

$$\text{Number of additional Shares} = \left\{ T \times \left[\frac{C}{C-D} \right] \right\} - T$$

where:-

- T = existing number of Shares relating to the Option;
- C = the current market price of each Share on the Market Day immediately preceding the date on which the Capital Distribution or, as the case may be, the offer or invitation is publicly announced to the Bursa Securities or (failing any such announcement) immediately preceding the date of the Capital Distribution or, as the case may be, of the offer or invitation; and
- D = (i) in the case of an offer or invitation to acquire or subscribe for Shares under By-Law 15.3(c)(ii) above or for securities convertible into or with rights to acquire or subscribe for Shares under By-Law 15.3(c)(iii) above, the value of rights attributable to one (1) Share (as defined below); or
- (ii) in the case of any other transaction falling within By-Law 15.3(c) hereof, the fair market value as determined (with the concurrence of the company auditor) by the adviser of that portion of the Capital Distribution to one (1) Share.

For the purpose of definition (i) of D above, the "value of the rights attributable to one (1) Share" shall be calculated in accordance with the formula:-

$$\frac{C - E}{F + 1}$$

where:-

- C = as C above;
- E = the subscription price for one (1) additional Share under the terms of offer or invitation or one (1) additional security convertible into Shares or one (1) additional security with rights to acquire or subscribe for Shares;
- F = the number of Shares which is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Shares or security convertible into Shares or right to acquire or subscribe for Shares; and
- D* = The value of rights attributable to one (1) Shares (as defined below)

14. BY-LAWS OF THE ESOS (Cont'd)

For the purpose of definition D* above, the "value of the rights attributable to one (1) Share" shall be calculated in accordance with the formula:-

$$\frac{C - E^*}{F^* + 1}$$

where:-

C = as C above;

E* = the subscription price for one (1) additional Share under the terms of offer or invitation; and

F* = the number of Shares which is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional Shares.

For the purpose of By-Law 15.3(c) hereof, ("**Capital Distribution**") shall (without prejudice to the generality of that expression) include distributions in cash or specie or by way of issue of Shares (not falling under By-Law 15.3(b) hereof) or other securities credited as fully or partly paid-up by way of capitalisation of profits or reserves of the Company (whether of a capital or income nature and including any share premium account and capital redemption reserve fund).

Any dividend charged or provided for in the accounts of any period shall (whenever paid and howsoever described) be deemed to be a Capital Distribution unless it is paid out of the aggregate of the net profits attributable to the shareholders as shown in the audited consolidation profit and loss accounts of the Company.

Such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day immediately following the Record Date for such issue.

- (d) If and whenever the Company makes any allotment to its shareholders as provided in By-Law 15.3(b) above and also makes any offer or invitation to its shareholders as provided in By-Law 15.3(c)(ii) or (iii) above and the Record Date for the purpose of the allotment is also the Record Date for the purpose of the offer or invitation, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{(G \times C) + (H \times I)}{(G + H + B) \times C}$$

and where the Company makes any allotment to its shareholders as provided in By-Law 15.3(b) above and also makes any offer or invitation to its shareholders as provided in By-Law 15.3(c)(ii) or (iii) above and the Record Date for the purpose of the allotment is also the Record Date for the purpose of the offer or invitation, the number of additional new Shares relating to the Option to be issued shall be calculate as follows:-

$$\text{Number of additional Shares} = \left[T \times \frac{(G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)} \right] - T$$

14. BY-LAWS OF THE ESOS (Cont'd)

where:-

- G = the aggregate number of issued and fully paid-up Shares on the Record Date;
- C = as C above;
- H = the aggregate number of new Shares under an offer or invitation to acquire or subscribe for Shares by way of rights or under an offer or invitation by way of rights to acquire or subscribe for securities convertible into Shares or rights to acquire or subscribe for Shares as the case may be;
- H* = the aggregate number of Shares under an offer or invitation to acquire or subscribe for Shares by way of rights;
- I = the subscribe price of one (1) additional Share under the offer or invitation to acquire or subscribe for Shares or the exercise price on conversion of such securities or exercise of such rights to acquire or subscribe for one (1) additional Share, as the case may be;
- I* = the subscribe price of one (1) additional Share under the offer or invitation to acquire or subscribe for Shares;
- B = as B above; and
- T = as T above.

Such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day immediately following the Record Date for such issue.

- (e) If and whenever the Company makes any offer or invitation to its shareholders to acquire or subscribe for Shares as provided in By-Law 15.3(c)(ii) above together with an offer or invitation to acquire or subscribe for securities convertible into or rights to acquire or subscribe for shareholders as provided in By-Law 15.3(c)(iii) above, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J) \times C}$$

and the number of additional new Shares relating to the Option to be issued shall be calculated as follows:-

$$\text{Number of additional Shares} = \left[T \times \frac{(G + H^*) \times C}{(G \times C) + (H^* \times I^*)} \right] - T$$

14. BY-LAWS OF THE ESOS (Cont'd)

where:-

G = as G above;

C = as C above;

H = as H above;

H* = as H* above;

I = as I above;

I* = as I* above;

J = the aggregate number of Shares to be issued to its shareholders upon conversion of such securities or exercise of such rights to subscribe for Shares by the shareholders;

K = the exercise price on conversion of such securities or exercise of such rights to acquire or subscribe for one (1) additional Shares; and

T = as T above.

Such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day immediately following the Record Date for the above transactions.

- (f) If and whenever the Company makes an allotment to its shareholders as provided in By-Law 15.3(b) above and also makes an offer or invitation to acquire or subscribe for Shares to its shareholders as provided in By-Law 15.3(c)(ii) above, together with rights to acquire or subscribe for securities convertible into or with rights to acquire or subscribe for Shares as provided in By-Law 15.3(c)(iii) above, and the Record Date for the purpose of allotment is also the Record Date for the purpose of the offer or invitation, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J + B) \times C}$$

and the number of additional new Shares relating to the Option to be issued shall be calculated as follows:-

$$\text{Number of additional Shares} = \left[T \times \frac{(G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)} \right] - T$$

where:-

G = as G above;

C = as C above;

H = as H above;

H* = as H* above;

I = as I above;

14. BY-LAWS OF THE ESOS (Cont'd)

- I* = as I* above;
 J = as J above;
 T = as T above;
 K = as K above; and
 B = as B above.

Such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day immediately following the Record Date for the above transactions.

- (g) If and whenever (otherwise than pursuant to a rights issue available to all shareholders and requiring an adjustment under By-Laws 15.3(c)(ii), (c)(iii), (d), (e) or (f) above), the Company shall issue either any Share or any security convertible into Shares or any rights to acquire or subscribe for Shares, and in any such case, the Total Effective Consideration per Share (as defined below) is less than ninety percent (90%) of the Average Price for one (1) Share (as defined below) or, as the case may be, the price at which the Shares will be issued upon conversion of such securities or exercise of such rights is determined, the Subscription Price shall be adjusted by multiplying it by the following fraction:-

$$\frac{L + M}{L + N}$$

where:-

- L = the number of Shares in issue at the close of business on the Market Day immediately preceding the date on which the relevant adjustment becomes effective;
- M = the number of Shares which the Total Effective Consideration (as defined below) would have purchased at the Average Price (as defined below) (exclusive of expenses); and
- N = the aggregate number of Shares so issued or, in the case of securities convertible into Shares or rights to acquire or subscribe for Shares, the maximum number (assuming no adjustment of such rights) of Shares issuable upon full conversion of such securities or the exercise in full of such rights.

For the purpose of By-Laws 15.3(g), ("**Total Effective Consideration**") shall be determined by the Board with the concurrence of the external auditor and shall be:-

- (i) In case of the issue of Shares, the aggregate consideration receivable by the Company on payment in full for such Shares; or
- (ii) In the case of the issue by the Company of securities wholly or partly convertible into Shares, the aggregate consideration receivable by the Company on payment in full for such securities or such part of the securities as is convertible together with the total amount receivable by the Company upon full conversion of such securities (if any); or

14. BY-LAWS OF THE ESOS (Cont'd)

- (iii) In the case of the issue by the Company of securities with rights to acquire or subscribe for Shares, the aggregate consideration attributable to the issue of such rights together with the total amount receivable by the Company upon full exercise of such rights;

in each case without any deduction of any commission, discount or expense paid, allowed or incurred in connection with the issue thereof, and the "Total Effective Consideration per Share" shall be the Total Effective Consideration divided by the number of Shares issued as aforesaid or, in the case of securities convertible into Shares or securities with rights to acquire or subscribe for Shares, by the maximum number of Shares issuable on full conversion of such securities or on exercise in full of such rights.

For the purpose of By-Law 15.3(g), ("**Average Price**") of a Share shall be the average price of one (1) Share as derived from the last dealt prices for one or more board lots of Shares as quoted on the Bursa Securities on the Market Days comprised in the period used as a basis upon which the issue price of such Shares is determined.

Such adjustment will be calculated (if appropriate retroactively) from the close of business on the Bursa Securities on the Market Day immediately following the date on which the issue is announced, or (failing any such announcement) on the Market Day immediately following the date on which the Company determines the offering price of such Shares. Such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day immediately following the completion of the above transaction.

- 15.4 By-Law 15.1 shall not be applicable where an alteration in the capital structure of the Company arises from any of the following:-
- (i) an issue of new Shares pursuant to the exercise of Options under the Scheme; or
 - (ii) an issue of securities as consideration for an acquisition; or
 - (iii) an issue of securities as a private placement; or
 - (iv) an issue of securities as a special issue approved by the relevant governmental authorities; or
 - (v) a restricted issue of securities; or
 - (vi) any issue of warrant, convertible loan stock or other instruments by the Company that gives a right of conversion into the Shares, and any issue of new Shares arising from the exercise of any conversion rights attached to such convertible securities; or
 - (vii) a Share Buyback in which event, the provisions in By-Law 4.2 shall apply.
- 15.5 In the event that the Company enters into any scheme of arrangement or reconstruction pursuant to Part VII of the Act, By-Law 15.1 shall be applicable in respect of such part(s) of the scheme which involve(s) any alteration in the capital structure of the Company to which By-Law 15.1 is applicable, but By-Law 15.1 shall not be applicable in respect of such part(s) of the scheme which involve(s) any alteration in the capital structure of the Company to which By-Law 15.1 is not applicable as described in By-Law 15.4.

14. BY-LAWS OF THE ESOS (Cont'd)

15.6 An adjustment pursuant to By-Law 15.1 shall be made at the following circumstances:-

- (i) in the case of a capitalisation issue, rights issue, bonus issue, on the Market Day immediately following the Record Date for such issue; or
- (ii) in the case of a consolidation or subdivision of Shares or capital reduction, on the Market Day immediately following the date of allotment of new Shares of the Company in respect of such consolidation, subdivision, reduction or such period as may be prescribed by the Bursa Securities.

However, the requirement to carry out the said adjustments in (i) and (ii) is at the discretion of the Board, who should accordingly assess the practicality of complying with the requirement.

Upon any adjustment being made, the ESOS Committee shall give notice in writing within thirty (30) days from the date of adjustment to the Grantee, or his legal or personal representative where the Grantee is deceased, to inform him of the adjustment and the event giving rise thereto.

15.7 All adjustments, other than pursuant to a bonus issue, must be confirmed in writing by an approved company auditor, acting as an expert and not as an arbitrator, to be in his opinion fair and reasonable. In addition, the Company shall, at the request of any Grantee, furnish such Grantee with a certificate from an approved company auditor to the effect that in the opinion of such auditor, acting as an expert and not as an arbitrator, an adjustment (other than bonus issue) is fair and reasonable either generally or as regards to such Grantee, such certification shall be final and binding on all parties. For the purposes of this By-Law, an approved company auditor shall have the meaning given in Section 8 of the Act.

16. TAKE-OVERS AND MERGERS

In the event of an offer being made for Shares under the Securities Commission Act, 1993 ("**SC Act**"), Malaysian Code on Take-Overs and Mergers and such offer being declared unconditional, the following provisions shall apply:-

- (i) a Grantee shall be entitled to exercise all or any of the Option held by him as at the date of such offer being declared unconditional, within a period of six (6) months after such date and in accordance with the provisions of the By-Laws. In the event that the Grantee elects not to so exercise some or all of the Options held by him, the unexercised Options shall be automatically terminated on the expiry of the said period of six (6) months; and
- (ii) if during the said period of six (6) months, the offeror becomes entitled or bound to exercise rights of compulsory acquisition in respect of the Shares under the provisions of the SC Act and gives notice to the Grantee that he intends to exercise such rights on a specific date ("**Specified Date**"), the Grantee shall be entitled to exercise all or any of the Option held by him until the expiry of the said period of six (6) months or the Market Day immediately preceding the Specified Date, whichever is the earlier, and in accordance with the provisions of the By-Laws. In the event that the Grantee elects not to so exercise some or all of the Options held by him, the unexercised Options shall be automatically terminated on the expiry of the said period of six (6) months or on the Specified Date, whichever is the earlier.

14. BY-LAWS OF THE ESOS (Cont'd)

- (iii) Notwithstanding the provision of By-Law 10 and subject to the discretion of the ESOS Committee, in the event of the court sanctioning a compromise or arrangement in connection with a scheme of arrangement and reconstruction of the Company resulting in its amalgamation or merger with any company or companies pursuant to Part VII of the Act, a Grantee may be entitled to exercise all or any part of his Options at any time commencing from the date upon which the compromise or arrangement is sanctioned by the court and ending with the date on which it becomes effective PROVIDED ALWAYS THAT no Option shall be exercised after the expiry of the Option Period. Upon the compromise or arrangement becoming effective, all unexercised Options shall automatically lapse and shall become null and void and of no further force and effect.

17. DIVESTMENT FROM GROUP

- 17.1 In the event that a company within the Group shall be divested from the Group, a Grantee who is employed by such company:-
- (i) shall be entitled to continue to hold and to exercise all the Options held by him on the date of completion of such divestment within a period of six (6) months from the date of completion of such divestment or the Option Period, whichever expires first, and in accordance with the provisions of the By-Laws. In the event that the Grantee does not exercise some or all of such Options, the unexercised Options shall be automatically terminated upon the expiry of the relevant period; and
 - (ii) shall no longer be eligible to participate for further Options under the Scheme as from the date of completion of such divestment.
- 17.2 For the purposes of By-Law 17.1, a company shall be deemed to be divested from the Group in the event that the effective interest of the Company in such company is reduced from above fifty percent (50%) to fifty percent (50%) or below so that such company would no longer be a subsidiary of the Company pursuant to Section 5 of the Act.

18. WINDING UP

All outstanding Options shall be automatically terminated in the event that a resolution is passed or a court order is made for the winding up of the Company.

19. DURATION AND TERMINATION OF SCHEME

- 19.1 The Scheme shall come into force upon compliance with the relevant requirements and obtaining the following approvals:-
- (i) the approval by the Bursa Securities, including the approval-in-principle for the listing of and quotation for the new Shares to be issued under the Scheme by the Bursa Securities;
 - (ii) the approval by the shareholders of the Company in general meeting;
 - (iii) the fulfilment of all conditions attached to the aforesaid approvals, if any;
 - (iv) the submission of final copy of the By-Laws pursuant to paragraph 6.30F of the Listing Requirements together with a letter of compliance pursuant to paragraph 2.11 of the Listing Requirements and a checklist showing the compliance with Appendix 6F of the Listing Requirements; and

14. BY-LAWS OF THE ESOS (Cont'd)

- (v) the approvals of any other relevant authorities, where applicable;

and shall take effect from the date of full compliance of item (i) to (v) above and a letter of confirmation required to be issued by the adviser of the Company to the Bursa Securities confirming the compliance of the above requirements, stating the effective date of implementation together with a certified true copy of the relevant resolution passed by the shareholders in general meeting no later than five (5) Market Days after the effective date of the implementation.

The Scheme shall be in force for a duration of five (5) years from the Effective Date. The Company may, if the Board and the ESOS Committee deem fit, extend the Scheme for another five (5) years. Such extended Scheme shall be implemented in accordance with the terms of the By-Laws set out herein, save for any amendment and/or change to the relevant statutes and/or regulations currently in force and shall be valid and binding without further obtaining the approvals of the abovementioned parties PROVIDED THAT the Company shall serve appropriate notices to each Grantee and/or make necessary announcements to any and/or all of the abovementioned parties within thirty (30) days prior to the expiry of the Scheme.

- 19.2 Offers can only be made during and not after the duration of the Scheme.
- 19.3 The Company in general meeting may at any time by ordinary resolution terminate the Scheme. Prior to the termination, the Company must satisfy all of the following conditions:-
- (i) to obtain the clearance from the Bursa Securities for the circular to the shareholders in relation to the termination of the Scheme;
 - (ii) to obtain the approval of its shareholders of the Company at a general meeting, wherein at least a majority of the shareholders present should vote in favour of the termination; and
 - (iii) to obtain the written consent of all Grantees who have yet to exercise their Options, either in part or in whole.
- 19.4 In the event all approval/consent for the termination of the Scheme were obtained and the Scheme was terminated, the following provisions shall apply:-
- (i) no further Offers shall be made by the ESOS Committee from the date the last of the approvals specified in By-Law 19.3 shall have been obtained;
 - (ii) all Offers which have yet to be accepted shall automatically lapse from the date the last of the approvals specified in By-Law 19.3 shall have been obtained; and
 - (iii) all outstanding Options shall be automatically terminated from the date the last of the approvals specified in By-Law 19.3 shall have been obtained.
- 19.5 In seeking to the consent of shareholders of the Company and Grantees for the termination of the Scheme, the Company must provide sufficient information on the following matters:-
- (i) reasons for the termination;
 - (ii) whether or not the termination of the Scheme would be in the best interest of the Company; and
 - (iii) any other information that would justify termination of the Scheme.

14. BY-LAWS OF THE ESOS (Cont'd)

- 19.6 The Company may establish a new employee share option scheme after the expiry date of this Scheme or the termination of the Scheme, as the case may be, in accordance with the By-Laws. The new employee share option scheme is subject to the approvals of the Bursa Securities and/or any other relevant authorities and the approval of the shareholders of the Company in a general meeting. The Eligible Persons who have been granted Options under this Scheme may be allowed to participate in the new employee share option scheme.
- 19.7 The event of liquidation of the Company, all unexercised or partially exercised Options shall lapse.

20. ADMINISTRATION

- 20.1 The Scheme shall be administered by the ESOS Committee. The ESOS Committee shall, subject to these By-Laws, administer the Scheme and regulate the ESOS Committee's own proceedings in such manner as it shall think fit.
- 20.2 Without limiting the generality of By-Law 20.1, the ESOS Committee may, for the purpose of administering the Scheme, do all acts and things, execute all documents, make rules, regulations or impose terms and conditions and delegate any of its powers and duties relating to the Scheme as it may in its discretion consider to be necessary or desirable for giving effect to the Scheme including the power to:-
- (i) subject to the provisions of the Scheme, construe and interpret the Scheme and Options granted under it, to define therein and to establish, amend and revoke rules and regulations relating to the Scheme and its administration. The ESOS Committee in the exercise of this power may correct any defect, supply any omission, or reconcile any inconsistency in the Scheme or in any agreement providing for an Option in a manner and to the extent it shall deem necessary to expedite and make the Scheme fully effective; and
 - (ii) determine all questions of policy and expediency that may rise in the administration of the Scheme and generally exercise such powers and perform such acts as are deemed necessary or expedient to promote the best interests of the Company.
- 20.3 The Board shall have power at any time and from time to time to rescind the appointment of any person appointed to the ESOS Committee as it shall deem fit.
- 20.4 The ESOS Committee shall comprise persons from the Board and/or senior management of the Company.

21. AMENDMENT

- 21.1 Any subsequent modifications or amendments to the By-Laws shall be made and recommended by the ESOS Committee and the Board shall have the power by resolution to add to, amend or delete all or any of these By-Laws upon such recommendation. Such modification and/or amendment do not need the prior approval of the Bursa Securities and/or any other relevant authorities. However, a letter of compliance together with the By-Laws and any amendment thereto are required to be submitted to the Bursa Securities no later than five (5) Market Days after the amendments to the By-Laws, each time a modification and/or amendment is made, stating that the modification and/or amendment does not contravene any of the provision of the Listing Requirements on Share Schemes For Employees and the Rules of Bursa Depository.

14. BY-LAWS OF THE ESOS (Cont'd)

21.2 The approval of the shareholders of the Company in general meeting shall not be required in respect of additions or amendments to or deletions of these By-Laws provided that no addition, amendment or deletion shall be made to these By-Laws which would:-

- (i) prejudice any rights which have accrued to any Grantee without his prior consent; or
- (ii) increase the number of new Shares available under the Scheme beyond the maximum imposed by By-Law 4.1; or
- (iii) Alter any matters which are required to be contained in the By-Laws by virtue of Appendix 6F of the Listing Requirements to the advantage of the Eligible Persons without the prior approval of the shareholders of the Company unless allowed otherwise by the provisions of the Listing Requirements; or
- (iv) provide an advantage to any Grantee or group of Grantees.

The ESOS Committee shall within ten (10) Market Days of any amendment and/or modification made pursuant to this By-Laws notify the Grantee in writing of any amendment and/or modification made pursuant to this By-Laws.

22. INSPECTION OF FINANCIAL STATEMENTS

All Grantees are entitled to inspect the latest audited financial statements of the Company at the registered office of the Company during the usual business hours.

23. SCHEME NOT A TERM OF EMPLOYMENT

The Scheme shall not form part of or constitute or be in any way construed as a term or condition of employment of any Eligible Person.

24. NO COMPENSATION FOR TERMINATION

No Eligible Person shall be entitled to any compensation for damages arising from the termination of any Option pursuant to the provisions of these By-Laws.

25. DISPUTES

In case any dispute or difference shall arise between the ESOS Committee and an Eligible Person or Grantee, as the case may be, as to any matter of any nature arising hereunder, the ESOS Committee shall determine such dispute or difference by a written decision (without any obligation to give any reason thereof) given to the Eligible Person or Grantee, as the case may be. If the Eligible Person or Grantee, as the case may be is dissatisfied with the decision of the ESOS Committee, the Eligible Person or Grantee, as the case may be, shall dispute the same by written notice to the ESOS Committee within fourteen (14) calendar days of the receipt of the written decision, in which case such dispute or difference shall be referred to the decision of the Board, whose decision shall be final and binding in all respects.

14. BY-LAWS OF THE ESOS (Cont'd)

26. COSTS AND EXPENSES

Unless otherwise stipulated by the Company in the Offers, all fees, costs and expenses incurred in relation to the Scheme including but not limited to the fees, costs and expenses relating to the allotment and issue of Shares pursuant to the exercise of Options, shall be borne by the Company.

27. ARTICLES OF ASSOCIATION

In the event of a conflict between any of the provision of these By-Laws and the Articles of Association of the Company, the Articles of Association shall prevail.

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